
17

Annual Report 2017

17th year of operations



Banca Patrimoni
Sella & C.





Sala degli Arazzi (Tapestry Room)
Palazzo Bricherasio, Turin
© photo Alessandra Chemollo

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Banca Patrimoni
Sella & C.

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Gruppo Banca Sella

Heritage is, first and foremost, a commitment. A commitment towards all those who have created it and towards all those who will perpetuate its legacy. Banca Patrimoni Sella & C. has always been aware of the importance of this commitment and of the unceasing effort to preserve its heritage.

FEDERICO SELLA

CEO, GM AND DIRECTOR



Banca
Patrimoni
Servizi

ascensore
←





Annual Report 2017

17th year of operations



Banca Patrimoni
Sella & C.

Our milestones: a history of continuous commitment to our clients

Some of the most significant moments in the history of Banca Patrimoni Sella & C.

2007

Incorporation of Sella Consult Sim P.A. The Bank changes its name to Banca Patrimoni Sella & C. S.p.A.

2005

Merger between Gestnord Intermediazione Sim S.p.A. and Sella Investimenti. Establishment of Banca Patrimoni e Investimenti

2006

The Bank changes its name to Banca Patrimoni S.p.A.

2001

Establishment of Sella Investimenti Banca S.p.A.

1993

Establishment of Gestnord Intermediazione Sim S.p.A.

2017

Banca Patrimoni Sella & C. acquires a majority stake in the trust company Selfid S.p.A. from Banca Sella Holding

2017

Subscription of an agreement with Schroders Italy Sim S.p.A. to acquire the wealth management activities in Italy

2010

Establishment of Family Advisory Sim S.p.A. Sella & Partners and acquisition of 85% of its shares by Banca Patrimoni Sella & C.

2013

Relocation of the corporate headquarters of Banca Patrimoni Sella & C. to Palazzo Bricherasio, acquired in 2010

2011-2012

The Bank consolidates its presence on the territory and establishes itself as a high standing Private Bank also in Rome, Milan and Naples

2009

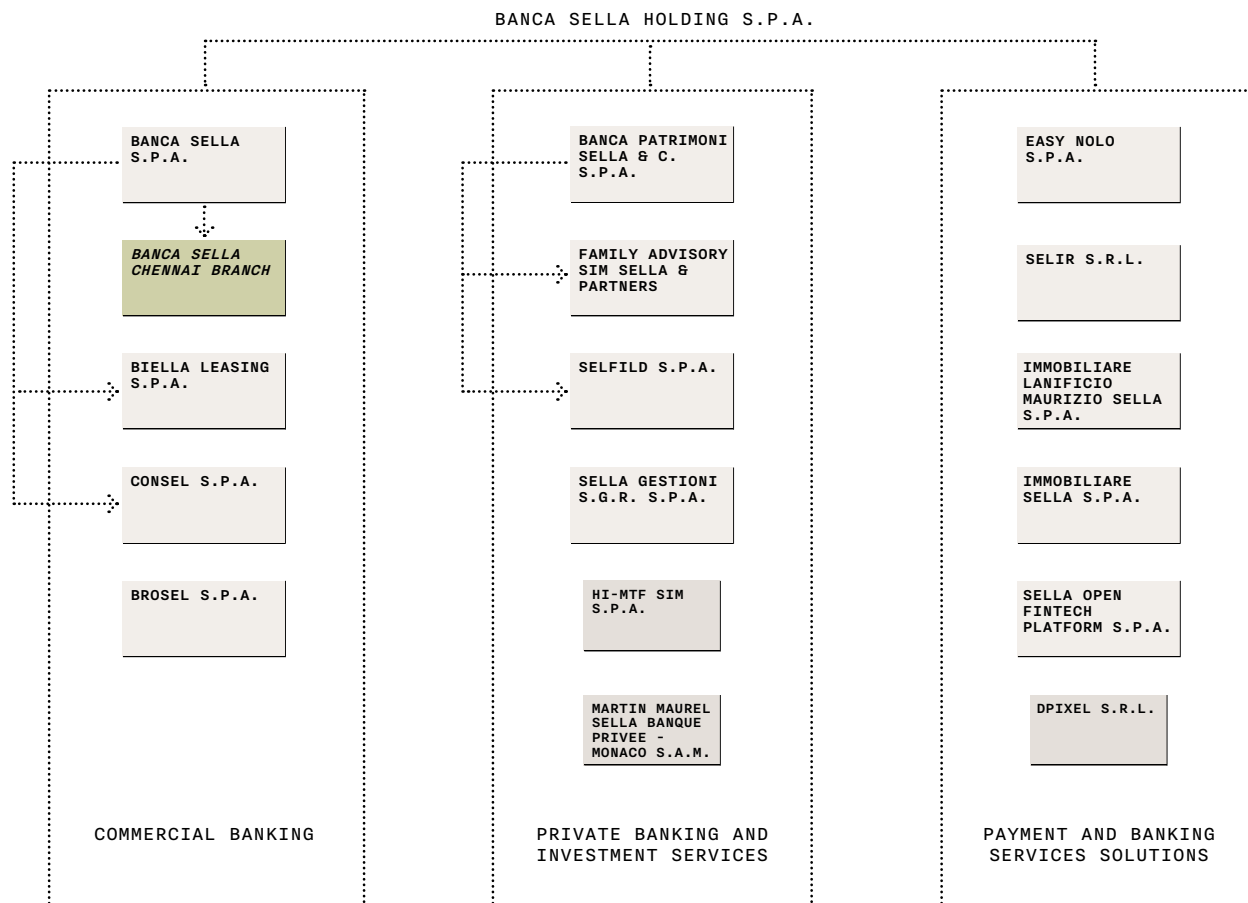
Banca Patrimoni Sella & C. S.p.A. acquires the private wealth management branch from Sella Gestioni S.G.R.

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Banca Sella Group map at 31 December 2017



■ Operating companies of Sella Group

■ Related companies of Sella Group

Note that following corporate transactions, from 3 January 2018 Martin Maurel Sella Banque Privee, an investee of Finanziaria 2010 and consolidated at equity, is no longer included in the scope of consolidation of the Sella Group.

Corporate offices

BOARD OF DIRECTORS**IN OFFICE UNTIL APPROVAL OF THE 2018 FINANCIAL STATEMENTS**

CHAIRMAN	Maurizio Sella
DEPUTY CHAIRMEN	Mario Renzo Deaglio Massimo Coppa
CEO AND MANAGING DIRECTOR	Federico Sella
DIRECTOR AND HONORARY CHAIRMAN	Giovanni Coppa
DIRECTORS	Eugenio Brianti Veronica Buzzi Gregorio Chiorino Silva Maria Lepore Carlo Maria Mascheroni Priscilla Pettiti Sebastiano Sella Attilio Viola

BOARD OF STATUTORY AUDITORS**IN OFFICE UNTIL APPROVAL OF THE 2018 FINANCIAL STATEMENTS**

STANDING AUDITOR - CHAIRMAN	Mario Pia
STANDING AUDITORS	Pier Vincenzo Pellegrino Emanuele Menotti Chieli
ALTERNATE AUDITORS	Giovanni Rayneri Marina Mottura

INDEPENDENT AUDITORS

INDEPENDENT AUDITORS	Deloitte & Touche S.p.A.
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Management Report

Financial highlights

FINANCIAL HIGHLIGHTS (IN THOUSANDS OF EUR)

BALANCE SHEET FIGURES	31/12/2017	31/12/2016	CHANGES	
			ABSOLUTE	%
TOTAL ASSETS	1,497,238.1	1,473,991.9	23,246.2	1.6%
FINANCIAL ASSETS (1)	293,579.7	132,435.0	161,144.7	121.7%
TOTAL CASH LENDING (2)	486,450.1	364,529.9	121,920.2	33.5%
INVESTMENTS	1,987.6	430	1,557.6	362.2%
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	31,568.5	30,878.8	689.7	2.2%
TOTAL FUNDING (3)	12,708,551.5	11,342,562.9	1,365,988.5	12%
DIRECT FUNDING (4)	1,260,454.9	1,297,006.2	-36,551.3	-2.8%
GUARANTEES GIVEN	7,707.7	6,910.2	797.5	11.5%
SHAREHOLDERS' EQUITY	80,299.6	75,478.5	4,821.1	6.4%
CET 1 CAPITAL	74,523.0	70,814.9	3,708.1	5.2%
T2 CAPITAL	-	95.4	-95.4	-100%
TOTAL OWN FUNDS	74,523.0	70,910.2	3,612.8	5.1%
RECLASSIFIED INCOME STATEMENT FIGURES				
INTEREST MARGIN	8,098.4	8,934.1	-835.7	-9.4%
FEE AND COMMISSION EXPENSE	-48,633.3	-43,456.0	-5,177.3	11.9%
NET FEES AND COMMISSIONS	42,037.7	31,684.3	10,353.4	32.7%
GROSS REVENUE FROM SERVICES (5)	101,994.4	86,040.4	15,954.0	18.5%
NET REVENUE FROM SERVICES (NET OF FEE AND COMMISSION EXPENSE)	53,361.1	42,584.4	10,776.7	25.3%
NET INTEREST AND OTHER BANKING INCOME	61,459.5	51,518.5	9,941.0	19.3%
OPERATING EXPENSE NET OF TAX AND DUTY RECOVERIES	-47,263.6	-39,260.8	-8,002.8	-20.4%
OPERATING RESULT	14,195.9	12,257.7	1,938.2	15.8%
NET VALUE ADJUSTMENTS/REVERSALS				
FOR IMPAIRMENT LOSSES	-194.1	64.4	-258.5	-401.4%
OTHER INCOME STATEMENT ITEMS (6)	-1,998.0	-1,722.1	-275.9	16.0%
INCOME TAXES	-3,943.4	-3,428.4	-515.0	15.0%
PROFIT (LOSS) FOR THE YEAR	8,060.4	7,171.5	888.9	12.4%

(1) The aggregate is the sum of the following asset items of the Balance Sheet: item 20 - Financial assets held for trading, item 40 - Available-for-sale financial assets and item 50 - Financial assets held to maturity.

(2) The aggregate refers to asset item 70 - Due from customers in the Balance Sheet.

(3) The aggregate corresponds to Internal Con-

trol figures prepared and approved monthly by the Board of Directors. To this end, note that when the assets managed and administered were being recalculated by Internal Control, arrangements were made to more strongly consider insurance business volumes, as part of a calculation fine-tuning which then also led to adjustment of the amount for the previous year.

(4) Direct funding corresponds to liabilities item 20 - Due to customers in the Balance Sheet.

(5) The aggregate represents the sum of the following items of the Reclassified Income Statement: 40. Fee and commission income, 80. Net gains (losses) from trading, 90. Net gains from hedging and 100. Gains (losses) from disposal or repurchase of: a) receivables, b) available-for-sale financial as-

sets, c) financial assets held to maturity, d) financial liabilities.

(6) Given by the sum of the following items: 160. Net allocations to provisions for risks and charges; 130. Net adjustments/reversals for impairment of AFS financial assets and other financial transactions; 240. Gains (losses) from disposal of investments.

Alternative Performance Indicators

	31/12/2017	31/12/2016
PROFITABILITY RATIOS (%)		
R.O.E. (RETURN ON EQUITY) (1)	11.0%	10.4%
R.O.A. (RETURN ON ASSETS) (2)	0.5%	0.5%
INTEREST MARGIN (3)/NET INTEREST AND OTHER BANKING INCOME (3)	13.2%	17.3%
NET REVENUE FROM SERVICES (3)/NET INTEREST AND OTHER BANKING INCOME (3)	86.8%	82.7%
COST TO INCOME (4)	76.4%	75.9%
COST TO INCOME NET OF EUROPEAN GUARANTEE FUND CONTRIBUTIONS (5)	75.7%	74.2%
PRODUCTIVITY RATIOS (IN THOUSANDS OF EUR)		
NET INTEREST AND OTHER BANKING INCOME/AVERAGE NO. OF EMPLOYEES (6)	236.8	221.6
OPERATING RESULT/AVERAGE NO. OF EMPLOYEES (6)	54.7	52.7
CASH LENDING/EMPLOYEES AT YEAR END (7)	1,762.5	1,500.1
DIRECT FUNDING/EMPLOYEES AT YEAR END (7)	4,556.9	5,337.5
TOTAL FUNDING/EMPLOYEES AT YEAR END (7)	46,353.1	46,908.6
EQUITY AND LIQUIDITY RATIOS (%)		
CASH LENDING/DIRECT FUNDING	38.6%	28.1%
CASH LENDING/TOTAL ASSETS	32.5%	24.7%
DIRECT FUNDING/TOTAL ASSETS	84.2%	88.0%
SOLVENCY RATIOS (%)		
CET 1 CAPITAL RATIO	14.00%	16.57%
TIER 1 CAPITAL RATIO	14.00%	16.57%
TOTAL CAPITAL RATIO	14.00%	16.59%

(1) Ratio between "Profit (loss) for the year" and the sum of liability items 160 "Reserves", 170 "Share premium reserve", 180 "Capital" in the Balance Sheet.

(2) Ratio between "Net profit (loss)" and "Total as-

sets".

(3) As per the reclassified income statement.

(4) Ratio between operating expense, net of IRAP on personnel costs and net of losses associated with operational risk, and the net interest and oth-

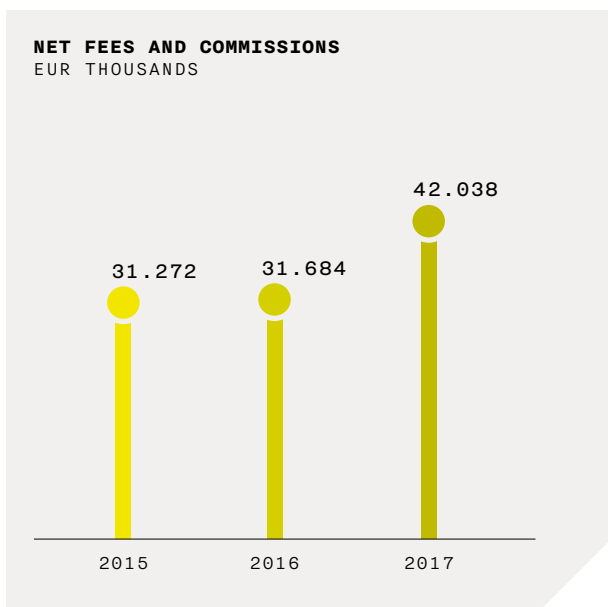
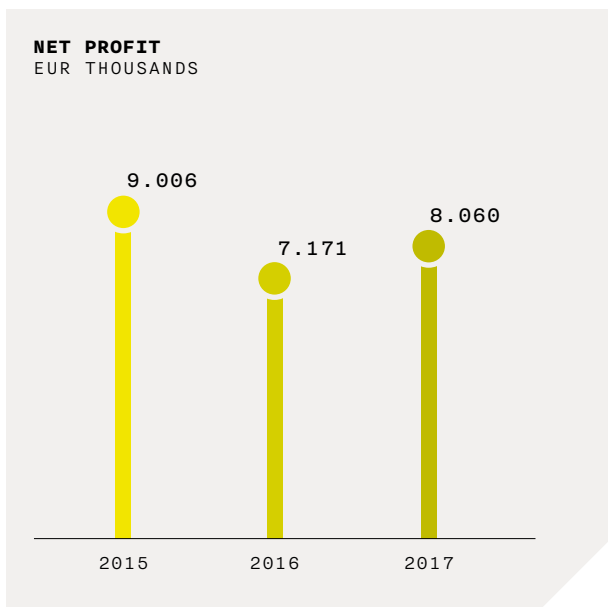
er banking income.

(5) Cost to income calculated by subtracting contributions to the European guarantee fund SRF (Single Resolution Fund) and the DGS (Deposit Guarantee Scheme).

(6) The average no. of employees was 259.5, calculated as the average of the number of employees at the end of 2016 and at the end of 2017.

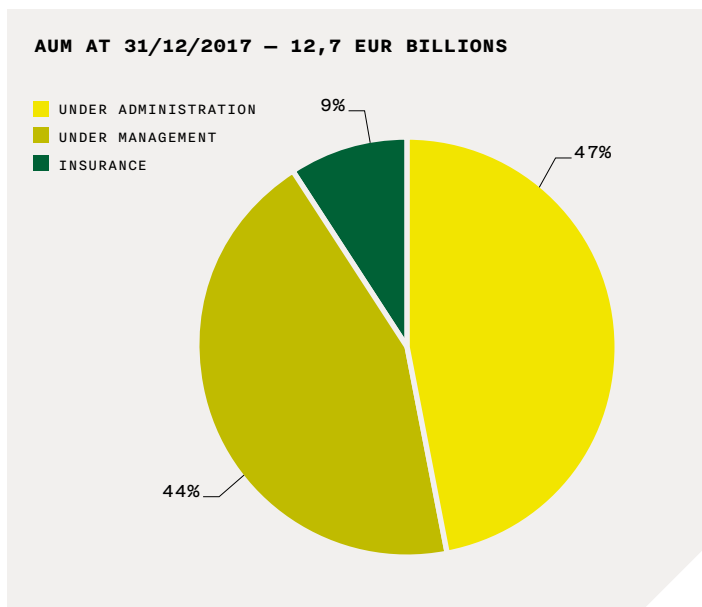
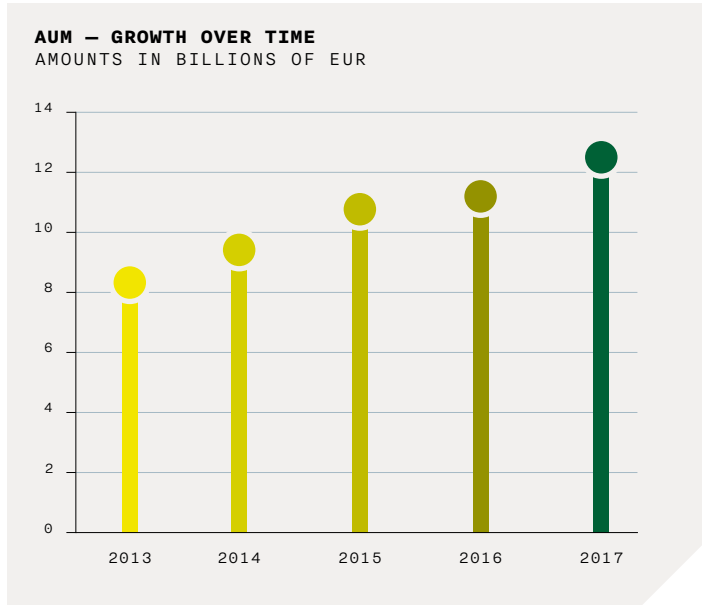
(7) The no. of employees at year end was 276. See paragraph 7 of the Management Report.

Highlights 2017*



* For the income components, see the Reclassified Income Statement

Our funding



1—The Bank's strategy and business model

1.1 THE BANK'S STRATEGY

To continue development in the investment services segment, serving private and institutional customers, as well as aiming to become an even stronger, solid and recognised national point of reference - these constitute the Banca Patrimoni Sella & C. strategy which has thus far been a cornerstone and fundamental driver, also in consideration of the results achieved.

1.2 THE BUSINESS MODEL

The core of the business model of Banca Patrimoni Sella & C. (hereinafter also "Banca Patrimoni", "BPA" or "the Bank") lies in its customers, adopting customer needs as its primary driver and seeking to represent a solid, reliable point of reference. Every customer is given the same welcome and support, as we make no distinction between small and large customers. Every asset deserves the same attention and dedication. Hence the mission of Banca Patrimoni Sella & C., which aims to care for its customers' assets faithfully and constantly.

In a world where uncertainty and volatility are the new normal, the Bank uses highly qualified professionals that substantially and promptly respond to continuing changes in the financial markets, offering customers state-of-the-art solutions that are made to measure. Banca Patrimoni Sella & C. uses its private bankers to assist customers with their investment needs and at the same time the key drivers are not only customers' specific needs, but above all their satisfaction with the services provided. Knowing how to create a "feeling at home" sensation, as motivation and sense of belonging in their careers, has always been one of Banca Patrimoni Sella & C.'s prime objectives, which understands how to welcome customers with motivated, skilled and efficient personnel. Banca Patrimoni's bankers stand out for their professionalism, expertise and experience: indispensable qualities for best serving the needs of customers.

Banca Patrimoni Sella & C. offers a flexible, customisable asset management service, which guarantees clarity, transparency and professionalism to customers, with the aim of preserving and increasing wealth in line with the investor's risk appetite. A dedicated team of professionals handles the measurement and analysis of the various asset classes and individual financial markets at global level, making investment decisions that best exploit the specific know-how of each specialist and use a research method that is at the same time fundamental and technical-quantitative.

1.3 GEOGRAPHIC PRESENCE

Banca Patrimoni Sella & C.'s geographic presence is ensured through a structure of in-house account managers and private bankers (the "hybrid" model), operating from 17 offices for the private financial advisors and 13 branch offices, organised into 3 geographic areas.

approach of gratification in the present.

The increase in funding and the profit for the year confirm the quality and dynamic nature of the product mix, strongly oriented towards customer needs through a network of highly qualified bankers and towards taking care of customers' assets.

2.2 EXTRAORDINARY TRANSACTIONS

2.2.1 - SELFID S.P.A

In 2017, Banca Patrimoni Sella & C. acquired a 70% interest in the trust company Selfid S.p.A.² for a total of EUR 1.6 million.

This transaction was carried out in the light of regulatory developments and the changing approach of customers to trust company services. In this respect, it was considered appropriate within the Banca Sella Group to transfer the controlling interest held in Selfid to Banca Patrimoni Sella & C. in order to develop additional potential synergies and to offer services that better respond to customer needs. In fact, the transaction would enhance the activities currently carried out by Selfid SpA, focused on mere trustee nature of relations, further developing the provision of more value-added services so as to allow the company to offer a more suitable response to the changing needs of the market.

The management and coordination activities over Selfid S.p.A. will continue to be carried out by Banca Sella Holding S.p.A., as already happens for Family Advisory Sim - Sella & Partners S.p.A., this too under the control of BPA, and for financial statements purposes - given the size of these two companies - and in compliance with reference regulations (art. 2359 of the Italian Civil Code, Italian Legislative Decree no. 127 of 9 April 1991 and IFRS 10), Banca Patrimoni Sella & C. will not consolidate the accounts which will instead be arranged at Group level.

2.2.2 - SCHRODERS ITALY SIM SPA

In the third quarter of 2017, the Bank signed the Framework Agreement relating to a corporate transaction for the transfer of a business unit. This transaction, signed with Schroders Italy SIM SpA (hereinafter also "Schroders") was finalised on 5 February 2018 and involved the latter's transfer to Banca Patrimoni Sella & C. of the Wealth Management business unit against a reserved share capital increase. Schroders' Wealth Management business unit offers the following investment services to customers:

- order execution on behalf of customers;
- placement without firm commitment or sureties to the issuer;
- portfolio management;
- order acceptance and transmission;
- investment advisory services.

Specifically, new shares were issued in favour of Schroders (transferor) against the transfer to BPA (transferee) of Assets Under Management totalling around EUR 617 million. This resulted in the following changes in shareholders' equity of the Bank:

- the share capital increased by EUR 2.4 million, reaching a total of EUR 30.4 million;
- at the same time, a share premium reserve was recognised for EUR 12.8 million;
- the total value of the transaction was recognised as goodwill for EUR 15.2 million.

² The purchase involved 140,000 ordinary shares, of which 135,000 purchased by Banca Sella Holding S.p.A. and 5,000 by natural persons who are minority shareholders.

The post-transaction percentage of share capital pertaining to Schrodgers is 7.94%. This will settle within 90 days of closing and for the long term at 3.63% following exercise of the put & call system agreed with the majority shareholder, Banca Sella Holding S.p.A.

The scope of the business unit transferred also includes a number of employees, private bankers and agents. The contractual relations with customers involved in the transfer mainly refer to asset management mandates and, to a lesser extent, administered positions.

The Schrodgers Italy Sim professionals will form a new area of Banca Patrimoni Sella & C. known as “Sella Patrimoni Schrodgers”, which will be based in Milan and represent the point of synergy between the two groups.

The new area will be unique to the Italian market, combining the sound domestic market positioning and professionalism of Banca Patrimoni Sella & C.’s private bankers with the size and international customer base of Schrodgers.

The transaction is in line with the strategic plan of Banca Patrimoni, which envisages the option of expanding externally through corporate transactions that are economically sustainable and consistent with the business model.

Through this acquisition, Banca Patrimoni will be able to increase its assets under management and under administration. The transaction described can prove to be the fulcrum for a future partnership in the sector, which will allow Schrodgers to remain present on the Italian market, albeit indirectly, despite its decision to cease operations in the wealth management sector in Italy. At the same time, Banca Patrimoni will be able to enhance its brand through the partnership launched with Schrodgers and a specific co-branding arrangement.

3—Macroeconomic scenario

GLOBAL PANORAMA

In 2017 the global economy saw an accelerating rate of expansion, the result of an overall improvement in growth trends recorded by most countries, both advanced and emerging. The International Monetary Fund’s final projection for global growth in 2017 was 3.7% compared to 3.2% in 2016. This synthetic figure was based on the 2.4% growth recorded by advanced economies and 4.7% for the emerging countries.

The United States economy continued to ride one of the longest expansion cycles in the country’s history, closing 2017 with 2.3% growth, higher than the 1.5% recorded in 2016. Private consumption, holding to expansion rates of just under 3%, was the main driver behind the GDP trend, supported by gradual strengthening of the labour market standing at full employment levels and by the stock of accumulated wealth, rising both in the real estate and financial components. A significant upward trend characterised private fixed investments due to the return to growth of plant and machinery components and those associated with oil price developments. Public spending was confirmed as 2017 modest growth provider, whilst exports did not generate value for the US economy in view of the more solid trend seen in imports rather than exports. Cushioned by further progress seen on the labour market and the recov-

ery in inflation (rising from 1.3% in 2016 to 2.1% in 2017), in the upward cycle that began in December 2015, the Federal Reserve acted on the cost of money with 25 b.p. increases at its meetings in March, June and December, bringing the Fed Funds interval to 1.25-1.50%. In October, the Federal Reserve also launched the downsizing phase for its own budget, based on a programme to gradually reduce amounts reinvested in relation to securities purchased in the years following the major international crisis and now maturing.

The Eurozone's recovery was stronger in 2017, seeing an increase in GDP of almost 2.5%, corresponding to the highest expansion rate in the last ten years and greater than that of the United States for the second consecutive year. The extensive geographic spread of the recovery in the area was confirmed: all the economies, in fact, are expected to record positive changes in GDP in 2017. Among the four major regions, all of them - except Italy - saw a return to the levels of activity of the start of 2008. Specifically, note the +3.1% for Spain, +2.5% for Germany and +1.8% for France. Growth in the Eurozone was again driven by domestic demand, private consumption, which benefited from the current recovery of the labour market and persisting quantitative easing, and by investments. Exports, too, saw a solid trend in 2017 in a more lively context for world trade. With regard to Italy, the growth in 2017 (standing at 1.6% according to the latest IMF forecasts) was primarily supported by components of domestic demand. Private consumption recorded satisfactory growth rates as a result of continuing progress on the labour market and the recovery in disposable income. Investments in the transport machinery and equipment segment, in part sustained by the renewal of tax incentives, showed signs of strengthening whilst building investments saw a more uncertain trend. Exports recorded a steady acceleration, however, in the presence of an even more solid trend for imports, with the net contribution from exports to the growth in GDP, both YoY and cyclical, proving to be practically zero. As regards consumer prices, the recovery in oil prices and resulting end of the negative contribution of the energy component led to a marked acceleration in Eurozone inflation between the end of 2016 and the first few months of 2017. The changes in the consumer price index later stabilised to levels at or slightly below 1.5% due to the reduced support of the energy component and persisting modest core inflation levels. The average inflation rate for 2017 in this region was 1.5%, from 0.2% in 2016. In Italy, the harmonized consumer price index recorded an average change of 1.3% from -0.1% in the previous year. In a context characterised by a recovering inflation, though still incomplete compared to the bank's targets, and consolidation of the economic recovery, the European Central Bank (ECB) introduced a number of adjustments to the monetary policy currently in place. At the June meeting it changed the forward guidance on policy rates, removing the reference to chances of further cuts. Then in October it announced a decrease in the monthly purchases of securities from EUR 60 billion to EUR 30 billion from January 2018 to September 2018. At the same time, with the signs still uncertain as regards price trends, the ECB repeated its intention to maintain extensive quantitative easing, as guaranteed by the consistent stock of assets purchased thus far, the policy of reinvesting securities reaching maturity, which will be continued well beyond the purchasing programme time horizon, and by future decisions on official rates, which envisage holding the current level for an extended period and well beyond the deadline for asset purchases made as part of the quantitative easing plan.

In Asia, according to International Monetary Fund estimates, in 2017 Japan achieved a 1.8% growth, double the 0.9% of 2016, again supported by mass public spending but also by an improvement in international demand. As regards consumer prices, the change in the index excluding fresh foods (reference of the Central Bank, the BOJ) stood at 0.5% on average in 2017, still well below the forecast target. In 2017, with the explicit intention of steadily allowing a 2% level to be reached, the BOJ retained its orientation towards extreme easing inaugurated in April 2013, confirming the securities purchase programme and the increase in the monetary base, as well as the target of controlling the rate of return curve introduced in September 2016 to ensure that it no longer has a predefined quantity of securities for market purchase.

For the emerging economies, despite widely differing macroeconomic conditions, in 2017 a general trend of improved growth scenarios prevailed (+4.7% according to the latest forecasts, compared to +4.4% in 2016), in some cases expressed by signs of a return to recession. In China, halting the deceleration of growth seen since 2011, the gross domestic product rose by 6.9% (from 6.7% in 2016). According to the most up-to-date IMF forecasts, in the aftermath of the government measure for withdrawing and replacing high-value banknotes and the uncertainty brought about by tax changes, the growth in India hit its lowest levels (6.7% from 7.1% in 2016). The Russian economy has exited the recession caused largely by falling oil and gas prices, returning to a growth of 1.8% (from -0.2% in 2016). For Brazil, the IMF expects 2017 to have closed with a 1.1% growth after the heavy decline of 2016 (-3.5%) in an increasingly complicated political climate but one that has also led to a number of structural reforms that were long overdue.

The frontier markets saw mixed performances: strong decline in growth for the Middle East and North Africa where GDP rose by 2.5% compared to 4.9% in 2016 (Saudi Arabia down 0.7%), whilst improvements were recorded in Sub-Saharan Africa which saw growth doubling from 1.4% to 2.7%. The highest growths were once again recorded in the Far East (Myanmar, Laos, Cambodia, all with GDP rates between 6.5% and 7.5%) and in East Africa (Tanzania and Ethiopia with growth rates in excess of 7%).

THE FINANCIAL MARKETS

The bond markets in 2017 were characterised by a lateral trend for the long-term rates in core countries such as the United States, Germany, Japan and Switzerland, whilst they were particularly divergent between Europe and the United States for short-term rates where, against still strongly negative rates on the old continent, a major increase was recorded in the United States in the wake of the Fed's increases in the official rates and prospects of a continuing upward trend. The average rate for 2017 of the 10-year German bonds, though values remained modest, was higher than the 2016 average: 0.37% compared to 0.14%. In 2017, the Italian long-term rates also recorded an average value higher than that of 2016 (2.10% from 1.46% for the 10-year maturities).

The spread between returns on 10-year Italian and German bonds widened during the year to reach over 200 basis points (from 160 b.p.), later narrowing after good news on the political front in the Eurozone and on the improved performance of the Italian economy, closing the year at values similar to those at the end of 2016. Credit spreads saw a narrowing for both the investment grade and especially the high yield components, where Eurozone returns dropped to levels never before seen. Bonds of emerging countries recorded a decline in average returns on maturity both for issues in strong currencies and issues in local currency, also due to a fairly general drop in inflation that allowed multiple cuts to official rates in more countries.

The equity markets saw a decisively positive increase in 2017, with MSCI World up by over 23 percentage points on a total return basis and MSCI Emerging Markets performing even better (+37%). The widespread gradual rallying of the stock markets was seen in a context of economic growth recorded at global level. Continued monetary stimuli have ensured that financial markets have a high degree of liquidity and aided the decrease in volatility that reached historically very low levels. Share prices also benefited from consumer price and production trends in the leading economies, remaining very limited and with exceptionally modest inflationary pressure despite the stronger growth. It is in any event important to emphasise that the strength of the Euro has had a strong erosion effect on the trading performance achieved by markets outside the Eurozone: MSCI World in EUR +8%, always on a total return basis, and MSCI Emerging Markets +20%.

In 2017 the Italian stock market performed much better than in past years with a +16.9% for the FTSEMib index, with the banking segment trend making a major contribution, and especially a +35.4% for the FTSE Italia Mid Caps. The introduction of Individual Investment Plans in Italy, in fact, allowed enormous investment volumes (EUR 11 billion in net funding in 2017 for IIPs) to be routed to small and mid-cap companies which strongly benefited from this phenomenon. The initiative is particularly worthy of note for having potentially launched a longer-term equity investment by local investors in Italian companies, and for foreign institutional investors having brought these companies back into the limelight.

As regards currencies, the Euro appreciated by around 6.5% in effective nominal terms in 2017. The strengthening of the single currency was extremely widespread and very few currencies gained ground against it (Czech Koruna and Polish Zloty, plus a number of minor currencies). Its appreciation was

particularly marked against the US Dollar (12%), Japanese Yen (10%) and certain emerging country currencies (Brazilian Real 14%, Indonesian Rupee 13%, Mexican Peso 8%). Also worthy of note is the depreciation, much sought after by the Swiss Central Bank, of the franc (8%), which comes after a long period of becoming stronger.

Commodities remained largely unchanged in 2017 (CRB Reuters index +0.7% in USD) with a trend that saw two sides of the medallion: a first half with average declines in the region of 15%, then a strong recovery in the second half of the year driven by oil, where the effects of production cuts worked, and by base metals which were positively affected by global growth, particularly in China. The returns expressed in EUR were naturally much lower, feeling the repercussions of depreciation of the US Dollar, the currency used to express almost all the world's commodities.

BANKING SYSTEM

Lending in the Italian banking system in 2017 showed signs of recovery, benefiting from the improvement in business activities and the easing of lending terms applied by banks. Credit spreads narrowed. In 2017 the drop in market rates and competitive pressure on pricing of loans to customers were only partly offset by the reduced cost of funding, particularly institutional. The stock of non-performing positions reduced during the year, mainly as a result of major disposal transactions completed in the summer months, but also due to the downsizing of new entries to the defaulted category to the benefit of the cost of credit.

The stock of Italian banks' loans to the Italian private sector stood at EUR 1,372 billion at the end of November 2017, marking a year-on-year decline of 2.7%. Lending to non-financial companies continued to reduce in 2017 to reach EUR 741 billion at the end of November (-5.7%), with trends differing by business segment, size and borrower credit rating. The stock of loans to households instead continued its growth to reach EUR 631 billion at the end of November, with year-on-year growth of 1%. After corrections for securitisations and disposals, however, the system statistics for November show a year-on-year increase of 1.38% in lending, with positive trends for business loans (up +0.32%) and loans to households (+2.8%).

Credit quality improved in 2017. Added to the slowing flow of new non-performing loans are the major securitisation and disposal transactions. In November the stock of gross non-performing loans stood at EUR 173 billion with a year-on-year decline of 13%, an impact on gross total lending of 9.2% (from 10.5% at the end of 2016) and a net defaulted-lending ratio of 3.74% (from 4.8% at the end of 2016).

At the end of November 2017, funding of Italian banks in Euro, represented by deposits from Italians and non-Italians and from bonds, reached the level of EUR 2,224 billion, marking a year-on-year decline of 1.5%. This decline is entirely attributable to the reduction of the bond component, which closed the year at EUR 497 billion, down 12%, compared to a 2% increase in total deposits to EUR 1,727 billion. The recomposition of the funding mix of banks therefore continues with the replacement of maturing bonds with deposits.

The profitability of the major banking groups in the first nine months of the year showed a significant recovery, albeit influenced by extraordinary income associated with consolidation transactions within the sector by certain groups. The ROE of groups classed as significant rose by 1.4% in the first nine months of 2016 to 9%. Excluding exceptional items, ROE would have been 4.4%. The earnings margin increased by 1.1% in the period due to the progress of net fees and commissions and trading gains, which more than offset the persisting weakness of the interest margin (-3.1%). Also helping to improve profitability for the period compared to the previous year were the lower operating costs (-1.2%) and the reduced net adjustments to loans (-11.6%). The capital strengthening of Italian banks continued also in 2017, and at the end of the third quarter the CET 1 ratio of the leading groups was 13.2%, compared to 11.6% at the end of 2016. Determining factors included the recapitalisation of Unicredit (for EUR 13 billion), Banca MPS (by the Italian government for EUR 3.9 billion) and UBI (for EUR 400 million).

ASSET MANAGEMENT AND PRIVATE BANKING IN ITALY

2017 was a very good year for the Italian industry with inflows recorded by the operators. According to the most recent data (source: AIPB), more than 630,000 households with financial wealth exceeding EUR 1,030 billion are included in the private segment (financial assets of at least EUR 500,000). Expanding the data to all households, including the retail segment, the figure stands at EUR 4,100 billion (source: Bank of Italy) against liabilities of around EUR 930 billion. The geographic placement of the volumes, again according to AIPB data, sees 33% of the wealth in Lombardy, 12% in Emilia Romagna, 11% in Piedmont, 10% in Lazio and 9% in Veneto, and therefore strongly concentrated in just five Italian regions. The last year once again saw growth in the segment for asset management products, with assets under management today representing 17.5% of total financial wealth, investment funds and SICAVs leading with 23.7% and insurance-based products reaching 16.7% (AIPB data on the private segment). The component held in the form of liquidity is even more important (13.5%).

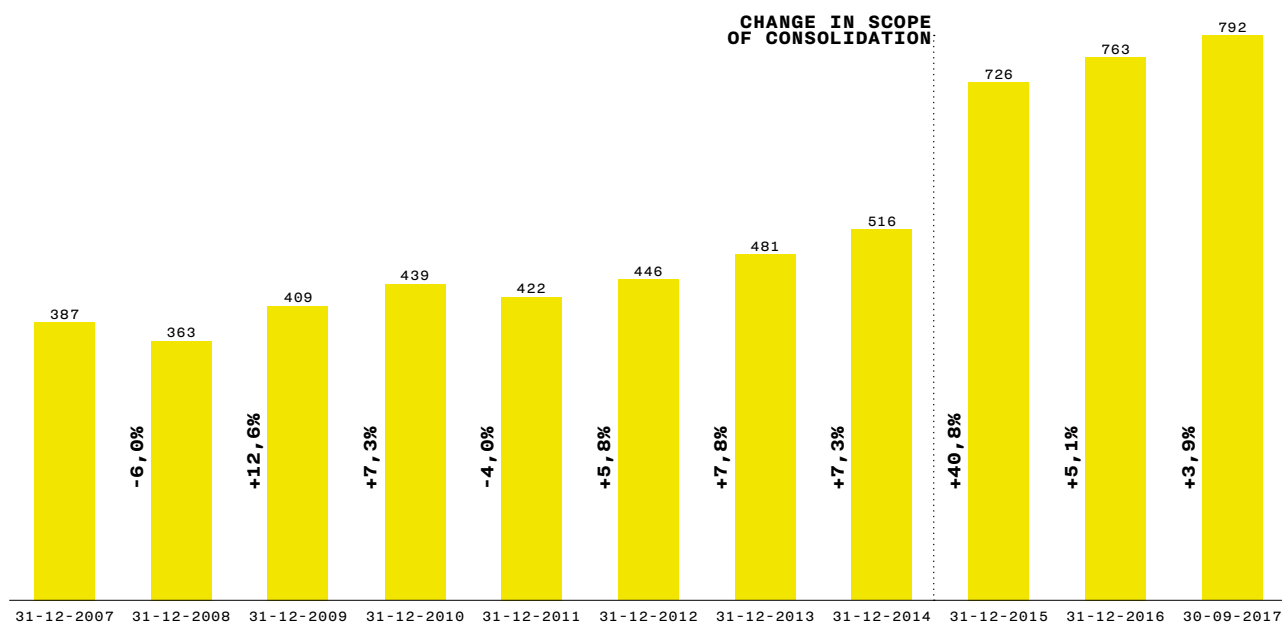
The numbers provided by Assogestioni confirm extremely positive net funding again for 2017 (EUR 97.5 billion), clearly higher than that of the previous year which had reached EUR 55 billion and second only to the 2015 record (EUR 141 billion). Collective forms of asset management (mutual funds and SICAVs) recorded net positive flows of EUR 78 billion for the period (once again mostly balanced and flexible bonds), whilst asset management closed 2017 with 20 billion in net inflows, the same as in 2016. As regards total stock, the figures show a near equal split between collective management (EUR 1,058 billion) and individual management (EUR 1,028 billion). The growth recorded in asset management is partly due to the shift from assets under administration to assets under management, which also continued in 2017, and naturally also to the effect of prices which was positive and brought the total figure to EUR 2,086 billion, an absolute record.

In the map constructed by Assogestioni at the end of 2017, the leaders in volume terms are the Generali Group (over EUR 480 billion in AUM), the Intesa Sanpaolo Group (almost EUR 400 billion between Eurizon and Fideuram) and the Amundi Group which, after acquiring Pioneer from Unicredit at the end of 2016, is now the no. 3 operator with over EUR 200 billion. They are followed by Anima and Poste Italiane.

In the private banking industry, the growth in the asset gatherers or specialist operators category, which includes the Bank, continued to achieve control of 10% of the total market, in which the major players remain the large commercial banks. In fact, the private banking podium sees Fideuram Intesa Sanpaolo Private Banking, Unicredit Private Banking (with Fineco and Cordusio Sim) and the Banco BPM Group (Banca Aletti, Banca Akros and Popolare di Milano PB) in control of 30% of the Italian market, whilst the top ten operators account for over 50%.

Lastly, focusing on the wealth of Italian households in the private segment, intermediated through specialist structures in the private banking service, the figure rose to EUR 792 billion (at 30 September 2017 - source: AIPB), confirming the trend that has held a steady pace since 2011 (note the strong increase from 2014 to 2015, due also to new operators joining the Italian Private Banking Association).

GROWTH IN PRIVATE BANKING VOLUMES - FIGURES IN EUR BILLIONS



4—Profitability - the profit and loss result

RECLASSIFIED INCOME STATEMENT (IN THOUSANDS OF EUR)

ITEMS	31/12/2017	31/12/2016	% CHANGE ON 31/12/2016
10 INTEREST INCOME AND SIMILAR INCOME	9,676.3	10,592.2	-8.7%
20 INTEREST EXPENSE AND SIMILAR CHARGES	(2,277.0)	(1,916.2)	18.8%
70 DIVIDENDS AND SIMILAR INCOME	699.1	258.0	170.9%
INTEREST MARGIN AND DIVIDENDS	8,098.4	8,934.1	-9.4%
40 FEE AND COMMISSION INCOME	90,671.0	75,140.3	20.7%
50 FEE AND COMMISSION EXPENSE	(48,633.3)	(43,456.0)	11.9%
NET FEES AND COMMISSIONS	42,037.7	31,684.3	32.7%
80 NET GAINS (LOSSES) FROM TRADING	7,278.1	5,549.8	31.1%
90 NET HEDGING GAINS	1.1	12.8	-91.4%
100 GAINS (LOSSES) FROM DISPOSAL OR REPURCHASE OF:			
B) AVAILABLE-FOR-SALE FINANCIAL ASSETS	4,044.1	5,337.5	-24.2%
NET REVENUE FROM SERVICES	53,361.1	42,584.4	25.3%
NET INTEREST AND OTHER BANKING INCOME	61,459.5	51,518.5	19.3%
150 ADMINISTRATIVE EXPENSE			
A) PERSONNEL EXPENSE	(29,411.3)	(23,727.3)	24.0%
IRAP ON COST OF PERSONNEL AND SECONDED STAFF - NET (1)	(73.0)	(95.4)	-23.5%
TOTAL PERSONNEL EXPENSE AND IRAP	(29,484.4)	(23,822.7)	23.8%
B) OTHER ADMINISTRATIVE EXPENSE	(27,908.7)	(24,171.9)	15.5%
RECOVERY OF STAMP DUTY AND OTHER TAXES (2)	12,201.4	10,421.8	17.1%
TOTAL ADMINISTRATIVE EXPENSE AND TAX RECOVERY	(15,707.3)	(13,750.1)	14.2%
170 IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT	(1,331.3)	(1,205.1)	10.5%
180 IMPAIRMENT LOSSES ON INTANGIBLE ASSETS	(802.8)	(627.1)	28.0%
190 OTHER OPERATING EXPENSE/INCOME (LESS RECOVERED STAMP DUTY AND OTHER TAXES)	62.2	144.2	-56.9%
OPERATING COSTS	(47,263.6)	(39,260.8)	20.4%
OPERATING RESULT	14,195.9	12,257.7	15.8%
160 NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES	(1,070.6)	(1,216.2)	-12.0%
130 NET VALUE ADJUSTMENTS/REVERSALS FOR IMPAIRMENT LOSSES ON:			-
A) RECEIVABLES	(194.1)	64.4	-401.4%
B) AVAILABLE-FOR-SALE FINANCIAL ASSETS	(1,025.7)	(490.0)	109.3%
D) OTHER FINANCIAL TRANSACTIONS	113.1	(16.0)	-807.5%
240 GAINS (LOSSES) FROM DISPOSAL OF INVESTMENTS	(14.8)	-	n.s.
PROFIT (LOSS) FROM CURRENT OPERATIONS BEFORE TAX	12,003.8	10,599.9	13.2%
260 INCOME TAXES FOR THE YEAR FROM CURRENT OPERATIONS (LESS "IRAP ON COST OF PERSONNEL AND SECONDED STAFF - NET")	(3,943.4)	(3,428.4)	15.0%
PROFIT (LOSS) FROM CURRENT OPERATIONS AFTER TAX	8,060.4	7,171.5	12.4%
280 GAINS (LOSSES) ON DISPOSAL GROUPS AFTER TAX	-	-	
PROFIT (LOSS) FOR THE YEAR	8,060.4	7,171.5	12.4%

(1) Minus the item "Income taxes for the year from current operations".

(2) Mine the item "Other operating income and expense". The stamp duty recovered totalled EUR

12,201 thousand. Other taxes refer to the substitute tax on loans recovered for EUR 170 thousand.

INCOME STATEMENT CLASSIFICATION CRITERIA

In order to provide a more immediate representation of profit and loss results, an income statement was prepared based on presentation criteria considered more suited to representing the item contents in accordance with standard operating principles.

The reclassifications mainly concerned:

- item 70. "Dividends and other income", included under Interest margin;
- the item "IRAP on the cost of personnel", removed from the item "Income taxes for the year on current operations" and included under item 150 a) "Personnel expense";
- the item "Recovery of stamp duty and other taxes", removed from item 190. "Other operating income/expense" and included under item 150 b) "Other administrative expense".

4.1 - PROFIT AND LOSS RESULT - GENERAL OVERVIEW

2017 closed with a profit of EUR 8.06 million, compared with EUR 7.17 million in 2016.

Net revenue from services reached the level of EUR 53.4 million, compared with EUR 42.6 million recorded in the previous year. The trend in these figures was affected mainly by the following factors:

- interest margin down slightly, considering that interest rates were kept to mostly low levels during the year;
- net fees and commissions, up 32.7% on the previous year.

Operating costs reached EUR 47.3 million at 31 December 2017, up on the 2016 figure of EUR 39.3 million.

Allocations net of provisions for risks and charges and net value adjustments/reversals at 31 December 2017 amounted to EUR 2,177.3 thousand³, up by 31.3% compared to 2016 when they totalled EUR 1,657.8 thousand.

The operating profit before tax was therefore EUR 12.0 million.

Lastly, the taxes payable for the year, amounting to EUR 3.9 million, show an increase of 15.02% compared to 31 December 2016, with an overall tax rate standing at 33.46%⁴.

³ Given by the sum of the following items: 160 - Allocations net of provisions for risks and charges; 130 - Net adjustments/reversals for impairment of a) receivables; b) AFS financial assets; c) other financial transactions.

⁴ Excluding IRAP on personnel expense.

4.2 - INTEREST MARGIN

The interest margin, including dividends and other income, reached EUR 8.1 million, down 9.4% on the figure at 31 December 2016.

Within this aggregate we can see a decrease in interest income, attributable on the one hand to reduced market rate profitability which stayed at mostly low levels during the year, as well as to changes in the securities portfolio invested by the Treasury Office. In this sense, despite the bank-owned portfolio recording volumes up on 2016, the return on investments decreased in consideration of investments with a lower but stable return from an interest rate risk point of view.

During the year, the Bank also recommenced allocations to HTM, previously suspended in adoption of the tainting rule. These investments generated positive margins on the profitability of interest income.

The interest margin was also positively affected by the increase in lending, which resulted in an increase in interest income associated with that form of investment.

Lastly, as regards interest expense, a decisive role in its increase was attributable to the phenomenon of negative rates receivable, associated with the cost of liquidity deposited in correspondence accounts with Banca Sella Holding and Banca Sella SpA as follows:

- EUR 565.5 million deposited with Banca Sella Holding S.p.A., and to a lesser extent with Banca Sella S.p.A.;
- EUR 31.8 million relating to accounts in other currencies deposited with Banca Sella Holding S.p.A.;
- EUR 1.3 million deposited with Banca Sella Holding S.p.A. as collateral for derivative transactions.

The breakdown of interest income and expense is as follows:

AMOUNTS IN THOUSANDS OF EUR	31/12/2017	31/12/2016	CHANGE	% CHANGE
INTEREST INCOME	9,676.3	10,592.2	-915.9	-8.6%
TREASURY	3,108.2	4,400.8	-1,292.6	-29.4%
DUE FROM BANKS	711.5	658.4	53.1	8.1%
DUE FROM CUSTOMERS	5,837.3	5,522.4	314.9	5.7%
HEDGING DERIVATIVES	5.8	4.5	1.3	29.5%
OTHER ASSETS	13.5	6.1	7.4	121.4%
INTEREST EXPENSE	2,277.0	1,916.2	360.8	18.8%
DUE TO BANKS	39.0	52.4	-13.4	-25.5%
DUE TO CUSTOMERS	403.6	927.9	-524.3	-56.5%
FINANCIAL LIABILITIES HELD FOR TRADING	410.8	252.1	158.7	62.9%
OTHER LIABILITIES AND PROVISIONS	1,108.5	341.9	766.6	224.2%
HEDGING DERIVATIVES	315.0	341.9	-26.9	-7.9%
DIVIDENDS AND SIMILAR INCOME	699.1	258.0	441.1	171.0%
INTEREST MARGIN AND DIVIDENDS	8,098.4	8,934.1	-835.7	-9.4%

4.3 - NET FEES AND COMMISSIONS

The fee and commissions aggregate at 31 December 2017 reached a level of EUR 42.0 million, up 32.7% on the EUR 31.7 million of 2016. This increase is mainly due to the good performance of the asset management segment (AUM and UCITS under administration) and insurance, as well as to the higher funding volumes. Significant in 2017 was the positive impact from paid advisory services (on top and fee only), for around EUR 1.8 million, already introduced from 2015 but obviously with consolidation and increased investments in the years that followed. Vice versa, there was the increase of 11.9% in fee and commission expense. On this point it is important to consider that the changes in the retrocession of commissions to the private bankers envisage a percentage of total fees and commissions. Therefore, given the increase in fee and commission income for the reasons stated above, the fee and commission expense also increased. It should also be considered that in 2017 the bankers, financial advisors authorised to make door-to-door sales, increased by 4, from 359 at 31 December 2016 to 363 at 31 December 2017.

AMOUNTS IN THOUSANDS OF EUR	31/12/2017	31/12/2016	CHANGE	% CHANGE
FEE AND COMMISSION INCOME	90,671.0	75,140.3	15,530.7	20.7%
PORTFOLIO MANAGEMENT	37,206.3	30,189.0	7,017.3	23.2%
SECURITIES PLACEMENT	27,248.9	23,214.3	4,034.6	17.4%
DISTRIBUTION OF THIRD-PARTY SERVICES - INSURANCE	13,879.4	10,767.0	3,112.4	28.9%
ORDER ACCEPTANCE AND TRANSMISSION	8,309.3	8,265.7	43.6	0.5%
ADVISORY ACTIVITIES	1,811.9	1,093.4	718.5	65.7%
OTHER SERVICES	774.5	659.6	114.9	17.4%
CUSTODY AND ADMINISTRATION OF SECURITIES	457.4	220.5	236.9	107.4%
TRADING	431.4	237.4	194.0	81.7%
CURRENT ACCOUNT MANAGEMENT	281.1	262.5	18.6	7.1%
COLLECTION AND PAYMENT SERVICES	195.9	178.8	17.1	9.6%
GUARANTEES GIVEN	74.9	52.1	22.8	43.8%
FEE AND COMMISSION EXPENSE	48,633.3	43,456.0	5,177.3	11.9%
DOOR-TO-DOOR SALES OF FINANCIAL INSTRUMENTS, PRODUCTS AND SERVICES	46,170.8	41,001.5	5,169.3	12.6%
FINANCIAL INSTRUMENTS TRADING	1,563.3	1,604.8	-41.5	-2.6%
PORTFOLIO MANAGEMENT	494.7	500.1	-5.4	-1.1%
CUSTODY AND ADMINISTRATION OF SECURITIES	258.1	237.1	21.0	8.9%
OTHER SERVICES	137.9	104.3	33.7	32.3%
COLLECTION AND PAYMENT SERVICES	6.0	5.7	0.3	5.9%
GUARANTEES RECEIVED	2.5	2.5	0.0	-1.4%
NET FEES AND COMMISSIONS	42,037.7	31,684.3	10,353.4	32.7%

4.4 NET GAINS (LOSSES) FROM TRADING, HEDGING AND DISPOSALS/REPURCHASES

The net gains from activities referred to in items 80, 90 and 100 of the reclassified Income Statement comprise the gains (losses) from trading of financial assets in the securities portfolio held for trading, realised gains and losses from financial assets held in the AFS portfolio and any gains (losses) from hedging.

At year end, this aggregate shows a trend positively influenced by the net gains from trading (EUR 7.3 million), which was up by 31.1% due mainly to gains from trading on the money and bond markets.

The item "gains/losses from disposals" decreased overall by 24.2% compared to 31 December 2016 to reach EUR 4 million at 31 December 2017. The entire balance refers to the sale of securities classified as available for sale. This change is mainly due to the lower sales of AFS debt securities during 2017 compared to the previous year. The result recorded, however, was positively influenced by the sales of equities and UCITS units classified as AFS. With reference to UCITS, the result of sale of the Gate Fund and GV10 Fund was significant, generating profits for around EUR 470 thousand. Lastly, the Bank realised a capital gain of EUR 292 thousand on redemption of the Zurich policy taken out in 2015.

4.5 - OPERATING COSTS

The operating costs aggregate comprises personnel expense, other administrative expense, depreciation of property, plant and equipment, amortisation of intangible assets and other operating income and expense. At 31 December 2017 they totalled EUR 47.3 million, up 20.4% on the previous year.

AMOUNTS IN THOUSANDS OF EUR	31/12/2017	31/12/2016	CHANGE	% CHANGE
PERSONNEL EXPENSE (INCLUDING IRAP ON COST OF PERSONNEL AND SECONDED STAFF - NET)	29,484.4	23,822.7	5,661.7	23.8%
OTHER ADMINISTRATIVE EXPENSE (NET OF RECOVERY OF STAMP DUTY AND OTHER TAXES)	27,908.7	24,171.9	3,736.8	15.5%
NET VALUE ADJUSTMENTS TO PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS	2,134.1	1,832.2	301.9	16.5%
OTHER INCOME AND CHARGES (LESS THE RECOVERY OF STAMP DUTY AND OTHER TAXES)	-62.2	-144.2	82.0	-56.9%
OPERATING COSTS	47,263.6	39,260.8	8,002.8	20.4%
RECOVERY OF STAMP DUTY AND OTHER TAXES	12,201.4	10,421.8	1,779.6	17.1%

In remuneration terms, an increase was recorded in personnel expense which at 31 December 2017 stood at EUR 29.4 million compared to EUR 23.8 million in the previous year. The increase in personnel expense was particularly due to recruitments from the second half of 2016 which also continued throughout 2017.

The breakdown is as follows:

AMOUNTS IN THOUSANDS OF EUR	31/12/2017	31/12/2016	CHANGE	% CHANGE
PERSONNEL EXPENSE	29,411.3	23,727.3	5,684.0	24.0%
SALARIES AND WAGES	20,950.1	16,685.9	4,264.2	25.6%
SOCIAL SECURITY CHARGES	5,210.7	4,112.0	1,098.7	26.7%
EMPLOYEE SEVERANCE INDEMNITY	4.8	3.0	1.8	59.7%
ALLOCATIONS TO EMPLOYEE SEVERANCE INDEMNITY	24.8	7.1	17.7	248.6%
PAYMENTS TO INPS FOR EMPLOYEE SEVERANCE INDEMNITY	484.8	450.9	33.9	7.5%
PAYMENTS TO EXTERNAL SUPPLEMENTARY PENSION PLANS	687.3	516.0	171.3	33.2%
OTHER PERSONNEL IN SERVICE	72.9	99.7	-26.8	-26.9%
OTHER EMPLOYEE BENEFITS	1,030.9	821.8	209.1	25.5%
DIRECTORS AND STATUTORY AUDITORS	911.8	881.5	30.3	3.4%
RECOVERIES FOR STAFF SECONDED TO OTHER COMPANIES	-257.9	-92.3	-165.6	179.4%
REIMBURSEMENTS FOR THIRD-PARTY STAFF SECONDED TO THE COMPANY	291.2	241.7	49.5	20.5%

Specifically, the increase in this item reflects the impact of costs associated with 21 recruitments in the second half of last year, which obviously only had a pro rata effect on 2016, as well as the impact of 43 recruitments during 2017. The new employees were mostly destined to enhance the sales network, with the aim of maximising business development.

10 employees left during the year. The number of employees in service at 31 December 2017 was therefore 276, up compared to 31 December 2016 when the total was 243, recording a net increase of 33.

Other administrative expense net of the recovery of stamp duty and other taxes amounted to EUR 15.7 million, up on the previous year's figure of EUR 13.8 million. The increase is essentially attributable to the Bank's growth in size, which necessarily implies an increase in associated overheads.

The expense with the greatest impact on this item was that relating to IT advisory services and the lease and maintenance of hardware and software, in support of constant technological upgrades, as well as that incurred for the lease of premises for the Bank's organisational structure. Significant during the year was the increase in legal and notary costs, as seen in the table below this paragraph, against accessory charges relating to the business unit trans-

fer concluded with Schroders Sim SpA (see paragraph 2.2 - extraordinary transactions).

To conclude, it is important to mention the Bank's commitment to overcoming the difficult market conditions, alongside the enormous efforts in 2017 to contain costs whilst keeping competitiveness constant and service quality high.

The amount for administrative expense recorded in the Reclassified Income Statement was expressed net of the recovery of stamp duty in order to show the extent of the phenomenon. In fact, it is important to remember that, in the Income Statement, stamp duty is recorded under "Other administrative expense", whilst its recovery is detailed under "Other income and charges".

With regard to stamp duty on financial instruments, the rate was confirmed at 0.2%. In reference to stamp duty on current accounts, however, the fixed rate of EUR 34.20 was confirmed for amounts higher than EUR 5,000, whilst current accounts with lower balances were exempt.

Without prejudice to the rates, therefore, the increased impact of stamp duty compared to 2016 is attributable to the higher funding (direct and indirect) on which it is calculated. The cost incurred as stamp duty in 2017, in fact, was EUR 12,082 thousand, compared to EUR 10,237 thousand in 2016. Note that the total stamp duty recovered in 2017 was EUR 12,030 thousand, whilst in 2016 the amount recovered was EUR 10,290 thousand. The extent of the amount recovered is essentially in line with that of the cost incurred.

Other administrative expense also includes the extraordinary charges on the contribution to the European DGS (deposit guarantee schemes) and SRF (single resolution fund), introduced by European Directives 49 and 59 in 2014 and relating to the new resolution mechanism for banks in crisis and the new deposit guarantee system. In particular, the ordinary portion of the DGS allocation was EUR 323.1 thousand, whilst the portion referring to the SRF was EUR 148.0 thousand.

Overall, therefore, the total contribution to resolution funds was EUR 471.1 thousand.

Table of reconciliation with the Income Statement - page 102

AMOUNTS IN THOUSANDS OF EUR	31/12/2017	31/12/2016	CHANGE	% CHANGE
A. OTHER ADMINISTRATIVE EXPENSE	15,008.5	12,866.3	2,142.2	16.6 %
OTHER FEES AND COSTS FOR SERVICES PROVIDED BY THIRD PARTIES, IT SUPPORT AND MISCELLANEOUS ADVISORY SERVICES	6,243.6	5,708.8	534.7	9.4 %
LEGAL AND NOTARY ADVISORY SERVICES	327.5	142.4	184.9	129.9 %
RENT AND LEASE EXPENSE, HARDWARE, SOFTWARE AND OTHER ASSETS	2,883.8	2,452.4	431.4	17.6 %
MAINTENANCE OF HARDWARE, SOFTWARE AND OTHER ASSETS	618.1	409.9	208.3	50.8 %
PROPERTY MANAGEMENT	543.9	513.6	30.4	5.9 %
TELEPHONES AND DATA TRANSMISSION	288.6	289.2	-0.6	-0.2 %
OTHER EXPENSE	4,103.0	3,350.0	753.0	22.5 %
B. INDIRECT TAXES	12,900.2	11,305.6	1,594.6	14.1 %
TOTAL	27,908.7	24,171.9	3,736.8	15.5 %

In the table above, "Other expense" can be broken down as follows:

AMOUNTS IN THOUSANDS OF EUR	31/12/2017	31/12/2016	CHANGE	% CHANGE
OTHER EXPENSE	4,103.0	3,350.0	753.0	22.5%
TRAVEL EXPENSES	572.9	407.8	165.1	40.5%
PRINTED MATERIALS, STATIONERY AND CONSUMABLES	81.7	53.8	27.9	51.9%
TRANSPORT AND RELOCATIONS	185.3	136.5	48.8	35.7%
SECURITY	165.0	161.9	3.1	1.9%
MEMBERSHIP FEES	266.6	243.7	22.9	9.4%
INFORMATION AND RECORD SEARCHES	18.3	27.5	-9.2	-33.5%
BOOKS AND MAGAZINES	22.3	18.5	3.8	20.5%
MAILING COSTS	102.9	76.1	26.8	35.3%
INSURANCE PREMIUMS	298.3	311.1	-12.8	-4.1%
ADVERTISING AND PROMOTIONS	291.2	219.1	72.1	32.9%
ENTERTAINMENT EXPENSE	573.7	287.8	285.9	99.3%
CONTRIBUTIONS TO ORGANISATIONS AND ASSOCIATIONS	70.7	39.7	31.0	78.1%
PERSONNEL STUDIES	0.0	1.3	-1.3	-100.0%
WELFARE COSTS FOR PRIVATE BANKERS AND AGENTS	1,288.8	1,223.8	65.0	5.3%
PURCHASE OF SUNDRY MATERIALS	23.2	19.3	3.9	20.1%
OTHER RESIDUAL EXPENSE	142.1	122.1	20.0	16.4%

The item "Other operating expense/income", less recovered stamp duty and other taxes, at 31 December 2017 totalled EUR 62.2 thousand, down 56.9% on 31 December 2016 when the total was EUR 144.2 thousand. This decrease is essentially due to higher expense for portfolio disposal indemnities and agents' leaving indemnities, recorded during the year against financial advisor resignations. Also note the negative impact associated with the higher costs incurred for reimbursements resulting from settlement agreements.

With regard to net value adjustments to property, plant and equipment/intangible assets, note that compared to 2016 the value adjustments to property, plant and equipment increased to reach EUR 1,331.3 thousand at 31 December 2017 (against a balance of EUR 1,205.1 thousand at 31 December 2016), due to the higher investments in the period. Specifically, it is important to mention the increases attributable to the opening or moving of branches or financial advisor offices, which led to greater investments in terms of fixtures, fittings and furnishings. Value adjustments to intangible assets also increased to a total of EUR 802.8 thousand (versus a balance of EUR 627.1 thousand at 31 December 2016), as a result of the conclusion of IT projects for which amortisation commenced after the capitalisation of reference costs. In line with previous years, note in particular that in 2017 the Bank was involved in technology updates and the constant development of its organisational structure.

4.6 - ALLOCATIONS AND VALUE ADJUSTMENTS

Allocations net of provisions for risks and charges amounted to EUR 1,070.6 thousand at 31 December 2017, recording an overall decrease of EUR 145 thousand (12%) compared to 31 December 2016. The item obviously includes new allocations as well as reversals to the income statement, when there was no need to use the amount allocated.

Overall, the changes in provisions for risks and charges can be summarised as follows:

PROVISIONS FOR RISKS AND CHARGES: CHANGES IN THE YEAR

	LEGAL DISPUTES	CUSTOMER COMPLAINTS	PERSONNEL CHARGES	PROVISION FOR AGENTS' LEAVING INDEMNITIES	OTHER
A. OPENING BALANCE	1,830,549	324,319	374,445	5,137,231	114,102
B. INCREASES	71,319	26,812	16,198	1,069,346	749,722
B.1 ALLOCATIONS FOR THE YEAR	70,236	26,000	15,685	1,069,346	748,884
B.2 CHANGES DUE TO THE PASSAGE OF TIME	1,083	812	513	-	838
C. DECREASES	802,009	319	164,570	250,503	-
C.1 USE DURING THE YEAR	264,460	319	-	89,833	-
C.2 CHANGE DUE TO CHANGES IN THE DISCOUNT RATE	199	-	-	-	-
C.3 OTHER DECREASES	537,350	-	164,570	160,671	-
D. CLOSING BALANCE	1,099,859	350,812	226,073	5,956,074	863,823

The item "Other" mainly includes the following provisions:

- Multi-year retention plan relating to the private bankers, for which provisions of EUR 163.7 thousand were allocated;
- Provision for sales risks and charges, relating to disputes involving newly acquired bankers, for which the allocation for the period was EUR 513 thousand;
- Provision for fast-track investigation fees to be reimbursed to customers, for EUR 71 thousand.

As regards the provision for agents' leaving indemnities, note that this represents the liability allocated to the indemnity that the Bank is required to pay to a private banker if the agency agreement should be terminated and the conditions envisaged in Art. 1751 of the Italian Civil Code are met.

With reference to the other decreases, it is confirmed that the changes are attributable to the reversal to the income statement of amounts previously allocated in view of the need to release the related provisions due to the successful outcomes of the underlying proceedings. With particular reference to the provision for agents' leaving indemnities, the decreases relate to the reversal to the income statement of amounts allocated in relation to financial advisors that resigned during the year without accruing the right to receive the indemnity.

Against this change, which affected the provisions for risks and charges during the year, the situation of liability item 120 "Provisions for risks and charges" in the Balance Sheet at 31 December 2017 is as follows:

AMOUNTS IN THOUSANDS OF EUR	31/12/2017	31/12/2016	CHANGE	% CHANGE
LEGAL PROCEEDINGS AS DEFENDANT	1,099.6	1,830.6	-731.0	-39.9%
CUSTOMER COMPLAINTS	350.8	324.3	26.5	8.2%
PERSONNEL CHARGES	226.1	374.4	-148.3	-39.6%
PROVISION FOR AGENTS' LEAVING INDEMNITIES	5,956.1	5,137.2	818.9	15.9%
OTHER RISKS AND CHARGES	863.8	114.1	749.7	657.1%
TOTAL PROVISIONS FOR RISKS AND CHARGES (LIABILITY ITEM 120, BALANCE SHEET)	8,496.6	7,780.6	716.0	9.2%

Value adjustments net of impairment losses at year end totalled EUR 1,106.7 thousand, up EUR 665.1 thousand on the previous year. This increase is due in part to higher impairment losses on receivables and AFS financial assets, also influenced by reversals affecting the other financial transactions.

In particular, the impairment losses on receivables totalled EUR 194 thousand and relate to a small number of disputed items: 13 defaulted positions and 7 delinquent positions written off. The impairment losses on receivables are in any event considered limited if compared to the rest of the banking system.

Specifically, as regards available-for-sale financial assets, impairment tests showed that write-down of 2 AFS securities was necessary for a total of EUR 292.3 thousand⁵ and 1 equity instrument classified as AFS for EUR 160 thousand⁶. In addition, following IDPF action in favour of the Caricesena, Carim and Carismi banks, arrangements were made to write down the equity instrument from subscription to the Voluntary Scheme for a total of EUR 573.4 thousand. Overall, the net value adjustments made for AFS impairment totalled EUR 1,025.7 thousand.

⁵ This refers to the bond OB.MICOPERI SPA 5.75% EUR 29APR20 and the bond OB.TUNDO 8% EUR 30NOV22 PUT.

⁶ This refers to the profit sharing in the film "Fai bei sogni" produced by IBC Movie.

Lastly, the balance made up of other financial transactions, totalling EUR 113 thousand, refers mainly to the reversal of two receivables from ongoing proceedings, recognised under other assets and written down in previous years.

With regard however to impairment losses on receivables, despite the increase compared to the previous year, these are in any event considered limited if compared to the rest of the banking system. In particular, note that there are very few disputed cases. In detail, at 31 December 2017 the delinquent loans written off referred to 7 customers, 6 of which classified as such during 2017, whereas there are 13 defaulted loan positions, 1 of which entered this category in 2017.

These figures are compared with those at 31 December 2016, when the delinquent loans written off referred to 2 customers and there were 12 defaulted loan positions.

4.7 - INCOME TAXES

The percentage impact of income taxes (excluding IRAP relating to personnel expense reclassified as an increase in this component) on profit from current operations before tax was 33.46%, compared to a nominal IRES and IRAP rate of 33.09%.

The alignment between the nominal IRES and IRAP rate and the effective rate mainly refers to the ACE (Aid to Economic Development) tax benefits -

which consists in a deduction from the net income declared by an amount corresponding to the so-called "notional return" on the increase in own funds compared to that existing at the end of the year at 31 December 2010 - and "Art Bonus" tax credit - which consists in a tax credit of 65% on donations in support of Italian public cultural heritage. These benefits, in fact, reduced the nominal tax rate by 2.41%, though these reductions were neutralised by the increase in the tax rate due on administrative expense and the write-down of investments recorded among investments in financial instruments classified as available-for-sale (AFS) financial assets and as part of the Pex (Participation Exemption) tax treatment as costs non-deductible from business income.

As a subsidiary, Banca Patrimoni Sella & C. adopted the national tax consolidation with the parent Banca Sella Holding acting as controlling and consolidating entity.

4.8 - COMPREHENSIVE INCOME

The comprehensive income comprises the profit for the year and other components that make up the year's result but are not recognised in the Income Statement. Included in this situation are the change in the valuation reserves for AFS securities and the actuarial gains/losses on defined benefit plans. In relation to the latter, note that the decrease in rates had a negative effect on the actuarial component of Employee severance indemnity.

STATEMENT OF COMPREHENSIVE INCOME

	31/12/2017	31/12/2016
10 PROFIT (LOSS) FOR THE YEAR	8,060,371	7,171,512
OTHER INCOME COMPONENTS AFTER TAX, WITHOUT REVERSAL TO THE INCOME STATEMENT		
40 DEFINED BENEFIT PLANS	2,886	(104,334)
OTHER INCOME COMPONENTS AFTER TAX, WITH REVERSAL TO THE INCOME STATEMENT		
100 AVAILABLE-FOR-SALE FINANCIAL ASSETS	(373,630)	(925,014)
130 TOTAL OTHER INCOME COMPONENTS AFTER TAX	(370,744)	(1,029,348)
140 COMPREHENSIVE INCOME (ITEMS 10+130)	7,689,627	6,142,164

5—Balance Sheet and Shareholders' Equity figures

RECLASSIFIED BALANCE SHEET (AMOUNTS IN THOUSANDS OF EUR)

ASSETS	31/12/2017	31/12/2016	CHANGE	% CHANGE
FINANCIAL ASSETS (1)	293,579.7	132,435.0	161,144.7	121.7%
DUE FROM BANKS	616,109.4	884,696.7	-268,587.3	-30.4%
CASH LENDING (2)	486,450.1	364,529.9	121,920.2	33.4%
INVESTMENTS	1,987.6	430.0	1,557.6	362.2%
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (3)	31,568.5	30,878.7	689.8	2.2%
TAX ASSETS	6,674.3	8,869.0	-2,194.7	-24.7%
OTHER ASSET ITEMS (4)	60,868.4	52,152.6	8,715.8	16.7%
TOTAL ASSETS	1,497,238.1	1,473,991.9	23,246.2	1.58%
LIABILITIES AND SHAREHOLDERS' EQUITY				
DUE TO BANKS	106,151.1	59,354.9	46,796.2	78.8%
DIRECT FUNDING (5)	1,260,454.9	1,297,006.2	-36,551.3	-2.8%
FINANCIAL LIABILITIES	669.1	1,405.3	-736.2	-52.4%
TAX LIABILITIES	6,194.7	3,795.5	2,399.2	63.2%
OTHER LIABILITY ITEMS (6)	33,126.7	27,297.8	5,828.9	21.4%
PROVISIONS FOR SPECIFIC PURPOSES (7)	10,342.0	9,653.8	688.2	7.1%
SHAREHOLDERS' EQUITY (8)	80,299.6	75,478.5	4,821.1	6.4%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,497,238.1	1,473,991.9	23,246.2	1.58%

(1) Given by the sum of the following asset items: 20 "Financial assets held for trading", 40 "Available-for-sale financial assets" and 50 "Financial assets held to maturity".
(2) Given by the sum of the following asset items: 70 "Due from customers".

(3) Given by the sum of the following asset items: 110 "Property, plant and equipment" and 120 "Intangible assets".

(4) Given by the sum of the following asset items: 10 "Cash and cash equivalents", 80 "Hedging derivatives", 90 "Value adjustments to financial assets un-

derlying generic hedges" and 150 "Other".

(5) Given by the sum of the following liability items: 20 "Due to customers" and 30 "Outstanding securities".

(6) Given by the sum of the following liability items: 60 "Hedging derivatives" and 100 "Other liabilities".

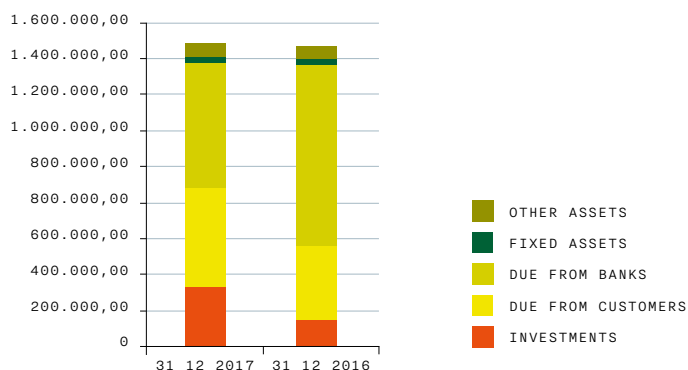
(7) Given by the sum of the following liability items:

110 "Employee severance indemnity" and 120 "Provisions for risks and charges".

(8) Given by the sum of the following liability items: 130 "Valuation reserves", 160 "Reserves", 170 "Share premium reserve", 180 "Capital" and 200 "Profit (loss) for the year".

At 31 December 2017 the Bank's total assets stood at EUR 1,497.3 million, up by 1.58% on the previous year.

BREAKDOWN OF ASSETS

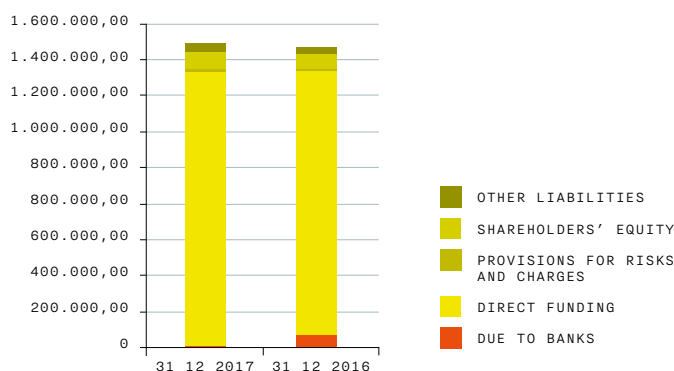


Intermediation with customers saw a positive performance, particularly in the following items:

- cash lending increased by 33.4% to reach EUR 486.5 million, compared to EUR 364.5 million in 2016;
- financial assets rose from EUR 132.4 million at the end of 2016 to EUR 293.6 million at the end of 2017, recording a significant 121.7% increase.

As regards direct funding, coinciding with liability item 20 - Due to customers in the Balance Sheet, a decline of 2.8% was recorded, with balances down from EUR 1,297.0 million at the end of 2016 to the current EUR 1,260.4 million. This change was attributable to stronger investments made by customers given the market situation, though still with low rates, that was more stable and showing a slight recovery compared to the previous year.

BREAKDOWN OF LIABILITIES



5.1 - DIRECT FUNDING

Customer deposits totalled EUR 1,260.5 million at 31 December 2017. This amount coincides with liability item 20 - **Due to customers** in the Balance Sheet.

AMOUNTS IN THOUSANDS OF EUR	31/12/2017	31/12/2016	CHANGE	% CHANGE
CURRENT ACCOUNTS	1,253,726.5	1,289,605.7	-35,879.2	-2.8%
TERM DEPOSITS	2,133.3	2,723.0	-589.7	-21.7%
LOANS	7.6	5.7	1.9	33.3%
REVERSE REPURCHASE AGREEMENTS	7.6	5.7	1.9	33.3%
OTHER PAYABLES	4,587.5	4,671.7	-84.2	-1.8%
TOTAL	1,260,454.9	1,297,006.2	-36,551.3	-2.8%

The trend for direct funding was affected by a market performance in 2017 less subject to swings than the previous year, and consequently characterised by customers more inclined to again increase their investments, reducing the cash kept on current and deposit accounts.

5.2 - DUE TO BANKS

AMOUNTS IN THOUSANDS OF EUR	31/12/2017	31/12/2016	CHANGE	% CHANGE
DUE TO BANKS	106,151.0	59,354.9	46,796.1	78.8%

The trend in amounts **due to banks** (+78.8%) is partly affected by the subscription to the new tranche of the TLTRO 2 auction, which for BPA led to further indebtedness by EUR 25 million, as well as the increase due to the these banks' decisions concerning the Bank's forms of investment, typically asset management. The amounts due to banks increased by EUR 46.8 million during the year, from EUR 59.4 million at the end of 2016 to EUR 106.2 million at 31 December 2017.

5.2 - FINANCIAL ASSETS AND LENDING**5.2.1 - FINANCIAL ASSETS**

AMOUNTS IN THOUSANDS OF EUR	31/12/2017	31/12/2016	CHANGE	% CHANGE
FINANCIAL ASSETS HELD FOR TRADING	7,440.2	4,159.9	3,280.3	78.9%
AVAILABLE-FOR-SALE FINANCIAL ASSETS	243,000.1	128,275.0	114,725.1	89.4%
FINANCIAL ASSETS HELD TO MATURITY	43,139.4	-	43,139.4	100.0%
TOTAL FINANCIAL ASSETS	293,579.7	132,435.0	161,144.7	121.7%

The Treasury Office of Banca Patrimoni Sella & C. is responsible for investing the surplus liquidity from the disbursement of credit, adopting prudential rules and complying with external regulatory provisions and internal policy, the latter approved by the Board of Directors. In particular, the operations were undertaken within the limits of the Risk Appetite Framework⁷ (RAF), this too approved by the Board of Directors.

The business objective is to create value by selecting and managing investments, optimising and keeping under control the risk-return ratio.

The bank also has a Treasury Committee which has the task of analysing the department's investment policies in compliance with the regulations described above. The Committee also analyses issues of interest to the department, outlining the macroeconomic scenario for the period, and assesses the budget forecasts and proposed classification analyses.

At 31 December 2017, the Bank's securities portfolio totals EUR 293,579.7 million, up considerably compared to the previous year. This performance was particularly influenced by the investments in bonds classified as AFS made throughout 2017, until the end of the year, with the aim of maximising returns and reducing interbank liquidity, which has become a source of negative profitability.

The purchases involved Italian and European government securities and corporate bonds, fixed rate and floating rate, with the aim of mitigating interest rate risk in the event of and upward turn in Eurozone bond returns. Overall,

⁷ The RAF is the reference framework which - in line with the maximum assumed risk, the business model and strategic plan - defines the risk appetite, the tolerance thresholds, risk limits, risk management policies and the reference processes required to define and implement them.

transactions on the AFS securities portfolio led to realised capital gains of around EUR 4.0 million in 2017. During the year, the Bank also recommenced allocations to HTM, capitalised securities, including government and corporate securities redenominated in EUR.

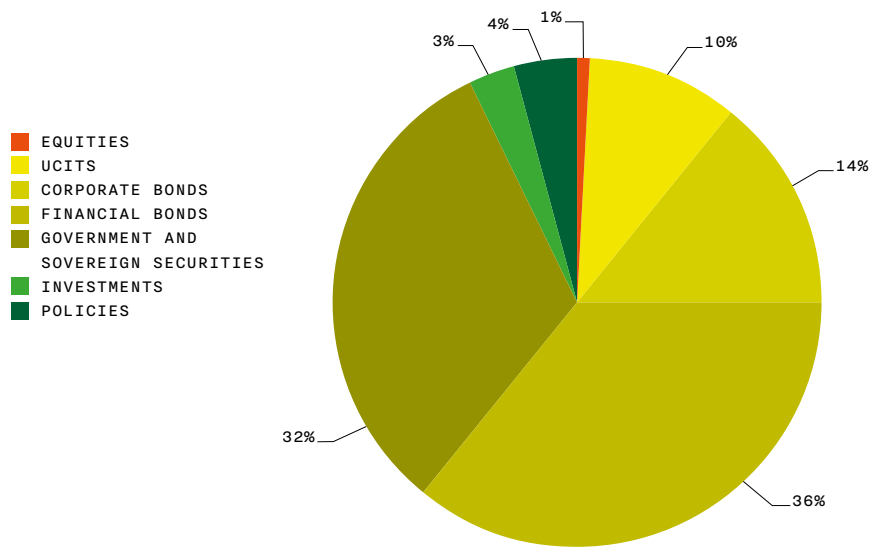
2017 saw the continued allocation of part of the liquidity also to new investment instruments such as private debt funds, which operate in the SME credit segment, and private equity funds, which invest in corporate equities.

With reference to allocations to direct issues of minibonds, in 2017 it was prudentially decided to write-down two securities in the portfolio (Micoperi SpA and Tundo SpA) for a total of EUR 292 thousand.

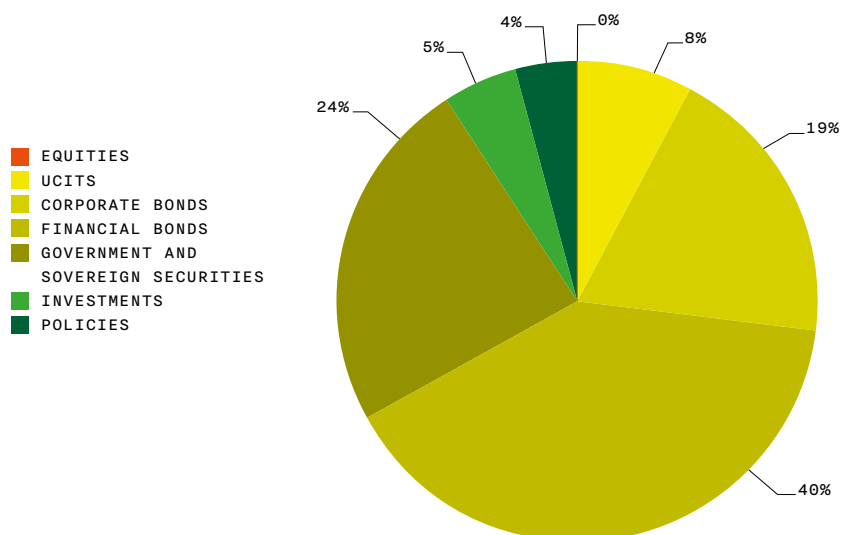
On the whole, therefore, the operations undertaken were suitably focused on optimising the issuer risk diversification, adequately balancing the type of securities, maturities and counterparties.

The asset allocation for the bank-owned portfolio at year end can be illustrated as follows, and appears significant compared to the previous year:

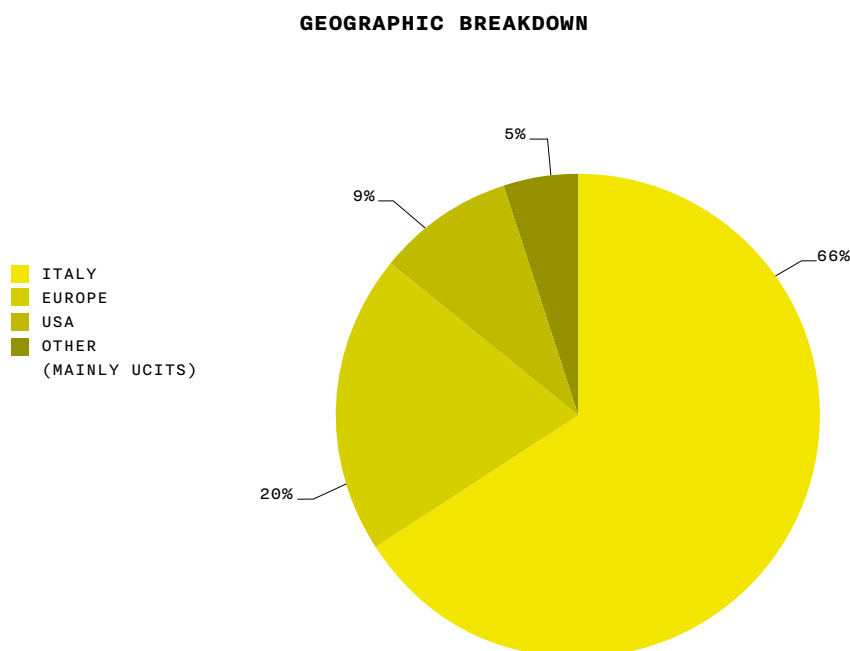
ASSET ALLOCATION AT 31/12/2017



ASSET ALLOCATION AT 31/12/2016



The snapshot of investments with breakdown by geographic area at 31 December 2017 shows the following degree of diversification:



5.2.2 - RECEIVABLES

AMOUNTS IN THOUSANDS OF EUR	31/12/2017	31/12/2016	CHANGE	% CHANGE
DUE FROM BANKS	616,109.4	884,696.7	-268,587.3	-30.4%
DUE FROM CUSTOMERS	486,450.1	364,529.9	121,920.2	33.4%
TOTAL RECEIVABLES	1,102,559.5	1,249,226.6	-146,667.1	-11.7%

At Banca Patrimoni Sella & C., the disbursement of **loans to customers** has in recent years seen a regular yet constant increase, in line with the overall increase in the Bank's volumes. Lending in any event continues to be an accessory component compared to Banca Patrimoni Sella & C.'s core business, i.e. the management of customers' assets and the placement of financial products.

The residual nature of the lending activities is defined by the paradigm "disbursement to customers who are already depositors, or support in the acquisition of new assets". In 2017 there were no significant changes in the product mix available to customers.

The disbursement of loans to customers in 2017 recorded a positive trend, up considerably on the previous year. The stock disbursed at 31 December 2017 amounted to EUR 486.5 million, recording an increase of 33.4% on the previous year.

The main justification for this increase lies in:

- the recruitment of new Private Bankers, which led to a major influx of new customers with credit requirements for business purposes,
- the disbursement of new intercompany loans to Biella Leasing and Consel, also to allow better allocation of the Bank's liquidity. In particular, the intercompany credit facilities granted total EUR 130 million, up EUR 80 million on the previous year.

Most of the credit facilities granted were collateralised, in particular by pledges on the total value or irrevocable mandate to sell to the Bank on financial instruments deposited with the Bank by the customer.

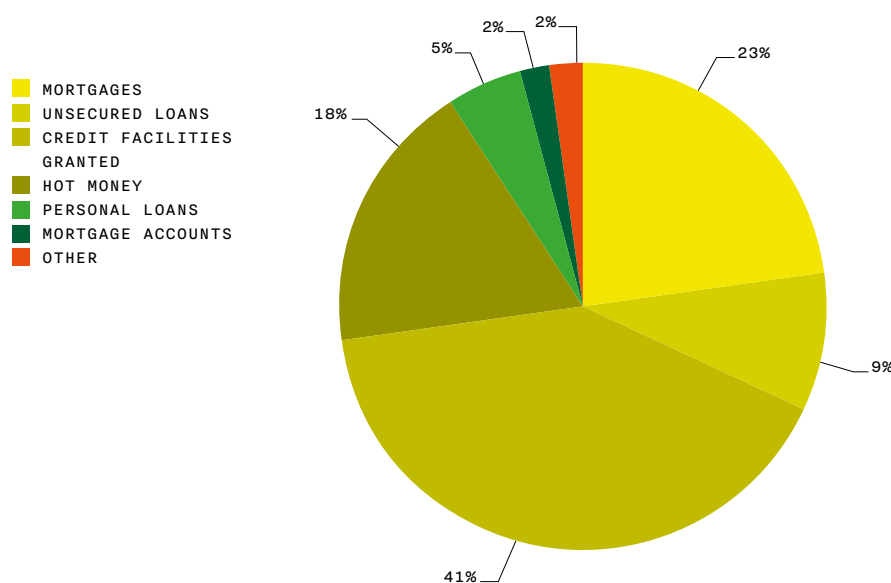
During the year, there was an absolute focus on the disbursement of credit meeting regulatory capital requirements, also with a pricing policy designed to facilitate the granting of low capital absorption loans.

Also note that all matters relating to the disbursement of credit is primarily assigned to the Credit Division at the Bank's central office. With regard to the area organisational structure in 2017, a number of administrative activities relating to the compiling and input of technical data regarding credit procedures were outsourced to another Group company (Selir). As regards the peripheral structure, a greater, albeit still limited, independence in decision-making powers was granted in the sales area, with the control structure remaining centralised.

The Bank did not disburse subsidised loans in 2017 and did not perform any securitisation or restructuring transactions.

At 31 December 2017 the credit portfolio structure was as follows:

PORTFOLIO OF LOANS TO CUSTOMERS



The position of the portfolio of loans to customers at 31 December 2017, with breakdown of performing and non-performing amounts is as follows::

AMOUNTS IN THOUSANDS OF EUR	CASH EXPOSURES	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS	NET EXPOSURE
NON-PERFORMING	1,325	(954)	-	371
UNLIKELY TO PAY	1,059	(85)	-	974
IMPAIRED PAST DUE	33	(8)	-	25
PERFORMING	485,316	-	(236)	485,080
TOTAL DUE FROM CUSTOMERS	487,733	(1,046)	(236)	486,450

Due from banks amounted to EUR 616.1 million at 31 December 2017, recording a decrease on the previous year considering the stronger investments made as part of Treasury Office operations:

AMOUNTS IN THOUSANDS OF EUR	31/12/2017	31/12/2016	CHANGE	% CHANGE
DUE FROM CENTRAL BANKS - COMPULSORY RESERVE	17,338.8	10,551.7	6,787.1	64.3%
CURRENT ACCOUNTS AND DEMAND DEPOSITS	597,425.2	857,918.8	-260,493.6	-30.4%
OTHER LOANS	1,345.4	15,726.1	-14,380.7	-91.4%
DEBT SECURITIES	-	500.1	500.1	-100.0%
TOTAL DUE FROM BANKS	616,109.4	884,696.7	-268,587.3	-30.4%

There was a decrease in current accounts and demand deposits in consideration of the stronger investments made. This situation is attributable on the one hand to the increase in direct funding, and on the other to treasury investment decisions that increased the investments in view of market conditions that were not as excessively negative as the previous year.

5.3 - SHAREHOLDERS' EQUITY AND REGULATORY CAPITAL

At 31 December 2017, Shareholders' Equity stood at EUR 80.3 million, after recognition of the profit for the year of EUR 8 million and considering the deterioration of valuation reserves. The AFS reserves show a decrease of EUR 373.6 thousand, largely due to the market performance of securities in portfolio, determined as follows:

- EUR 357.8 thousand to debt securities;
- EUR (597.3) thousand to equity instruments and UCITS units;
- EUR (134.1) thousand to policies with financial content classified as AFS;

for a total of EUR (828.7) thousand, compared to EUR (455.0) thousand in 2017.

The new harmonised regulations for banks and investment companies contained in Regulation 575/2013 (CRR) and Directive 2013/36/EU (CRD IV) entered into force from 1 January 2014, transposing the standards defined by the Basel Committee on Banking Supervision (Basel 3) into EU law.

In order to implement and facilitate application of the new EU regulations, and to conduct a complete review and simplification of the banking supervision regulations, on 17 December 2013 the Bank of Italy issued Circular no. 285 "Supervisory instructions for banks" which:

- i) includes the CRD IV rules, the implementation of which, pursuant to the Consolidated Banking Act, is the responsibility of the Bank of Italy;
- ii) indicates the methods for exercising national discretion attributed to national authorities by the EU regulations;
- iii) outlines a complete, systematic, rational and integrated regulatory framework with directly applicable EU provisions to facilitate use by the operators.

In Banca Patrimoni Sella & C. the monitoring of capital adequacy is ensured by the Capital Management activities.

The Capital Management Plan is defined concurrently with the strategic plan and Risk Appetite Framework (RAF) and consists in assessing the impact of ordinary activities and defining any extraordinary transactions required to pursue the capitalisation goals (represented by the Common Equity Tier 1 ratio) as deemed necessary and appropriate to place the Bank in a position of current and future soundness and sustainability.

The Capital Management Plan is systematically monitored by the Risk Management Department of the Parent Company as regards the extent of capitalisation and absorption which envisage:

- i) final monthly calculation based on the operating results gradually achieved;
- ii) quarterly simulation of future developments with a view to preventing any situations of failure to achieve the defined levels.

The Bank's solvency ratios form part of the monthly reporting prepared by the Board of Directors and for the Group Performance Alignment and Verification Meeting.

Detailed below are the key characteristics of shares included in Common Equity Tier 1 (CET 1) of Banca Patrimoni Sella & C. at 31 December 2017:

- 28,000,000 ordinary shares with a nominal value of EUR 1 each;

At 31 December 2017 there were no financial instruments eligible for Additional Tier 1 capital.

Tier 2 (T2) included financial instruments as the Bank does not have its own issues of financial instruments.

REGULATORY CAPITAL - QUANTITATIVE INFORMATION - AMOUNTS IN THOUSANDS OF EUR

	TOTAL 31/12/2017	TOTAL 31/12/2016
A. COMMON EQUITY TIER 1 (CET1) BEFORE APPLICATION OF PRUDENTIAL FILTERS	77,075	72,610
OF WHICH CET1 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS	-	-
B. CET1 PRUDENTIAL FILTERS (+/-)	(4)	(6)
C. CET1 GROSS OF DEDUCTIBLE ELEMENTS AND THE EFFECTS OF THE TRANSITIONAL REGIME (A +/- B)	77,071	72,604
D. ELEMENTS TO BE DEDUCTED FROM CET1	3,199	2,530
E. TRANSITIONAL REGIME - IMPACT ON CET1 (+/-)	651	741
F. TOTAL COMMON EQUITY TIER 1 (CET1) (C - D +/- E)	74,523	70,815
G. ADDITIONAL TIER 1 (AT1) GROSS OF DEDUCTIBLE ELEMENTS AND THE EFFECTS OF THE TRANSITIONAL REGIME	45	-
OF WHICH AT1 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS	-	-
H. ELEMENTS TO BE DEDUCTED FROM AT1	-	-
I. TRANSITIONAL REGIME - IMPACT ON AT1 (+/-)	(45)	-
L. TOTAL ADDITIONAL TIER 1 (AT1) (G - H +/- I)	-	-
M. TIER 2 (T2) GROSS OF ELEMENTS TO BE DEDUCTED AND EFFECTS OF THE TRANSITIONAL REGIME OF WHICH T2 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS	-	-
N. ELEMENTS TO BE DEDUCTED FROM T2	-	-
O. TRANSITIONAL REGIME - IMPACT ON T2 (+/-)	-	95
P. TOTAL TIER 2 (T2) (M - N +/- O)	-	95
Q. TOTAL OWN FUNDS (F + L + P)	74,523	70,910

Based on the prudential supervisory instructions, the total requirement is equal to the sum of prescribed capital requirements for credit risk and counterparty risk, for the risk of credit valuation adjustment, and for settlement risk, market risk and operational risk.

The capital requirements calculation methods generally refer to the standardised approach with regard to credit and market risks, and to the basic indicator approach (BIA) for operational risk.

The Bank's capital management policies propose to guarantee that the Tier 1 capital is consistent with the level of risk assumed, regulatory restrictions and the corporate development plans.

CAPITAL ADEQUACY - QUANTITATIVE INFORMATION - AMOUNTS IN THOUSANDS OF EUR

CATEGORIES/VALUES	UNWEIGHTED		WEIGHTED / REQUIREMENTS	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
A. RISK ASSETS				
A.1 CREDIT RISK AND COUNTERPARTY RISK	1,397,675	1,388,502	425,639	334,409
1. STANDARDISED APPROACH	1,397,675	1,388,502	425,639	334,409
2. INTERNAL RATINGS BASED APPROACH	-	-	-	-
2.1 BASIC	-	-	-	-
2.2 ADVANCED	-	-	-	-
3. SECURITISATIONS	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 CREDIT RISK AND COUNTERPARTY RISK	-	-	34,051	26,753
B.2 RISK OF CREDIT VALUATION ADJUSTMENT	-	-	8	2
B.3 SETTLEMENT RISK	-	-	62	96
B.4 MARKET RISK	-	-	813	400
1. STANDARDISED APPROACH	-	-	813	400
2. INTERNAL MODELS	-	-	-	-
3. CONCENTRATION RISK	-	-	-	-
B.5 OPERATIONAL RISK	-	-	7,636	6,943
1. BASIC INDICATOR APPROACH	-	-	7,636	6,943
2. STANDARDISED APPROACH	-	-	-	-
3. ADVANCED APPROACH	-	-	-	-
B.6 OTHER CALCULATION ELEMENTS	-	-	-	-
B.7 TOTAL PRUDENTIAL CAPITAL REQUIREMENTS	-	-	42,570	34,194
C. RISK ASSETS AND CAPITAL ADEQUACY RATIOS				
C.1 RISK-WEIGHTED ASSETS	-	-	532,134	427,418
C.2 COMMON EQUITY TIER 1/RWA (CET1 CAPITAL RATIO)	-	-	14.00%	16.57%
C.3 TIER 1 CAPITAL/RWA (TIER 1 CAPITAL RATIO)	-	-	14.00%	16.57%
C.4 TOTAL OWN FUNDS/RWA (TOTAL CAPITAL RATIO)	-	-	14.00%	16.59%

The capital ratios were confirmed as high, and are higher than regulatory requirements despite being lower than in 2016.

Based on the prudential supervisory instructions, the total requirement is equal to the sum of prescribed capital requirements for credit risk and counterparty risk, for the risk of credit valuation adjustment, and for settlement risk, market risk and operational risk.

The capital requirements calculation methods generally refer to the standardised approach with regard to credit and market risks, and to the basic indicator approach (BIA) as described previously.

The Bank's capital management policies propose to guarantee that the Tier 1 capital is consistent with the level of risk assumed, regulatory restrictions and the corporate development plans.

6—Products offered and the service model

6.1 – INDIVIDUAL ASSET MANAGEMENT

Asset management is a strategic area of operation for Banca Patrimoni Sella & C. and also in 2017 investments were made to enhance the level of human resources dedicated to this segment and the level of new products offered. Considerable efforts were made as regards information sources available to asset managers, also for the purpose of adapting to Mifid II regulations in relation to investment research.

The Bank's Investments Department has more than thirty-five staff and is organised into teams. Three areas of expertise are headed by the Division Manager:

- Managers following centralised guidelines whereby customers leave decisions completely to the Bank and are assisted by a middle office structure handling order transmission to the market, withdrawals and payments and ensuring compliance with the numerous procedures.
- Managers following private guidelines, by which the customers are able to customise their investment decisions to a greater degree.
- The Market Analysis Office performs research with the task of helping to identify opportunities and risks present on the global financial markets.

Banca Patrimoni Sella & C. offers its customers a wide range of management lines both for securities and funds. There are lines with reference benchmarks or absolute returns, and it is possible to choose from among lines that invest exclusively or prevalently in the Eurozone or in products with high-level exposure to other currencies and geographic areas.

The categories of the lines offered are:

- Gamma Equilibrio Private, which includes seven lines ranging from bonds-only management, to balanced lines and to equities-only lines. This range uses securities, ETFs, funds, SICAVs and ETCs. Then there are three absolute-return lines offering greater operating flexibility, have no specific reference benchmark and must be able to generate returns by maintaining a lower correlation with the financial markets and volatility that remains within established limits.
- Gamma Equilibrio Private Internazionale, which includes four management lines with features similar to those described above, but with an investment area decidedly less Eurocentric and can therefore span multiple countries and currencies.
- Gamma Profilo, which includes six management lines internally using only UCITS, choosing from funds, SICAVs and ETFs depending on the type of investment made, the asset class and the time horizon.
- Gamma Multilinea, designed to allow customers more freedom in using individual “investment bricks” representing geographic areas, industries, equity markets, bond segments or currencies.
- Gamma Regime Amministrato, structured to allow those with capital loss-

es, from positions not related to assets under management, to use them as part of a form of asset management focusing in particular on optimising their absorption.

- Gamma Linee di matrice quantitativa, at present including just one product that uses mathematical-statistical input to determine the portfolio composition. This line uses only fund units and SICAV segments.

The Investments Division is able to access numerous sources of information that allow them to be correctly informed of economic and market developments.

Through the wide open architecture adopted by Banca Patrimoni Sella, managers are able to receive information and communicate with:

- the leading global information providers
- independent research and analysis companies with whom specific contracts were signed
- investment banks and brokers with whom specific contracts were signed
- managers of big name funds and small specialist fund boutiques
- the Bank's sales network.

Banca Patrimoni Sella allows its Managers and Analysts to move inside and outside Italy to attend events dedicated to finance, economy and the markets in order to increase their personal know-how, and therefore that of the entire division.

Also worth noting is the option for asset management of funds and SICAV segments to use sixty-five different product houses, even including highly specific products that are quite unique on the Italian market.

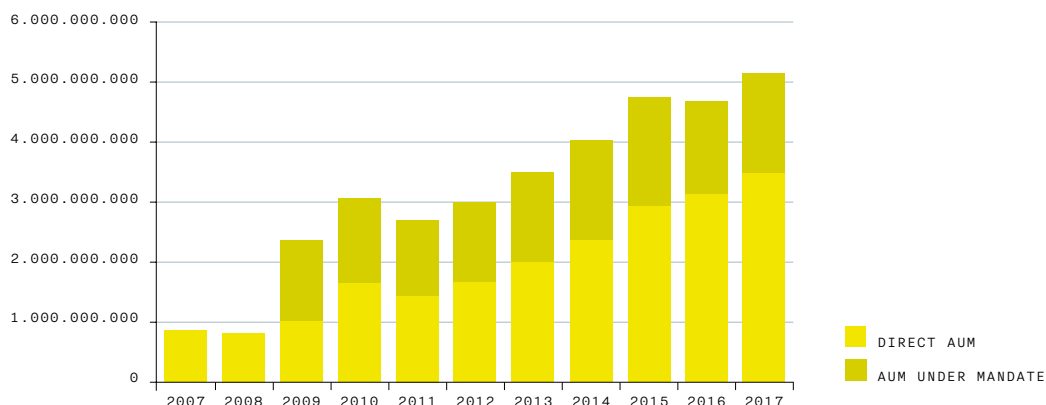


In total, the stock of assets under direct management and under mandate amount to EUR 5,164 million at 31 December 2017, up 10% compared to the previous year. In 2017 the assets under management deposited with the bank increased from EUR 3,133 million in 2016 to EUR 3,488 million at the end of 2017 (+11.3%). During 2017 the Bank retained the management mandate granted by Banca Sella with assets under mandate totalling EUR 1,676 million,

increasing from EUR 1,565 million at the end of 2016 (+7%).

The following chart illustrates developments over time of the stock of assets under management.

STOCKS OF ASSET VOLUMES MANAGED FIGURES IN EUR



The Bank continues its management activities and remains a depositary for domestic funds attributable to insurance policies issued by In Chiaro Life (formerly CBA Vita), a company previously a member of the Banca Sella Group but sold during 2016 to the German company HDI (Talanx Group). Nine strategies are now available. Also note the continuation of mandated asset management of four domestic funds pertaining to the Zurich Multi Invest product managed through UCITS.

The asset management team will begin to manage a French fund of funds in partnership with Rothschild. The multi-manager concept evolves through this co-managed vehicle, with Banca Patrimoni Sella advancing from selector to manager. From a technical point of view, the fund will have a balanced portfolio, not a classic equity/bonds but rather divided between a master portfolio and an alternative portfolio. The Bank's experience in selecting funds managed by 65 specialist product companies is supported by the Rothschild team's experience in selecting alternative strategies. An investment committee will meet each month, in line with the macroeconomic scenario, and will define the quota to be allocated to one or other of the strategies.

The Bank's customer positioning essentially remains unchanged compared to previous years and is concentrated mainly in balanced investment lines. It should be emphasised that, except for contractually envisaged hedging purposes, derivatives are not used as part of the asset management.

The gross returns offered to customers are higher than the reference benchmarks in 92.17% of cases, the highest result achieved since this figure was first measured.

**PERCENTAGE OF DIRECT AUM CUSTOMERS WITH GROSS RETURN
PER CALENDAR YEAR ABOVE THE BENCHMARK**



6.2 SALES POLICIES, PRODUCT MIX AND MARKETING

The strong focus on customer relations and maintaining a high level of credibility and quality in support to the private bankers have always been, and will continue to be, a priority for Banca Patrimoni Sella & C. The high capacity in 2017 for generating positive performances in investment services, combined with constant attention on understanding and identifying different customer needs, aided the overall level of satisfaction of our customers, also confirmed in the growth in deposits achieved during the year.

As part of this overall vision, the key features of the sales policies can be summarised as follows:

- providing an asset advisory services that ensures the identification and satisfaction of customers' long-term financial needs, also using "pricing fee only" tools;
- in terms of asset management, with particular reference to the asset management service, prompt and rapid updating of the product mix, with particular attention to market developments and new demands from customers;
- as part of the open architecture for the UCITS, maintaining and developing agreements with the best partners on the market;
- with a view to protecting customers' assets, selecting and formalising reliable partnerships in offering insurance-financial products and services;
- organising local events and "meet the customers" opportunities;
- ongoing development of the sales network, also through grouping professionals of proven experience and seniority;
- providing technologically advanced services to private customers and to account managers with the aim of best use of the investment services offered (Internet services, mobile apps, digital signatures, web collaboration).

The services provided to customers cover a vast range, including:

- asset management, first and foremost through the home asset management vehicle, and through the UCITS placement under multi-manager administration;
- advisory services for financial instruments under administration, the purpose of which is to maximise returns and the assumption of risks proportionate to the customers' objectives, through suitable portfolio diversification;
- traditional accessory banking services, including current accounts, credit (as an accessory component of the core business), traditional and electronic payment systems, Internet banking, mobile banking and trading online;
- insurance and pension-related services, through unit-linked and multi-segment capitalisation products;
- acceptance, transmission and execution of orders received from private and institutional customers;
- direct service to institutional customers.

In addition, the operations throughout Italy of the Institutional and Large Customers Office, as well as the performances achieved from assets under management, have given the market a positive view of the Bank. This allowed our Bank to become a provider of investment services for other intermediaries, both asset management and advisory (under administration and insurance-finance) through appropriate contracts.

The Marketing strategies proved to be of fundamental strategic support in achieving the budget objectives. During the year, in fact, consolidation of the image of Banca Patrimoni Sella & C. continued through communications activities and through institutional initiatives to increase brand awareness.

7—Human resources

The headcount at 31 December 2017 included a total of 276 employees and 363 private bankers.

In relation to the number of employees, the figure comprises 27 Executives, 91 third and fourth level Managers, 46 first and second level managers and 112 other employees (of which 7 apprentices and 8 employees with fixed-term contracts). A net increase of 33 was recorded compared to 2016.

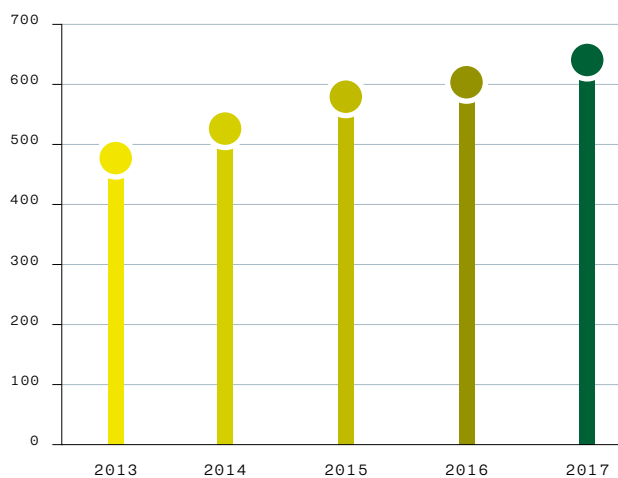
As regards private bankers, at 31 December 2017 these totalled 363, up by 4 compared to 2016 when the total was 359.

The increase in the number of employees in 2017 was significant: 43 new employees were recruited, 30 of which on permanent contracts. A further 7 were recruited on fixed-term contracts and 6 as apprentice. The headcount at year end therefore breaks down as follows: 261 on permanent contracts, of which 12 part-time, 7 apprentices and 8 on fixed-term contracts.

On the whole, therefore, the increase in the number of employees and private bankers appears to be consistent over the last five years.

YEAR	EMPLOYEES	PRIVATE BANKERS	TOTAL
2013	181	295	476
2014	194	331	525
2015	222	356	578
2016	243	359	602
2017	276	363	639

HUMAN RESOURCES - GROWTH IN NUMBERS



7.1 - BREAKDOWN OF HUMAN RESOURCES

The incidence of graduates is 51.45%. The average age of employees is 45.49, whilst the percentage of women is 42.02%.

The breakdown of employees can therefore be summarised as follows:

	TOTAL 2017			TOTAL 2016		
	WOMEN	MEN	TOTAL	WOMEN	MEN	TOTAL
EXECUTIVES	1	26	27	-	20	20
THIRD-AND FOURTH-LEVEL MANAGERS	21	70	91	18	60	78
FIRST- AND SECOND-LEVEL MANAGERS	25	21	46	23	17	40
OTHER	69	43	112	65	40	105
TOTAL	116	160	276	106	137	243

7.2 - TRAINING

Training activities in 2017 led to the provision of over 5,612 full days' training, with a percentage increase of around 50% compared to 2016 and an average of approximately 9 days' training per employee. Training is provided without distinction to employees and private bankers.

Specialist in-depth professional skills and higher education courses are ensured through participating in external courses provided by leading advisory companies experts in the field or by prestigious universities.

In particular, in addition to traditional-format training, at the Bank and with external companies, the use of self-training at the workstation continued with the aid of the special e-learning platform.

For their duration, the topics discussed and the number of employees involved, note the courses relating to:

- professional insurance training as required by IVASS Regulations, targeting individuals designated as insurance brokers (annual refresher courses and courses for newly appointed staff).

In terms of quality, the training action aims to:

- enhance the managerial and conduct skills by classroom training held for private bankers, focusing on the approach to change;
- enhance the managerial and conduct skills by classroom training held for heads of service, focusing on the use of mental strategies for self-efficacy enhancement;
- reinforce language training, carried out through individual and classroom language courses;
- provide preparation courses for the entrance exam for the register of financial advisors, reserved for certain young, recently-recruited employees;
- the following specialist topics are particularly targeted: anti-money laundering, transparency, credit control, accounting and financial statements, administrative liability, protection of occupational health and safety, privacy and American tax regulations.

7.3 - HUMAN RESOURCES SELECTION

In order to ease the professional decisions of students through direct knowledge of work and in view of greater integration with the education system, in 2017 the Bank confirmed its willingness to support training activities in high schools and universities. No less than 34 teenagers, male and female, completed work experience and careers guidance in many sectors of the Bank. Of these, 7 were later recruited with apprenticeships or fixed-term contracts.

In 2017, continuing from action already taken in 2016, selection activities focused on covering key positions and enhancing the sales structure.

8—The organisation and the IT system

2017 was characterised by major investments and planning and organisational efforts concerning MIFID II regulations and the related adoption of a multi-target service model for investment advisory services.

Two important projects continued and were completed in relation to private banker activities: the use of graphometric signature (advanced digital signature) on tablets for a series of forms and contracts, with same-time availability for the entire network of devices, and the implementation of functions that allow more extended use of the multibank information system by financial advisors.

These projects, classified as strategic, had a positive impact on operations already in 2017 and will be further expanded in 2018 and in the years to come.

2017 saw particular attention paid to supporting the network and the acceptance of operational and organisational needs through direct and frequent meetings between the departments responsible and the bankers, which led to preliminary information being gathered on major process review projects for the next three years.

With regard to asset management, the portfolio and order management platform was consolidated. For management control, the platform was updated to the latest version which allows easier access and use also from mobile devices.

The contracts with the leading IT providers (infragroup and external) were reviewed and suitably monitored, focusing in particular on the service levels significant for their impact on operations.

Lastly, in the final quarter of the year, the Schroders transaction called for particular attention and planning efforts both from an organisational point of view and as regards preparing the information systems for the IT and accounting migration.

9—The risk management system and exposure

9.1 - INTERNAL CONTROL SYSTEM

The Bank's **Internal Control System** plays a central role in the business organisation due to its controls over the operating structures and for its specific control activities, covering all business activities, carried out by the control departments and the "mechanisms" (control committee/supervisory body) envisaged in the organisational model.

The system structure is divided into three levels in compliance with Supervisory Authority instructions:

- **First level controls:** aim to ensure that transactions are carried out correctly by the operating structures. With regard to the activities most exposed to operational risks, the bank has set up specific centralised monitoring;
- **Second level controls:** aim to assist in defining the risk measurement approaches, verify compliance with the limits assigned to the various operational departments and monitor regulatory compliance. They are entrusted to non-operating departments, specifically the **Risk Management, Anti-Money Laundering and Compliance departments.**
- **Third level controls:** aim to identify anomalous trends, violations of procedures and regulations and assess the operations of the Internal Control System as a whole. These are assigned to the **Internal Audit Department.**

9.2 - INTERNAL AUDIT DEPARTMENT

The **Internal Audit Department** reports directly to the Board of Directors. Its task is to verify the overall operations of the internal control system. In particular, it assesses the completeness, adequacy, functions and reliability of the internal control system components, the risk management process and business processes, also with regard to the capacity to identify and prevent errors and irregularities. In this context, it audits the departments responsible for second level controls (Risk Management, Anti-Money Laundering and Compliance) with a view to improving the effectiveness of the control processes.

The department's staff are constantly committed to improving professional awareness and expertise. In carrying out their duties they operate in compliance with external regulations, best practices and international standards for professional internal auditing as defined by the Institute of Internal Auditors (AIIA). The Internal Audit Department bases its activities on a three-year Audit Plan, submitted each year to the Bank's Board of Directors. The Plan indicates the audit tasks to be carried out by the department, identified on the basis of different reference drivers, including: compulsory activities envisaged by external regulations, the risk levels of the existing company processes and the new business indicated in the Strategic Plan, as well as periodic on-site audits of the network of account managers and the branches. The audit tasks can be amended and/or supplemented as necessary to meet specific contingent needs or as potential risks arise that could have a significant impact on the Bank.

The results of audits carried out are brought to the attention of the corporate bodies, also pointing out improvement options.

9.3 - RISK MANAGEMENT DEPARTMENT

The primary goal of the **Risk Management Department** is to identify, measure, control and actively support the containment of financial and non-financial risks and their relation to capital, in line with current regulations and the risk appetite defined by the body responsible for strategic supervision.

The Department's responsibilities include:

- supporting the Management Body in defining the RAF, risk governance policies and the various steps that make up the risk management process, as well as setting operational limits on assumption of the various types of risk;
- assisting in defining the risk management policies through ex ante assessment of the potential risks based on quantitative and qualitative measurement approaches;
- ensuring periodic monitoring of the risk profile;
- constantly implementing the methods and tools for quantitative and qualitative measurement of risk exposure;
- encouraging dissemination of the culture of risk.

Risk monitoring and management are formalised in the specific Policy, approved by the Bank's Board of Directors, which contains details of the risk indicators and the action to be taken if any thresholds identified in the RAF (Risk Appetite Framework) are exceeded.

The monitoring process is linked to the system for monthly reporting to the Board of Directors.

9.4 - ANTI-MONEY LAUNDERING DEPARTMENT

The mission of the **Anti-Money Laundering Department** is to prevent and combat the Bank's involvement in money laundering and/or terrorism financing transactions, continuously verifying that business procedures, processes, products and services are consistent with this mission. It operates under the direct supervision of the Management Body and reports directly to Top Management.

Its activities are carried out on the basis of an annual plan that sets out the actions to be taken in the reference period, whether ex ante or ex post, where the intensity of prevention and combating controls is modelled on a risk-based approach, focusing on scenarios worthy of closer scrutiny and implemented in such a way as to make monitoring activities more effective, taking into account the following main reference drivers:

- reference regulations;
- the Bank's strategic plan;
- the residual risk level and the results of the self-assessment process for money laundering and terrorism financing risks - also in the light of provisions in the more general Risk Appetite Framework (RAF);
- indications arising from anti-money laundering and anti-terrorism activities carried out by the parent company's Anti-Money Laundering Department and/or similar departments in other Group companies.

9.5 - COMPLIANCE DEPARTMENT

The **Compliance Department** is independent and part of the CEO's staff. At the reporting date it has 4 staff.

For the regulations most significant to banking and finance activities and regulations for which no specialist monitoring is envisaged, the compliance model adopted by the Bank requires that the Compliance Department is directly responsible for compliance risk management.

Using a risk-based approach, the department's activities are designed to monitor compliance risk in the Bank's business activities.

In particular:

- Gap Analysis, to assess the impact of new regulations and amendments to existing regulations on processes and procedures adopted by the intermediary;
- Ex ante assessments relating, for example, to new business processes or amendments, new products or services, entry into new markets, changes in economic and contractual terms for products and services;
- Ex post checks such as risk assessment, analysis of Banking and Financial Arbitration awards and compliance testing.

9.6 - SUPERVISORY BODY PURSUANT TO ITALIAN LEGISLATIVE DECREE 231/01

The Bank adopted the "**Organisation, management and control model pursuant to Italian Legislative Decree 231/01 (Model 231)**" in 2005, and has gradually arranged the necessary updates following legal and organisational changes occurring in the meantime, to prevent the commission of offences envisaged in the decree and to reduce the risk of corporate liability charges against the Bank.

The duties of the Supervisory Body appointed to supervise operations and compliance of the organisational and management model are carried out by the Control Body.

The implementation of Model 231 is in line with the Bank's conviction that every element useful to achieving fair and transparent conditions in managing the business activities is worthy of attention, in relation to the Bank's reputation and to fully protect the interests of third parties - the corporate stakeholders (customers, counterparties, individuals, institutions, suppliers, stakeholders).

In 2017 the Bank constantly monitored regulatory developments in terms of corporate administrative liability, with particular regard to the introduction of new potential offences.

In the light of new legal provisions introduced and the business organisation changes during 2017, a process was launched to assess the impact on the Organisation, Management and Control Model pursuant to Italian Legislative Decree 231/01.

Further information on the control system is, as required by law, provided in the Explanatory Notes (Part E, "Information on risks and related hedging policies").

10—Business outlook

THE SCENARIO

The global economy should see a further moderate acceleration in growth during the year. The latest forecasts suggest that no OECD country will be in recession in 2018 and that only five countries overall will record negative growth. For this year, the IMF forecasts that global GDP growth will reach +3.9%, driven by the emerging economies, the US tax reform and a confirmed rekindling of European growth.

In the United States the growth is expected to become stronger during the year, between improvement in the international scenario and implications of the tax reformed prepared by Congress, signed into law by President Trump last December. However, the extent of the contribution to growth of the US fiscal action, which will result in a lower tax burden on households and businesses, benefiting business investments in particular, still appears difficult to quantify in view of the advanced cyclical stage of the US economy and the technical features that characterise it. Another factor of uncertainty that cannot be disregarded is the direction that Donald Trump's administration intends to follow in the USA as regards international trade relations. In particular, there is an important focus on renegotiation of the NAFTA trade agreement between the United States, Canada and Mexico. The November 2018 mid-term elections will be another crucial moment for the USA.

The economic recovery in the Eurozone should continue at a steady pace, still driven by domestic demand components. The orientation of the economic policies, particularly a reduced quantitative easing, could result in a tendency towards moderation for GDP growth rates. The growth is expected to remain on a positive path also in Italy. No enormous obstacles in political terms are seen for the current year and the European unification process in progress and led by France and Germany should continue.

Despite extensive disparity of the prospects of individual economies, emerging countries should again record slightly accelerating GDP growth rates, with levels remaining distinctly higher than those of advanced economies.

In terms of consumer prices, it is expected that for the major economies in developed countries there will be a substantial stabilisation of inflation at levels similar to those recorded in 2017, as a consequence of the lower contribution from energy and a modest recovery in core items.

The ECB will gradually continue its monetary policy normalisation, most likely putting an end to securities purchases towards the end of 2018. At the same time, it will continue to reinvest in maturing securities and will probably keep policy rates unchanged so as to support the recovery in progress and the return of inflation to levels consistent with its target.

The Federal Reserve is expected to continue to normalise monetary conditions under the guidance of its new head, Jerome Powell, with indications that continue to show the Fed's willingness to move gradually with a series

of increases, allowing itself to be driven by the dual mandate of supporting employment and price stability. In the opinion of members of the Monetary Policy Committee, the official rate will on average be between 2.0% and 2.25% at the end of 2018, i.e. 75 basis points higher than at present. The Federal Reserve will also continue to gradually reduce its securities portfolio as forecast.

In line with the expected developments in the Italian macroeconomic scenario for 2018, bank credit to the non-financial private sector should continue along its growth path and credit quality should improve further, to the benefit of banking system profitability. The disposal process for non-performing loans will remain active with consistent volumes at the same level as in 2017 and, along with the implementation of new regulatory measures (addendum on NPLs, IFRS9), will continue to keep the cost of credit above the pre-crisis levels. The higher credit volumes, accompanied by a slight increase in rates and funding conditions that remain favourable, we could again see a growing interest margin after many years of decline. Revenue should continue to benefit from the positive effects of the migration of part of the financial assets of households to the asset management and insurance segment, despite being aware of a positive market cycle that has now lasted for nine years.

Again in 2018 the focus will remain on innovation of the business models, efficiency improvements in the operating structures and cost containment. The level of capitalisation of Italian banks is still below the European average. This year the focus on strengthening capital will remain strong, with the start-up of new business combinations.

11—Research and development

Banca Patrimoni Sella & C. is constantly committed to technology upgrades and continuous development of its organisational structure, in partnership with the Parent Company Banca Sella Holding and with Banca Sella. In particular, a description of the renewal and implementation of IT systems, adapting to regulations and to the needs of customers, is provided in paragraph 8 of this report - “The organisation and the IT system” - which illustrates the main activities carried out in this respect during 2017.

12—Going concern: the Bank's strategy and profitability

This report describes the results for the period. Note that the performances recorded, activities carried out, the capital management processes and the financial position of the Bank all confirm a continuation of the usual policy of prudence. Cash flow was kept at a more than adequate level. Likewise, note also that the profit and equity ratios for the period confirm the good operating performance.

In particular, capitalisation also remains adequate. At 31 December 2017, own funds totalled EUR 74,523 thousand, compared to a Total Capital Ratio of 14% well above the regulatory limit of 8.625%.

The results and performances associated with our business in 2017 therefore appeared solid and comforting, despite the often difficult market conditions and uncertain macroeconomic scenario.

Also in view of the forecast developments in the external scenario, it is expected that business development and the growth of assets under management will continue. Growth will derive from internal lines, development of the customer base and through the inclusion of new bankers.

In line with guidelines in the strategic plan, any transactions of an extraordinary nature, either internal or external to the Group, can be assessed, if in line with the business model and economically sustainable. The extraordinary transactions begun in 2017 and explained in this report confirm the approach described.

In line with the objective of strengthening the Company's position in the Italian private banking industry, the policy of development across the entire country will continue, also in areas where the Bank is not currently present.

After full examination of the prerequisites, the Board of Directors has concluded that there are no problems or uncertainties as regards going concern.

13—Significant events after year end

On 5 February 2018, following Supervisory Authority approval, the closing agreement was signed for acquisition of the Schroders Italy Sim business unit. The Schroders Italy Sim professionals will form a new area of Banca Patrimoni Sella & C. known as "Sella Patrimoni Schroders", which will be based in Milan.

For further details of this transaction, see paragraph 2 “Events during the year”.

On 7 February 2018, as part of its normal supervisory activities, the Bank of Italy began an audit of Banca Patrimoni Sella & C S.p.A. This general audit represents an extraordinary opportunity for the Bank’s growth and improvement.

14—Treasury shares and shares of the Parent Company

The company does not hold treasury shares, nor shares of the Parent Company Banca Sella Holding.

15—Other information

15.1 - SELF-ASSESSMENT PROCESS FOR SENIOR MANAGEMENT

Since 2015 the Banca Sella Group has adopted the Regulation on the Self-Assessment Process for strategic supervision and management bodies, in view of the regulatory context outlined in the Bank of Italy’s Supervisory Instructions which posed particular attention upon this process, to be carried out strictly and in depth.

The self-assessment of the Board of Directors was performed, as every year since 2009, through completion by each Director of a questionnaire divided into the following sections:

- self-assessment of Directors;
- membership of the Board of Directors and board activities;
- assessment of the Chairman of the Board of Directors;
- assessment of the CEO;
- self-assessment of the Chairman of the Board of Directors;
- self-assessment of the CEO.

The results and remarks gathered through the questionnaires, examined during a Board meeting, confirmed the adequacy of the membership in quality and quantity terms and of the Board’s operations.

15.2 - NON-FINANCIAL STATEMENT

Though not yet compulsory for Banca Patrimoni Sella & C. pursuant to Italian Legislative Decree no. 254 of 30 December 2016, the Non-Financial Statement was prepared at consolidated level.

15.3 - INFORMATION OF AN ENVIRONMENTAL NATURE

The Bank's guiding principles and values are expressed in the Group Code of Ethics, which emphasises the importance of sustainable impact of actions over the long term, not only from an economic point of view but also in environmental terms. In this respect, the Bank's approach - which stems from Group values, in particular the principle of responsible conduct - is based on avoiding waste and focusing on the environmental consequences of personal behaviour adopted, with the aim of reducing environmental impact to a minimum. For further details, reference should be made to the Non-Financial Statement prepared at consolidated level.

16—Relations with Group companies

As part of relations with Group companies, the most significant balances refer mainly to Banca Sella and Banca Sella Holding S.p.A.

With specific reference to Banca Sella, outsourcing fees are significant because Banca Patrimoni Sella & C. has insourced and continues to primarily insource from Banca Sella.

Note that correspondence current accounts were opened with the Parent Company, Banca Sella Holding S.p.A.

Reference should be made to the section of this report that illustrates relations between Banca Patrimoni and the Group companies as part of the table on intercompany figures.

A special section of the explanatory notes also illustrates the essential figures of the last financial statements of the Parent Company Banca Sella Holding.

As part of intercompany relations, note that since 2010 the Bank has a controlling interest of 85% in Family Advisory Sim S.p.A. - Sella & Partners. The latter, with share capital of EUR 500,000, closed 2017 with a profit of EUR 69,957, up compared to the EUR 58,528 of 2016. In the next year the Bank will continue to pursue the growth prospects (in terms of dimension and quality) to be sought in the sales strategies for customer base development and in the consolidation of customers acquired, as well as growth strategies in terms of quality to improve the efficiency and productivity and at the same time guarantee adequate monitoring of legal and regulatory compliance.

As reported in paragraph 2 "Events during the year", in 2017 Banca Patrimoni Sella & C. acquired a controlling interest (70%) in the trust company Selfid S.p.A. from Banca Sella Holding S.p.A. Selfid closed 2017 with a profit of EUR 1,366,202, benefiting during the year from the release of a provision for risks and charges that had been allocated in previous years against a potential risk of penalties following a report on findings served upon the company in 2012. One of the findings alleged violation of art. 41, Italian Legislative Decree 231/07, for which it was proposed to inflict penalties pursuant to art. 57, paragraph 4, Italian Legislative Decree 231/07. The sanction procedure

relating to the finding, attributable to the position of Fiduciaria Selfid S.p.A., was deemed settled in consideration of the notice received from the Ministry of Economy and Finance, Department I, Division V, Office II by note dated 21 September 2017.

In relation to these controlling interests, also note that in compliance with the reference regulations (Art. 2359 of the Italian Civil Code, Italian Legislative Decree no. 127 of 9 April 1991 and IFRS 10), their consolidation is arranged by Banca Sella Holding S.p.A., which is also responsible for their management and coordination as parent company.

RELATIONS WITH GROUP COMPANIES: BALANCE SHEET FIGURES

	OTHER ASSETS - OTHER	OTHER LIABILITIES - OTHER	FINANCIAL ASSETS HELD FOR TRADING - DERIVATIVES	DUE FROM BANKS	DUE FROM CUSTOMERS	DUE TO BANKS- OTHER
BANCA SELLA HOLDING S.P.A.	71	742	233	596,766	-	39,859
SELLA GESTIONI S.G.R.	337	38	-	-	-	-
SELLA CAPITAL MANAGEMENT S.G.R. S.P.A. (IN LIQUIDATION)	-	-	-	-	-	-
BIELLA LEASING S.P.A.	25	-	-	-	65,000	-
IMMOBILIARE LANIFICIO MAURIZIO SELLA S.P.A.	-	-	-	-	-	-
SELFID S.P.A.	64	1	-	-	-	-
CONSEL S.P.A.	-	-	-	-	59,014	-
EASY NOLO S.P.A.	1	-	-	-	-	-
BROSEL S.P.A.	-	-	-	-	-	-
SELIR S.R.L.	-	47	-	-	-	-
BANCA SELLA S.P.A.	2,795	3,463	-	2,005	-	-
FAMILY ADVISORY SIM S.P.A.	1	-	-	-	-	-
AZIENDE AGRICOLE SELLA S.P.A.	-	12	-	-	-	-
TOTAL	3,294	4,303	233	598,771	124,014	39,859

RELATIONS WITH GROUP COMPANIES: INCOME STATEMENT FIGURES

	OTHER OPERATING EXPENSE	OTHER OPERATING INCOME	OTHER OPERATING INCOME - SERVICES PROVIDED TO GROUP COMPANIES	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	ORDINARY DIVIDENDS AND SIMILAR INCOME
BANCA SELLA HOLDING S.P.A.	-	77	-	305	1,896	-
SELLA GESTIONI S.G.R.	-	-	-	1,332	-	16
BIELLA LEASING S.P.A.	-	-	-	38	-	-
IMMOBILIARE LANIFICIO MAURIZIO SELLA S.P.A.	-	-	-	-	-	-
SELFID S.P.A.	1	-	-	-	-	-
CONSEL S.P.A.	-	-	-	-	-	-
EASY NOLO S.P.A.	-	-	-	6	-	-
BROSEL S.P.A.	-	-	-	-	-	-
SELIR S.R.L.	-	-	-	-	-	-
BANCA SELLA S.P.A.	36	159	200	16,394	2	-
FAMILY ADVISORY SIM S.P.A.	-	22	-	-	-	-
AZIENDE AGRICOLE SELLA	-	-	-	-	-	-
TOTAL	37	258	200	18,075	1,898	16

(*) expense for Banca Patrimoni Sella & C. employees seconded to Group companies

(**) expense for Group companies employees seconded to Banca Patrimoni Sella & C.

DUE TO CUSTOMERS - OTHER	HEDGING DERIVATIVES	FINANCIAL LIABILITIES HELD FOR TRADING - DERIVATIVES
-	1,118	400
-	-	-
30	-	-
-	-	-
-	-	-
10	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
40	1,118	400

INTEREST INCOME AND SIMILAR INCOME	INTEREST EXPENSE AND SIMILAR CHARGES - OTHER	NET HEDGING GAINS	NET GAINS (LOSSES) FROM TRADING	ADMINISTRATIVE EXPENSE: OTHER ADMINISTRATIVE EXPENSE	ADMINISTRATIVE EXPENSE: PERSONNEL EXPENSE	ADMINISTRATIVE EXPENSE: PERSONNEL EXPENSE - RECOVERIES (*)	ADMINISTRATIVE EXPENSE: PERSONNEL EXPENSE - REIMBURSEMENTS (**)
857	1,705	312	254	385	-	3	31
-	-	-	-	2	-	1	103
428	-	-	-	0	-	-	-
-	-	-	-	46	-	-	-
-	-	-	-	-2	-	223	-
521	-	-	-	0	-	-	14
-	-	-	-	0	-	-	-
-	-	-	-	0	-	-	-
-	-	-	-	191	-	-	-
-	23	-	-	3,343	-	29	143
-	-	-	-	202	-	3	-
-	-	-	-	91	9	-	-
1,806	1,728	312	254	4,258	9	-257	291

17—Proposed allocation of profit

Dear Shareholders,

The Balance Sheet and Income Statement at 31 December 2017, prepared in Euro in accordance with current regulations and after application of all necessary amortisation, depreciation and allocations, show a net profit for the year of EUR 8,060,371.45 which we propose to allocate as follows:

Profit for the year	EUR	8,060,371.45
- to the Legal reserve, as per the Articles of Association	EUR	403,018.57
the remaining	EUR	7,657,352.88
to Shareholders:		
- dividend of EUR 0.10601 for each of the 30,415,006 shares	EUR	3,224,294.79
and the remainder to the "Extraordinary reserve"	EUR	4,433,058.09

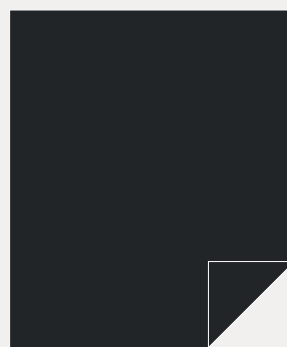
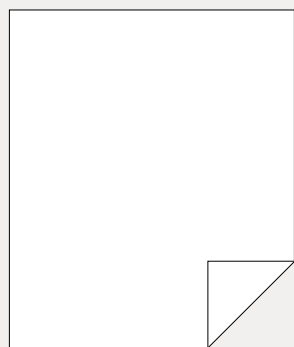
Turin, 8 March 2018

On behalf of the Board of Directors
Chairman of the Board of Directors
(Maurizio Sella)

The Maurizio Sella Wool Factory in Biella, an extraordinary example of industrial archeology under conservation order, hosts the like-name Foundation, which preserves and makes available to researchers an outstanding iconographic and documentary heritage made of hundreds of thousands of archive units.

The historical family factory documents the industrial development in the Biellese area since the Middle Ages, and the Foundation provides unique insight into the Italian society and its entrepreneurial class, at the local, regional and national levels.

Among the most outstanding documents archived, mostly in paper and photographic format and classified into family, company and institutional archives, are the papers of statesman, scientist and three-time Minister of Finance of the Kingdom of Italy Quintino Sella (1827-1884) and the vast photographic archive of alpinist and photographer Vittorio Sella (1859-1943).



The Foundation hosts documents, manuscripts, letters and images showing Quintino Sella's eclecticism, which covered fields as diverse as geometry, mineralogy, politics, finance and alpinism. Quintino Sella's inspiring personality was a leading light behind the establishment, in 1886, of the bank from which the present Group originated.

The Foundation hosts an extensive collection of Vittorio Sella's photographs, including about 14,000 original prints and over 7,000 negatives (both plates and films), all of which are meticulously preserved due to their fragile and perishable nature. The plates are filed in chronological order and include not only an extensive photographic archive of the Alps (with pictures taken from 1880 onwards) but also of the extra-European expeditions in the Caucasus, Alaska, Sikkim, Ruwenzori and Karakorum (1889-1909). These pictures are fully part of the history of photography in their own right by virtue of their sublime technical and artistic values, and are an extraordinary research tool for scientists, historians, ethnographers and alpinists.



The main offices of Banca Patrimoni Sella & C. display typographic installations which celebrate the legacy and the activities of the Fondazione Sella through the material representation of documents and photographic plates according to a classification code.

QS AL m1 f1 - m12 f54
Accademia dei Lincei

QS AL m1 f1
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QS PM m2 f5 - m25 f105
Ministerial Paperwork

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QS CRU m1 f1 - m2 f30
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of the King in Udine

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QS P m1 f1 - m19 f63
Political Activities

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The Alps 1880-1881

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VS RW 01-32
Ruwenzori
Expedition 1906

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VS KR 01-52
Karakorum
Expedition 1909

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VS VFR 001-015
Trip to France 1928

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VS WFR 002
VS WFR 003
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VS WFR 005
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VS WFR 014
VS WFR 015



Quintino Sella Archives

QS AL *m1 f1-m12 f54*

Accademia dei Lincei

QS CRU *m1 f1-m2 f30*

Commissioner of the King in Udine

QS P *m1 f1-m19 f63*

Political Activities

QS PM *m2 f5-m25 f105*

Ministerial Paperwork

Vittorio Sella Archives

VS AL 1-253

The Alps 1880-1881

VS CS 550-612

Caucasus Expedition 1889

VS RW 01-32

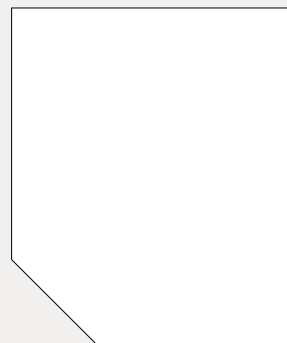
Ruwenzori Expedition 1906

VS KR 01-52

Karakorum Expedition 1909

VS VFR 001-015

Trip to France 1928



Board of Statutory Auditors Report

BOARD OF STATUTORY AUDITORS REPORT**TO THE 2017 FINANCIAL STATEMENTS****To the Shareholders' Meeting of****"Banca Patrimoni Sella & C. S.p.A."**

Dear Shareholders,

We have examined the draft financial statements and the final version of the Management Report, as prepared by the Directors and duly submitted to the Board of Statutory Auditors. These documents were approved in our presence on 8 March 2018.

This report - divided into two sections - refers to the supervisory activities performed by the Board of Statutory Auditors in 2017 with regard to the lawfulness of operations, pursuant to the provisions of art. 2403 et seq. of the Italian Civil Code, with regard to the procedure for preparing the financial statements and, lastly, in relation to the requirements of art. 2429, paragraph 2 of the Italian Civil Code.

Introduction

The Board of Directors of your company approved the Draft Financial Statements for 2017 on 8 March 2018.

Deloitte & Touche S.p.A., the Independent Auditors appointed to audit the accounts, submitted its own Report today pursuant to art. 14, Italian Legislative Decree no. 39 of 27 January 2010, expressing an unqualified opinion and with no emphasis of matter.

The text approved by the Board of Directors - controlled by us - corresponds (except for very minor amendments) to the draft versions examined by us as part of the activities carried out individually by members of the Board of Statutory Auditors, with exchange of comments and information, during the preliminary procedures for the drafting and release of our own report on the financial statements.

The procedure for preparing the financial statements was correctly and promptly applied, in compliance with legal provisions.

With reference to the above, the Board of Statutory Auditors and the Independent Auditors arranged meetings to exchange relevant data and information, reaching agreements in relation to the timing, notification and

BANCA PATRIMONI SELLA & C. S.p.A. - Via Lagrange 20, Turin

filing of the respective Reports.

The ordinary Shareholders' Meeting of your company is to be held on first call on 17 April 2018.

Supervisory activities

In compliance with our institutional duties pursuant to art. 2403, paragraph 1 of the Italian Civil Code, also making use of information flows from the various company departments and internal control departments:

- we monitored compliance with the law, the articles of association and the principles of sound administration;
- we attended the Shareholders' Meetings (two, one of which extraordinary) and meetings of the Board of Directors (twelve), all conducted according to governing statutory, legal and regulatory provisions and, in reference to these we can reasonably confirm that the resolutions carried were compliant with the law and the articles of association;
- we also performed supervisory activities through periodic institutional meetings, as well as external meetings, for a total of thirteen meetings held during 2017;
- we obtained information from the Directors on the operating performance and on the most significant transactions carried out by the Company, in terms of size or characteristics, and can reasonably assume that the action taken was compliant with the law and the articles of association;
- we are not aware of any manifestly imprudent or risky transactions, or in potential conflict of interest, or in conflict with resolutions carried by the Shareholders' Meeting and, in any event, of a nature likely to compromise the integrity of corporate assets. Furthermore, we found no non-compliance with the provisions of art. 2391 of the Italian Civil Code or any atypical transactions. All of the above without expressing an opinion - which is not the responsibility of this Board - on the operating decisions of the Directors;
- we arranged information exchanges, also through meetings with the Boards of Statutory Auditors of the Group companies, and verified the instructions given by the parent company Banca Sella Holding S.p.A. to the subsidiaries;
- specifically, with reference to the above, we checked that intercompany transactions were suitably supported by contracts/agreements with

BANCA PATRIMONI SELLA & C. S.p.A. - Via Lagrange 20, Turin

contents compliant with the law and were at arm's length. In this respect, we remind you that the Company is subject to management and coordination by Banca Sella Holding S.p.A. in accordance with art. 2497 et seq. of the Italian Civil Code. This situation, together with its particular features and effects, is covered in the Management Report;

- we gained insight of and supervised the adequacy of the Company's organisational structure, also by gathering information from the various department managers;
- we assessed and verified the adequacy of the administrative and accounting system as well as its reliability in correctly representing operating events, through reports obtained from the respective department managers, the Independent Auditors and additional examination of corporate documents and accounting positions.

We remind you that, pursuant to art. 2381 of the Italian Civil Code, the management and assessment of these structures, systems and functions are, respectively, the responsibility of the appointed body, as regards management and reporting, and the Board of Directors, as regards assessment. These bodies implement the above procedure periodically, approximately each month, and to the extent of our supervisory activities no elements were found requiring comment in this report;

- we confirmed the substantial adequacy of the training activities carried out in relation to anti-money laundering, financial control and procedures implemented in order to comply with the requirements of Italian Legislative Decree 231/2007, as amended;
- with effect from 30 June 2014, the date on which the Shareholders' Meeting assigned Supervisory Body responsibilities to the Board of Statutory Auditors, pursuant to Italian Legislative Decree 231/01, we duly performed the tasks associated with this function, with particular reference to the adequacy of the organisational, management and control models implemented to prevent the offences referred to in the decree, as well as other risks/offences envisaged in subsequent laws and regulations, without substantial findings worthy of comment;
- we successfully performed the self-assessment of the Board of Statutory Auditors and its members, also verifying that independence requirements were satisfied, in compliance with Bank of Italy and Banca Sella Group instructions;
- we met with members of the Boards of Statutory Auditors of the Banca

BANCA PATRIMONI SELLA & C. S.p.A. - Via Lagrange 20, Turin

Sella Group in order to exchange information and considerations, in application of Supervisory Authority instructions and the provisions of art. 2403-bis of the Italian Civil Code, taking into consideration the management and coordination activities carried out by the parent company;

- we examined and found to be adequate, on the whole, the self-assessment procedures adopted by the Board of Directors and their related outcomes;
- we verified the results of action taken by the Independent Auditors and, pursuant to Italian Legislative Decree 39/2010, monitored its independence. To the extent we are aware, the Independent Auditors and their related network partners did not receive additional assignments of significant importance, other than that of regulatory audit, concerning:
 - audit of the financial statements of Banca Patrimoni Sella & C. S.p.A.;
 - verification of proper maintenance of the accounting records and the correct recording of operating events in the accounts;
 - limited review of the half-yearly economic and financial position of Banca Patrimoni Sella & C. S.p.A.

Pursuant to art. 17, paragraph 9 of Italian Legislative Decree 39/2010, the Independent Auditors submitted the annual confirmation of its independence and the measures adopted to limit related risks;

- as necessary, we expressed our consent, as required by art. 136 of Italian Legislative Decree 385/1993 (Consolidated Banking Act) with regard to transactions arranged directly or indirectly by bank representatives on behalf of the Bank;
- we expressed our opinion in favour, pursuant to art. 2389, paragraph 3, of the remuneration for Directors assigned to special offices established by the Board of Directors;
- no reports or claims were received pursuant to art. 2408 of the Italian Civil Code, nor did we discover events referred to in art. 2406, paragraph 2 of the Italian Civil Code;
- lastly, pursuant to art. 2441, paragraph 6 of the Italian Civil Code, we issued our opinion in favour of the share capital increase with payment in kind.

To conclude, we confirm that no significant events emerged during our supervisory activities worthy of mention in this Report.

BANCA PATRIMONI SELLA & C. S.p.A. - Via Lagrange 20, Turin**2017 Financial Statements**

With regard to the 2017 financial statements, given the results of activities mentioned above, pursuant to art. 2429 of the Italian Civil Code the Board of Statutory Auditors is required to report on the results for the year, with comments and proposals as appropriate in relation to the financial statements and their approval.

From an examination of the financial statements at 31 December 2017, we report as follows:

- as this Board is not responsible for control of the contents of the financial statements, we supervised their general format, overall compliance with the law as regards the preparation and structure, and in this respect have no particular comments to make;
- the financial statements under review were prepared in accordance with IAS/IFRS accounting standards approved by the International Accounting Standards Board (IASB), as envisaged in Italian Legislative Decree no. 136/2015, following the instructions provided in Bank of Italy Circular no. 262/2005, as amended;
- no events occurred requiring recourse to the application of exceptions granted by art. 2 paragraph 5 and by art. 7 paragraph 3 of Italian Legislative Decree 87/92, or by art. 5 paragraph 1 of Italian Legislative Decree 38/05;
- pursuant to art. 10, paragraph 3 of Italian Legislative Decree 87/92, the recognition among balance sheet assets of intangible assets net of related amortisation is performed with our consent;
- the Management Report contains explanations of the main events characterising operations and the 2017 result, analyses of investments, fixed assets and the financial position, as well as the business outlook.
The Management Report discusses related party transactions, complete with those relating to intercompany transactions and with legal indications of the "Management and Coordination" arrangements to which the Company is subject;
- the measurement criteria and methods, as expressed in the accompanying documents and in particular in the explanatory notes to the financial statements, appear to be correct and suitable, as well as consistent with those adopted in previous years;
- as regards the correspondence between the financial statements and the events and information of which we were made aware during the course of

BANCA PATRIMONI SELLA & C. S.p.A. - Via Lagrange 20, Turin

our duties and, based on the related certification from the Independent Auditors, there are no comments requiring mention in this report.

*

Given all of the above and with due regard to the results of activities carried out by the Independent Auditors, assigned to audit the accounts and which issued its report with an unqualified opinion, the Board of Statutory Auditors found no obstacles and has no comments or proposals to make with regard to approval of the financial statements under review.

The same applies to the Board of Directors' proposal regarding allocation of the profit for the year.

Turin, 30 March 2018

THE BOARD OF STATUTORY AUDITORS

Mario Pia – Chairman [signed on the original]

Pier Vincenzo Pellegrino - Standing Auditor [signed on the original]

Emanuele Menotti Chieli - Standing Auditor [signed on the original]

Independent Auditor's Report



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**INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014**

**To the Shareholders of
Banca Patrimoni Sella & C. S.p.A.**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Banca Patrimoni Sella & C. S.p.A. (the "Bank"), which comprise the statement of balance sheet as at December 31, 2017, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Classification of performing loans to customers

Description of the key audit matter

The notes to the financial statements – Part B – Information on the balance sheet – Assets, and Part E – Information on risks and related hedging policies, at December 31, 2017 show that the gross performing loans to customers of Banca Patrimoni Sella & C. S.p.A. amount to Euro 485.316 thousands, the portfolio write-downs amount to Euro 236 thousands and the related net credit exposure amounts to Euro 485.080 thousands.

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Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239 | Partita IVA: IT 03049560166

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As indicated in the "Section 1 – Credit Risk" qualitative information of Part E – Information on risks and related hedging policies of the notes to the financial statements, as part of its policies for managing loans to customers, the Bank has adopted different processes and analysis tools based on homogeneous risk categories.

Given the materiality of performing loans to customers in the financial statements, the structure and the complexity of the classification process of these loans, we considered the classification of performing loans to customers as a key audit matter for the financial statements of Banca Patrimoni Sella & C. S.p.A. at December 31, 2017.

Audit procedures carried out

The main procedures carried out as part of our audit work have included, among the others, the following:

- understanding of the managing processes and analysis tools set up by Bank in relation to the monitoring of performing loans to customers to ensure their classification in accordance with the applicable policy framework;
- verification of the implementation and operating effectiveness of the relevant controls identified in relation to the processes above;
- verification, on a sample basis, of performing loans to customers classification according with the applicable policy framework;
- check that the accuracy and completeness of the disclosures provided in the financial statements comply with the policy framework and the applicable accounting standards.

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

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

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a

material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Banca Patrimoni Sella & C. S.p.A. has appointed us on April 27, 2011, as auditors of the Bank for the years from December 31, 2011 to December 31, 2019.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.



We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of Banca Patrimoni Sella & C. S.p.A. are responsible for the preparation of the report on operations of Banca Patrimoni Sella & C. S.p.A. as at December 31, 2017, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of Banca Patrimoni Sella & C. S.p.A. as at December 31, 2017, and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations is consistent with the financial statements of Banca Patrimoni Sella & C. S.p.A. as at December 31, 2017, and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Claudio Crosio
Partner

Turin, Italy
March 30, 2018

This report has been translated into the English language solely for the convenience of international readers.

Financial Statements at 31 December 2017

Balance Sheet

BALANCE SHEET - ASSETS

ASSETS	31/12/2017	31/12/2016	% CHANGE
10 CASH AND CASH EQUIVALENTS	613,204	492,791	24.43%
20 FINANCIAL ASSETS HELD FOR TRADING	7,440,250	4,159,983	78.85%
40 AVAILABLE-FOR-SALE FINANCIAL ASSETS	243,000,057	128,275,051	89.44%
50 FINANCIAL ASSETS HELD TO MATURITY	43,139,434	-	100.00%
60 DUE FROM BANKS	616,109,441	884,696,735	-30.36%
70 DUE FROM CUSTOMERS	486,450,133	364,529,907	33.45%
90 VALUE ADJUSTMENT TO FINANCIAL ASSETS UNDERLYING MACRO HEDGES (+/-)	1,058,583	1,369,716	-22.72%
100 INVESTMENTS	1,987,558	430,000	362.22%
110 PROPERTY, PLANT AND EQUIPMENT	28,414,400	28,348,659	0.23%
120 INTANGIBLE ASSETS	3,154,124	2,530,089	24.66%
OF WHICH:			
- GOODWILL	-	-	-
130 TAX ASSETS	6,674,333	8,868,942	-24.74%
A) CURRENT	3,904,391	5,773,261	-32.37%
B) DEFERRED	2,769,942	3,095,681	-10.52%
OF WHICH LAW 214/2011	783,631	869,228	-9.85%
150 OTHER ASSETS	59,196,585	50,290,063	17.71%
TOTAL ASSETS	1,497,238,102	1,473,991,936	1.58%

BALANCE SHEET - LIABILITIES

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2017	31/12/2016	% CHANGE
10 DUE TO BANKS	106,151,090	59,354,914	78.84%
20 DUE TO CUSTOMERS	1,260,454,931	1,297,006,186	-2.82%
40 FINANCIAL LIABILITIES HELD FOR TRADING	669,093	1,405,326	-52.39%
60 HEDGING DERIVATIVES	1,117,959	1,436,048	-22.15%
80 TAX LIABILITIES	6,194,702	3,795,458	63.21%
A) CURRENT	6,108,736	3,450,460	77.04%
B) DEFERRED	85,966	344,998	-75.08%
100 OTHER LIABILITIES	32,008,779	25,861,718	23.77%
110 EMPLOYEE SEVERANCE INDEMNITY	1,845,348	1,873,109	-1.48%
120 PROVISIONS FOR RISKS AND CHARGES:	8,496,641	7,780,645	9.20%
A) PENSIONS AND SIMILAR OBLIGATIONS	-	-	-
B) OTHER PROVISIONS	8,496,641	7,780,645	9.20%
130 VALUATION RESERVES	-1,076,423	-705,679	52.54%
160 RESERVES	40,833,022	36,530,110	11.78%
170 SHARE PREMIUM RESERVE	4,482,589	4,482,589	0.00%
180 CAPITAL	28,000,000	28,000,000	0.00%
200 PROFIT (LOSS) FOR THE YEAR (+/-)	8,060,371	7,171,512	12.39%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,497,238,102	1,473,991,936	1.58%

Income Statement

INCOME STATEMENT

ITEMS	31/12/2017	31/12/2016	% CHANGE
10 INTEREST INCOME AND SIMILAR INCOME	9,676,286	10,592,242	-8.65%
20 INTEREST EXPENSE AND SIMILAR CHARGES	(2,276,975)	(1,916,174)	18.83%
30 INTEREST MARGIN	7,399,311	8,676,068	-14.72%
40 FEE AND COMMISSION INCOME	90,671,030	75,140,335	20.67%
50 FEE AND COMMISSION EXPENSE	(48,633,320)	(43,456,005)	11.91%
60 NET FEES AND COMMISSIONS	42,037,710	31,684,330	32.68%
70 DIVIDENDS AND SIMILAR INCOME	699,067	258,018	170.94%
80 NET GAINS (LOSSES) FROM TRADING	7,278,123	5,549,785	31.14%
90 NET HEDGING GAINS	1,129	12,778	-91.16%
100 GAINS (LOSSES) FROM DISPOSAL OR REPURCHASE OF:	4,044,117	5,337,498	-24.23%
A) RECEIVABLES	-	-	-
B) AVAILABLE-FOR-SALE FINANCIAL ASSETS	4,044,116	5,337,498	-24.23%
C) FINANCIAL ASSETS HELD TO MATURITY	1	-	-
D) FINANCIAL LIABILITIES	-	-	-
120 NET INTEREST AND OTHER BANKING INCOME	61,459,457	51,518,477	19.30%
130 NET VALUE ADJUSTMENTS/REVERSALS FOR IMPAIRMENT LOSSES ON:	(1,106,690)	(441,573)	150.62%
A) RECEIVABLES	(194,083)	64,389	-401.42%
B) AVAILABLE-FOR-SALE FINANCIAL ASSETS	(1,025,672)	(489,982)	109.33%
C) FINANCIAL ASSETS HELD TO MATURITY	-	-	-
D) OTHER FINANCIAL TRANSACTIONS	113,065	(15,980)	-807.54%
140 NET PROFIT (LOSS) FROM FINANCIAL MANAGEMENT	60,352,767	51,076,904	18.16%
150 ADMINISTRATIVE EXPENSE:	(57,319,995)	(47,899,162)	19.67%
A) PERSONNEL EXPENSE	(29,411,309)	(23,727,286)	23.96%
B) OTHER ADMINISTRATIVE EXPENSE	(27,908,686)	(24,171,876)	15.46%
160 NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES	(1,070,608)	(1,216,167)	-11.97%
170 NET VALUE ADJUSTMENTS/REVERSALS TO PROPERTY, PLANT AND EQUIPMENT	(1,331,279)	(1,205,054)	10.47%
180 NET VALUE ADJUSTMENTS/REVERSALS TO INTANGIBLE ASSETS	(802,811)	(627,134)	28.01%
190 OTHER OPERATING EXPENSE/INCOME	12,263,538	10,565,976	16.07%
200 OPERATING COSTS	(48,261,155)	(40,381,541)	19.51%
240 GAINS (LOSSES) FROM DISPOSAL OF INVESTMENTS	(14,785)	7	n.s.
250 PROFIT (LOSS) FROM CURRENT OPERATIONS BEFORE TAX	12,076,827	10,695,370	12.92%
260 INCOME TAXES FOR THE YEAR FROM CURRENT OPERATIONS	(4,016,456)	(3,523,858)	13.98%
270 PROFIT (LOSS) FROM CURRENT OPERATIONS AFTER TAX	8,060,371	7,171,512	12.39%
280 GAINS (LOSSES) ON GROUPS OF ASSETS HELD FOR SALE AFTER TAX	-	-	-
290 PROFIT (LOSS) FOR THE YEAR	8,060,371	7,171,512	12.39%

Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME

	31/12/2017	31/12/2016
10 PROFIT (LOSS) FOR THE YEAR	8,060,371	7,171,512
OTHER INCOME COMPONENTS AFTER TAX, WITHOUT REVERSAL TO THE INCOME STATEMENT		
40 DEFINED BENEFIT PLANS	2,886	(104,334)
OTHER INCOME COMPONENTS AFTER TAX, WITH REVERSAL TO THE INCOME STATEMENT		
100 AVAILABLE-FOR-SALE FINANCIAL ASSETS	(373,630)	(925,014)
130 TOTAL OTHER INCOME COMPONENTS AFTER TAX	(370,744)	(1,029,348)
140 COMPREHENSIVE INCOME (ITEMS 10+130)	7,689,627	6,142,164

Statement of changes in shareholders' equity at 31 december 2016

	BALANCE AT 31/12/2015	CHANGE IN OPENING BALANCES	BALANCE AT 01/01/2016	ALLOCATION OF THE PREVIOUS YEAR'S RESULT	
				RESERVES	DIVIDENDS AND OTHER ALLOCATIONS
CAPITAL:					
A) ORDINARY SHARES	28,000,000	-	28,000,000	-	-
B) OTHER SHARES	-	-	-	-	-
SHARE PREMIUM RESERVE	4,482,589	-	4,482,589	-	-
RESERVES:					
A) PROFIT RESERVES	31,126,704	-	31,126,704	5,403,406	-
B) RETAINED EARNINGS	-	-	-	-	-
C) OTHER	-	-	-	-	-
VALUATION RESERVES:					
A) AVAILABLE-FOR-SALE FINANCIAL ASSETS	469,978	-	469,978	-	-
B) CASH FLOW HEDGES	-	-	-	-	-
C) SPECIAL REVALUATION LAWS	-	-	-	-	-
D) OTHER	(146,309)	-	(146,309)	-	-
EQUITY INSTRUMENTS	-	-	-	-	-
TREASURY SHARES	-	-	-	-	-
PROFIT (LOSS) FOR THE YEAR	9,005,886	-	9,005,886	(5,403,406)	(3,602,480)
SHAREHOLDERS' EQUITY	72,938,848	-	72,938,848	-	(3,602,480)

Statement of changes in shareholders' equity at 31 december 2017

	BALANCE AT 31/12/2016	CHANGE IN OPENING BALANCES	BALANCE AT 01/01/2017	ALLOCATION OF THE PREVIOUS YEAR'S RESULT	
				RESERVES	DIVIDENDS AND OTHER ALLOCATIONS
CAPITAL:					
A) ORDINARY SHARES	28,000,000	-	28,000,000	-	-
B) OTHER SHARES	-	-	-	-	-
SHARE PREMIUM RESERVE	4,482,589	-	4,482,589	-	-
RESERVES:					
A) PROFIT RESERVES	36,530,110	-	36,530,110	4,302,912	-
B) RETAINED EARNINGS	-	-	-	-	-
C) OTHER	-	-	-	-	-
VALUATION RESERVES:					
A) AVAILABLE-FOR-SALE FINANCIAL ASSETS	(455,036)	-	(455,036)	-	-
B) CASH FLOW HEDGES	-	-	-	-	-
C) SPECIAL REVALUATION LAWS	-	-	-	-	-
D) OTHER	(250,643)	-	(250,643)	-	-
EQUITY INSTRUMENTS	-	-	-	-	-
TREASURY SHARES	-	-	-	-	-
PROFIT (LOSS) FOR THE YEAR	7,171,512	-	7,171,512	(4,302,912)	(2,868,600)
SHAREHOLDERS' EQUITY	75,478,532	-	75,478,532	-	(2,868,600)

CHANGES DURING THE YEAR								
EQUITY TRANSACTIONS								
CHANGE IN RESERVES	ISSUE OF NEW SHARES	PURCHASE OF TREASURY SHARES	EXTRAORDINARY DIVIDEND DISTRIBUTION	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURY SHARES	STOCK OPTIONS	COMPREHENSIVE INCOME 2016	SHAREHOLDERS' EQUITY AT 31/12/2016
-	-	-	-	-	-	-	-	28,000,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	4,482,589
-	-	-	-	-	-	-	-	36,530,110
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(925,014)	(455,036)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(104,334)	(250,643)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	7,171,512	7,171,512
-	-	-	-	-	-	-	6,142,164	75,478,532

CHANGES DURING THE YEAR								
EQUITY TRANSACTIONS								
CHANGE IN RESERVES	ISSUE OF NEW SHARES	PURCHASE OF TREASURY SHARES	EXTRAORDINARY DIVIDEND DISTRIBUTION	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURY SHARES	STOCK OPTIONS	COMPREHENSIVE INCOME 2017	SHAREHOLDERS' EQUITY AT 31/12/2017
-	-	-	-	-	-	-	-	28,000,000
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	4,482,589
-	-	-	-	-	-	-	-	40,833,022
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(373,630)	(828,666)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	2,886	(247,757)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	8,060,371	8,060,371
-	-	-	-	-	-	-	7,689,627	80,299,559

Statement of Cash Flows – Direct Method

A. OPERATING ACTIVITIES	31/12/2017	31/12/2016
1. OPERATIONS	2,000,096	2,401,525
INTEREST INCOME COLLECTED (+)	10,588,453	13,225,310
INTEREST EXPENSE PAID (-)	(2,276,975)	(1,916,174)
DIVIDENDS AND SIMILAR INCOME	699,067	258,018
NET FEES AND COMMISSIONS (+/-)	42,037,710	31,684,330
PERSONNEL EXPENSE	(29,386,555)	(23,720,201)
OTHER COSTS (-)	(29,379,738)	(24,949,928)
OTHER REVENUE (+)	13,734,590	11,344,028
TAXES AND DUTIES (-)	(4,016,456)	(3,523,858)
COSTS/REVENUE RELATING TO DISCONTINUED OPERATIONS AND NET OF THE TAX EFFECT (+/-)	0	0
2. CASH FLOW GENERATED (ABSORBED) BY FINANCIAL ASSETS	33,508,739	(370,342,986)
FINANCIAL ASSETS HELD FOR TRADING	4,015,597	5,790,009
AVAILABLE-FOR-SALE FINANCIAL ASSETS	(112,780,239)	151,172,199
DUE FROM CUSTOMERS	(122,114,309)	(14,140,704)
DUE FROM BANKS	268,587,294	(515,781,248)
OTHER ASSETS	(4,199,604)	2,616,758
3. CASH FLOW GENERATED (ABSORBED) BY FINANCIAL LIABILITIES	14,866,207	374,342,578
DUE TO BANKS	46,796,176	(3,842,932)
DUE TO CUSTOMERS	(36,551,255)	383,686,891
OUTSTANDING SECURITIES	0	0
FINANCIAL LIABILITIES HELD FOR TRADING	(736,233)	1,025,180
OTHER LIABILITIES	5,357,519	(6,526,561)
NET CASH FLOW GENERATED (ABSORBED) BY OPERATING ACTIVITIES	50,375,042	6,401,117
B. INVESTING ACTIVITIES	31/12/2017	31/12/2016
1. CASH FLOW GENERATED BY:	(9,784)	4,457
DISPOSAL OF INVESTMENTS	0	0
DIVIDENDS COLLECTED FROM EQUITY INVESTMENTS	0	0
SALE/REDEMPTION OF FINANCIAL ASSETS HELD TO MATURITY	0	0
SALE OF PROPERTY, PLANT AND EQUIPMENT	(10,063)	1,050
SALE OF INTANGIBLE ASSETS	279	3,407
SALE OF SUBSIDIARIES AND BUSINESS UNITS	0	0
2. CASH FLOW (ABSORBED) BY:	(47,376,245)	(2,762,805)
PURCHASE OF INVESTMENTS	(1,557,558)	0
PURCHASE OF FINANCIAL ASSETS HELD TO MATURITY	(42,989,820)	0
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT	(1,401,742)	(1,678,388)
PURCHASE OF INTANGIBLE ASSETS	(1,427,125)	(1,084,417)
PURCHASE OF SUBSIDIARIES AND BUSINESS UNITS	0	0
NET CASH FLOW GENERATED (ABSORBED) BY INVESTING ACTIVITIES	(47,386,029)	(2,758,348)
C. FUNDING ACTIVITIES	31/12/2017	31/12/2016
ISSUE/PURCHASE OF TREASURY SHARES	0	0
ISSUE/PURCHASE OF EQUITY INSTRUMENTS	0	0
DIVIDEND DISTRIBUTION AND OTHER PURPOSES	(2,868,600)	(3,602,480)
NET CASH FLOW GENERATED (ABSORBED) BY FUNDING ACTIVITIES	(2,868,600)	(3,602,480)
NET CASH FLOW GENERATED (ABSORBED) IN THE YEAR	120,413	40,289
RECONCILIATION	31/12/2017	31/12/2016
CASH AND CASH EQUIVALENTS - OPENING BALANCE	492,791	452,502
TOTAL NET CASH FLOW GENERATED (ABSORBED) IN THE YEAR	120,413	40,289
CASH AND CASH EQUIVALENTS - CLOSING BALANCE	613,204	492,791

Explanatory Notes

Part A - Accounting policies

A.1 - General part

SECTION 1 - STATEMENT OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

These financial statements were prepared in accordance with IAS/IFRS international accounting standards (including SIC and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union at 31 December 2017, as established by EU Regulation no. 1606 of 19 July 2002. With reference to the tables and explanatory notes, the financial statements apply the instructions issued by the Bank of Italy in Circular 262/05, as amended, pursuant to its powers established by Art. 43, Italian Legislative Decree 136/2015.

For a better interpretation of the international accounting standards, reference was also made to documents prepared by the OIC and ABI.

The financial statements were therefore prepared with clarity and present a truthful and fair view of the financial position of Banca Patrimoni Sella & C.

SECTION 2 - GENERAL BASIS OF PRESENTATION

The financial statements comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Shareholders' Equity, the Statement of Cash Flows and these Explanatory Notes, and are accompanied by the Management Report, in full continuity with the situation at 31 December 2016. The Explanatory Notes are expressed in thousands of Euro.

The financial statements were prepared with clarity and present a truthful and fair view of the equity position, financial position and economic results for the year.

The general basis of presentation complies with the principles of IAS 1 and is in line with general assumptions envisaged in the Systematic Framework.

The Explanatory Notes contain the information necessary to provide a truthful and fair representation, supplementing the information envisaged in the international accounting standards and instructions in Circular 262/05, as amended.

If in exceptional circumstances the application of a provision in the international accounting standards is incompatible with the truthful and fair representation of the equity, financial and income positions, it is not applied. The Explanatory Notes describe the reasons for any exception and its impact on the representation of the equity, financial and income positions.

The financial statements were prepared in accordance with the same standards and accounting principles used in the previous year, in addition to IFRS standards, amendments and interpretations entering into force with effect from 1 January 2017.

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED FROM 1 JANUARY 2017

Summarised below are the IFRS accounting standards, amendments and interpretations considered most significant that were applied by the Bank and Group for the first time from 1 January 2017.

- Amendment to IAS 7 “Disclosure initiative” (published on 29 January 2016). The document aims to provide clarification to improve the disclosure of financial liabilities. In particular, the amendments require a disclosure that allows financial statements users to understand the changes in liabilities resulting from financing transactions.
- Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses” (published on 19 January 2016). The document aims to provide clarification on the recognition of deferred tax assets for unrealised losses in the measurement of financial assets in the available-for-sale category when certain circumstances arise and in the estimation of taxable income in future years.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION BUT NOT YET COMPULSORY AND NOT ADOPTED EARLY BY THE BANK AT 31 DECEMBER 2017

The main standards to be mentioned are IFRS 15, IFRS 16 and IFRS 9.

- **IFRS 15** – Revenue from Contracts with Customers (published on 28 May 2014 and supplemented with additional clarification published on 12 April 2016), which is expected to replace IAS 18 - Revenue and IAS 11 - Construction Contracts, as well as interpretations IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenues-Barter Transactions involving Advertising Services. The standard establishes a new revenue recognition model which will apply to all contracts with customers except those covered by the scope of application of other IAS/IFRS standards such as leases, insurance contracts and financial instruments. The key steps for the accounting of revenue according to the new model are:
 - identification of the contract with the customer;
 - identification of the performance obligations of the contract;
 - pricing;
 - allocation of price to the contract’s performance obligations;
 - the recognition criteria for revenue when the entity satisfies each performance obligation.

The standard applies from 1 January 2018. The Clarifications to IFRS 15 - Revenue from Contracts with Customers were endorsed by the European Union on 6 November 2017. Though it is not yet possible to provide a final estimation of the effects, pending completion of a detailed analysis of the contracts, at present it is considered that application of the standard will have no significant impact on accounts. The main impacts will be the increased reporting required by this standard and by the Bank of Italy in its 5th update to Circular 262. Such reporting will be included in the Bank’s 2018 financial statements.

- **IFRS 16** - Leases (published on 13 January 2016), expected to replace IAS 17 - Leases. The new standard provides a new definition for leases and introduces a criterion based on right of use of an asset to separate lease contracts from service agreements, using the following as distinguishing factors: identification of the asset, the right to replace it, the right to receive essentially all economic benefits from use of the asset and the right to supervise the use of the asset underlying the contract. The standard applies from 1 January 2019. Analyses are in progress to calculate the impact for the Bank which, at present, is not expected to be significant.
- **Final version of IFRS 9** - On 24 July 2014 the International Accounting Standards Board (IASB) published IFRS 9 - Financial Instruments.

In particular, the new standard:

- Introduces significant changes to the classification and measurement rules for financial assets, which will be based on the intent of managing the contractual cash flows (the “business model”) and on the contractual characteristics of the financial instruments (the SPPI criterion, or “Solely Payment of Principal and Interest”). These rules will involve different classification and measurement methods for financial instruments compared to IAS 39;
- Introduces a new impairment accounting model based on an expected approach, the opposite of the present incurred-type model of IAS 39, based on the concept of lifetime expected loss leading to anticipating the losses on financial instruments to be included in the scope of application of the new standard and, in more general term, a structural increase in value adjustments;
- Reviews hedge accounting, rewriting the rules for designation and management of recognised hedges and has the aim of guaranteeing stronger alignment between risk management objectives and the resulting representation in the financial statements.

On 29 November 2016 (with publication in the Official Journal of the European Union, L 323/1 of Commission Regulation (EU) 2016/2067 of 22 November 2016) the standard was endorsed and the first-adoption date of 1 January 2018 was therefore confirmed.

As a result of the entry into force of IFRS 9, a review is also planned of the prudential rules for calculating capital absorption on expected losses on receivables.

In 2016, the Bank launched a specific project to analyse the impact of the accounting standard and to steer the adaptation to the new accounting standard due to replace IAS 39 in force at present. In particular, in order to achieve regulatory compliance with effect from the date of entry into force of the standard, the identification project has 3 work areas:

- Models area
- Operations area
- Implementation area

For each of the first two areas an assessment stage was defined in preparation for definition of the methodology and functional requirements (design stage) for their implementation.

The implementation of the agreed planning and related tasks is the responsibility of the third work area.

The project was essentially in its final stages at 31 December 2017.

With reference to the operations area, particularly as regards the new classification and measurement requirements, in coordination with the Group the Bank arranged:

- identification of the criteria, based on the business model and characteristics of the related contractual cash flows, for the classification of financial instruments into the new categories envisaged in the accounting standard;
- application of the criteria identified as above for classification of the portfolios existing at 31 December 2017.

The business model analysis was carried out by mapping the portfolios that make up the Bank's banking and trading books and assigning a business model to each. In this respect, note that the financial instruments in the banking book of the Group/Bank were assigned "held to collect" or "held to collect and sell" business models on the basis of the purpose such assets are held and their expected turnover. Any sales of financial instruments will in any event be considered compatible with a "held to collect" model in cases of (i) securitisations that do not involve cancellation of the receivable from accounts, (ii) disposals determined by adverse changes in counterparty credit risk and (iii) any infrequent or immaterial disposals to be assessed on a case-by-case basis. The business structures that make up the Group's trading book were assigned an "other" business model in order to reflect the trading intention.

For the purpose of classifying financial instruments into the new categories envisaged in IFRS 9, the business model analysis was then supplemented by analysis of the contractual cash flows (the "SPPI Test") of financial instruments in the held-to-collect and held-to-collect-and-sell portfolios.

In this respect and in coordination with the Group, the Bank developed systems and processes to analyse the debt securities and existing loans portfolio in order to assess whether the characteristics of the contractual cash flows allow for the amortised cost measurement (held-to-collect portfolio) or fair value measurement with an impact on comprehensive income (held-to-collect-and-sell portfolio).

This analysis was carried out both contract by contract (or instrument by instrument) and through the definition of specific clusters based on the similar characteristics of transactions and through the use of a special tool developed in-house for mass testing and the characteristics of contracts compared to IFRS 9 requirements.

Based on analyses conducted to date, in coordination with the Group, the Bank does not in any event expect that compulsory measurement at fair value of a significant total of financial assets, currently measured at amortised cost or at fair value with an impact on comprehensive income, will have an impact on the income statement, due to the fact that the related contractual flows cannot be considered solely payments of principal and interest (SPPI).

Lastly, note that equities will be measured at fair value with an impact on the income statement or on comprehensive income based on their characteristics and on the reason for which they were acquired. UCITS units will be measured at fair value with an impact on the income statement following the regulatory specifications that exclude the option of qualifying these instruments as equities.

With reference to the models area, and in relation to the impairment requirements introduced by the standard, in coordination with the Group the Bank has further developed its proprietary models in order to comply with the requirements of the new accounting standard.

The scope of exposures subject to impairment was also extended to include credit exposures measured at fair value with an impact on comprehensive income, as well as the financial instruments measured at amortised cost and the significant off-balance sheet exposures.

In addition, specific adjustments were made to the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) benchmarks used to calculate the expected credit loss (ECL), and a new model was developed to assess the Stage Allocation of performing exposures between Stage 1 and Stage 2.

Specific adjustments were made to the PD, LGD and EAD benchmarks calculated for regulatory purposes to ensure full compliance, net of the different regulatory requirements, between accounting and regulatory treatment. The main adjustments made were to:

- remove the buffers required for regulatory purposes only;
- introduce point-in-time adjustments to replace the through-the-cycle adjustments envisaged for regulatory purposes;
- include forward-looking information;
- extend the credit risk parameters to a multi-year forecast

The lifetime PD curves, obtained by combining the default rates observed using macro-economic forecasts, were calibrated to reflect point-in-time and forward-looking characteristics regarding the expected default rates at portfolio level.

The recovery rate incorporated in the through-the-cycle LGD was adapted to remove the buffer margin and reflect the most recent recovery rate trends, and likewise the expectations concerning future trends and those discounted at the effective interest rate or its best approximation.

The lifetime EAD is calculated on the book values of amortised cost and cash flows up to maturity of the exposures, considering the possibility of conversion into use of the agreed margins.

The process defined to include macro-economic scenarios in the risk parameters is also consistent with the macro-economic forecasting processes used by the Bank, in coordination with the Group, for additional risk management purposes (such as the processes adopted to define budget plans, define the Risk Appetite Framework and calculate capital requirements for credit risk in the stress testing performed for ICAAP).

A key aspect arising from the new accounting model for the expected credit loss calculation is represented by the Stage Allocation model designed to transfer exposures between Stage 1 and Stage 2 (with Stage 3 being equiv-

alent to that of impaired exposures), where Stage 1 primarily includes (i) new loan disbursements, (ii) exposures with no significant credit risk impairment compared to initial recognition and (iii) exposures with a low credit risk exemption at the reporting date.

In coordination with the Group, the Bank's Stage Allocation assessment model is based on a combination of relative and absolute elements. The key elements are:

- comparison at transaction level between the credit rating at the time of disbursement and that recorded at the reporting date, both quantified on the basis of internal models, through the use of thresholds set in such a way as to consider all the key variables of each transaction that could affect the bank's expectations regarding changes in the credit rating over time (e.g. age, maturity, rating at the time of disbursement);
- absolute elements such as the backstops envisaged in regulations (e.g. more than 30 days past due);
- additional internal indicators (e.g. a forbore classification).

The impairment on non-performing exposures was also calculated as required by the new accounting standard so as to include (i) the adjustments necessary to obtain the point-in-time and forward-looking expected loss calculation and (ii) the multiple scenarios applying to this type of exposure.

In order to implement the methodological framework and the tools described above on normal operations, in coordination with the Group the Bank defined the final IT architecture, and is completing the development of organisational processes and procedures to integrate these with the changes required by the standard, in line with planned timelines.

The Bank also envisages the use of "transitional relief" as offered by the standard and will therefore not publish comparison figures in its 2018 financial statements.

At the date of first-time application, the main impacts on the Bank of IFRS 9 are expected to come from application of the new impairment model based on expected losses, which is likely to involve an increase in write-downs on performing assets (particularly amounts due from customers), as well as from application of the new rules on transferring positions between the different classification "stages" envisaged in the new standard. In particular, it is expected that stronger volatility could be generated in the economic and equity results between the different reporting periods, attributable to the movement between the different stages of the financial assets recognised in the financial statements (particularly between Stage 1, which will mainly include new positions disbursed and all fully performing positions, and Stage 2, which will include positions in financial instruments that have suffered impairment since their initial recognition).

This impact is primarily caused by the introduction of the aforementioned disposal scenarios in the measurement of Stage 3 credit exposures and the use of a lifetime ECL for credit exposures allocated to Stage 2.

The changes in book value of the financial instruments as a result of the transition to IFRS 9 will be recognised as a balancing entry in equity at 1 January 2018. The overall effects on CET 1 of adoption of IFRS 9 in terms of "classification and measurement" and "impairment", net of the tax effect, can

as a starting point be estimated globally as being around 6 bps.

As a result of the entry into force of IFRS 9, a review is also planned of the prudential rules (CRD/CRR) for calculating capital absorption. In this respect, Regulation (EU) 2017/2395 published on 27 December 2017 envisages the option for financial institutions to adopt a transitional regime where CET 1 can be reintegrated with adjustments resulting from adoption of the impairment model under the new standard, with a 5-year phase-in mechanism starting in 2018. In alignment with the Group, the Bank intends to adopt the transitional regime to measure the impacts of the new standard on regulatory capital. For the first period, i.e. 2018, the adoption of this system will have an impact on CET1 of around 9 bps.

SECTION 3 - EVENTS AFTER THE REPORTING DATE

See the detailed description in Paragraph 13 of the Management Report: "Significant events after year end".

SECTION 4 - OTHER ASPECTS

There are no other aspects to report.

A.2 – Part relating to the main financial statement items

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1 - FINANCIAL ASSETS HELD FOR TRADING

CLASSIFICATION CRITERIA

- All financial instruments held for trading are classified under this category. The derivative contracts include, if any, those embedded in complex financial instruments which were recognised separately where:
 - their economic and risk characteristics could not be strictly correlated with the characteristics of the underlying contract;
 - bundled instruments, even if unbundled, satisfy the definition of a derivative;
 - the hybrid instruments they refer to are not designated at fair value with related changes in the income statement.

If there are any unusual events that are unlikely to recur in the short term, it is possible to reclassify financial instruments no longer held for trading into other categories envisaged in IAS 39 if the conditions for recognition are met (Financial assets held to maturity, Available-for-sale financial assets, Receivables). The transfer value is represented by the fair value at the time of reclassification. At that time, they are tested for the presence of any embedded derivative contracts to be unbundled.

RECOGNITION CRITERIA

The financial assets are initially recognised on the settlement date for debt securities and equities, and on the subscription date for derivative contracts.

On initial recognition, financial assets held for trading are recognised at cost, intended as the fair value of the instrument. Any derivatives embedded in complex contracts but not strictly correlated and with characteristics satisfying the definition of derivative are unbundled from the primary contract and measured at fair value, whilst the appropriate reference accounting policy is applied to the primary contract.

VALUATION CRITERIA

After initial recognition, financial assets held for trading are measured at fair value.

To determine the fair value of financial instruments listed on an active market, the market prices are used. In the absence of an active market, estimation methods and measurement models are used which take into account all the risk factors correlated with the instruments and which are based on data observable on the market, such as: methods based on the measurement of listed instruments with similar characteristics, discounted cash flow calculations, option pricing models, values seen from recent comparable transactions.

Equities and correlated derivatives for which the fair value cannot be reliably determined in accordance with the above guidelines are retained at cost.

ELIMINATION CRITERIA

The financial assets are eliminated when the contractual rights to the cash flows deriving from those contracts lapse or when the financial assets are sold and all associated risks and benefits are essentially transferred.

If a financial asset is not held with a view to short sale or repurchase, the financial asset can be reclassified outside the fair value category and recognised in the statement of comprehensive income only if the following requirements are met:

- in rare circumstances;
- if the Bank intends and is able to hold the financial asset for the foreseeable future or until maturity.

2 - AVAILABLE-FOR-SALE FINANCIAL ASSETS**CLASSIFICATION CRITERIA**

Included in this category are the non-derivative financial assets not otherwise classified as Receivables, Assets held for trading or Assets held to maturity.

In particular, this category includes equity investments not managed for trading purposes and not qualifying as controlling interests, associates or jointly controlled.

In cases permitted by the accounting standards, reclassification is only permitted to Financial assets held to maturity, unless unusual events have occurred and their recurrence is unlikely in the short term. In such cases, debt securities can be reclassified - as envisaged in IAS 39 - into the categories Financial assets held to maturity and Receivables if the recognition conditions are met. The transfer value is represented by the fair value at the time of reclassification.

RECOGNITION CRITERIA

The financial asset is initially recognised on the settlement date for debt securities or equities, and on the disbursement date for other financial assets not classed as receivables.

On initial recognition, the assets are recognised at cost, intended as the fair value of the instrument, including transaction costs or proceeds directly attributable to that instrument. If the recognition is the result of reclassification among Assets held to maturity or Assets held for trading, the book value is represented by the fair value at the time of transfer.

VALUATION CRITERIA

After initial recognition, available-for-sale assets continue to be designated at fair value, whilst gains or losses from a change in fair value are recognised to a specific equity reserve until the financial asset is eliminated or an impairment loss is recognised. At the time of disposal, the accrued gains or losses are reversed to the income statement.

For a reliable measurement of fair value where no listings on active markets are available, recent transactions are taken into account, even if carried out after the reporting date, which confirm the fair value amounts.

With reference to equity investments not qualifying as controlling interests, associates or jointly controlled, for equity instruments that have no price listed on an active market and for which no recent transactions are observed, as fair value cannot be reliably measured they are retained at cost and written down if any impairment is found.

In accordance with paragraph 58 of IAS 39, at every annual or interim reporting date the company tests financial assets or groups of financial assets for impairment.

In particular, for debt instruments impairment indicators include the existence of qualitative or quantitative information implying financial difficulties such as to jeopardise the collection of capital or interest, as indicated in the provisions of paragraph 59, IAS 39.

For equity instruments, also considered objective evidence of impairment is a significant or prolonged decrease to below cost of the fair value of the financial asset concerned.

Specifically, the severity of the impairment must be assessed in absolute terms in the sense of a negative performance of the security and in terms of the market/business sector performance of the company tested. A decrease in fair value by more than 50% is considered severe.

The durability of the impairment is instead measured in reference to the length of time over which the impairment remains constant and only when this remains continuously for a period of more than 15 months.

The relativity, or the negative nature of certain quality-quantity criteria, results in significant impairment of the minority interest.

The severity, durability and relativity limits are considered alternatives. It is sufficient for just one of the three criteria to indicate impairment to confirm an impairment loss on the investment.

It follows that, if the impairment in the recognised cost value of an investment exceeds the severity or durability limits or if no relativity elements are found, an impairment loss is recognised in the income statement.

Testing for objective evidence of impairment is performed at the end of each annual or quarterly reporting period. If the reasons for impairment no

longer apply as a result of an event occurring after recognition, the value is reversed in the income statement for debt securities, or in equity for equity instruments. The amount of the reversal cannot in any event exceed the amortised cost that the instrument would have recorded in the absence of previous adjustments.

ELIMINATION CRITERIA

The financial assets are eliminated when the contractual rights to the cash flows deriving from those contracts lapse or when the financial assets are sold and all associated risks and benefits are essentially transferred.

A financial asset classed as available for sale which, if not designated as such, would have satisfied definition under loans and receivables, can be reclassified from the "available for sale" category to "loans and receivables" if there is the intention and ability to hold it for the foreseeable future or to maturity.

3 - FINANCIAL ASSETS HELD TO MATURITY**CLASSIFICATION CRITERIA**

This category includes debt securities with fixed or calculable payments and a fixed maturity, for which the intention is to hold them until maturity. If as a result of a change in intention or capacity it is no longer appropriate to continue the classification of an investment as held to maturity, it is reclassified to available-for-sale assets.

RECOGNITION CRITERIA

Initial recognition of the financial asset is the date of settlement. On initial recognition, the financial assets in this category are recognised at cost, including any directly attributable costs and income. If recognition in this category is due to reclassification from available-for-sale assets, the fair value of the asset at the reclassification date is taken as the new amortised cost of the asset in question.

VALUATION CRITERIA

After initial recognition, financial assets held to maturity are measured at amortised cost using the effective interest rate method. Gains or losses from changes in the fair value of assets held to maturity are recognised in the income statement at the time the assets are cancelled. Testing for objective evidence of impairment is performed at the end of each annual or interim reporting period. If such evidence exists, the amount of the impairment loss is measured as the difference between the book value of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the loss is recognised in the income statement. If the reasons for impairment no longer apply as a result of an event occurring after its recognition, the value is reversed in the income statement.

ELIMINATION CRITERIA

The financial assets are eliminated when the contractual rights to the cash flows deriving from those contracts lapse or when the financial assets are sold and all associated risks and benefits are essentially transferred.

4 - RECEIVABLES

CLASSIFICATION CRITERIA

Receivables include loans to customers and to banks, whether disbursed directly or purchased from third parties, which envisage fixed or calculable payments, are not listed on an active market and are not classified from the outset as available-for-sale financial assets. The item receivables also includes trade receivables, repurchase agreements and securities purchased through subscription or private placement, with calculated or calculable payments and not listed on active markets.

CLASSIFICATION OF CREDIT EXPOSURES

With reference to the classification rules established by the Supervisory Authority, Banca Patrimoni Sella & C. exposures are classified as follows:

- performing exposures: exposures to parties considered solvent with no significant anomalies or exposures past due by more than 90 days, without prejudice to current materiality thresholds;
- non-performing exposures: exposures to parties for which one or both of the following conditions are met:
 - the company considers it unlikely that, without recourse to action such as enforcement of guarantees, the borrower will fully meet its credit commitments to the company or other companies in the Group to which it is in debt, and regardless of the existence of any amount past due or the number of days in arrears;
 - the borrower is in arrears by more than 90 days on a significant credit commitment (i.e. beyond the current materiality threshold) within the Group;

or exposures written down or where there is clear evidence of impairment following one or more loss events occurring after the credit was originally granted and that the loss event (or events) in question affect the estimated future cash flows of the financial asset, or group of financial assets, that can be estimated reliably.

As part of the previous definition, non-performing exposures are in turn divided into:

- **Past Due:** cash exposures past due by at least 90 consecutive days, taking into account the offsetting against any margins available on other credit facilities in the name of the same borrower and provided that the entire amount past due is more than 5% of the higher between the average past due percentage for the entire exposure recorded daily in the last full quarter and the past due percentage for the entire exposure at the reference record date.
- **Unlikely to pay:** cash and off-balance sheet exposures (loans, securities, derivatives), for which in the subjective opinion of the lender it is unlikely that, without recourse to action such as the enforcement of guarantees, the borrower will fully meet its credit commitments (principal and/or interest), regardless of the presence of guarantees and any past due amounts outstanding, consistent with an approach of maximum speed in classifying and managing borrowers for which there is confirmed deterioration of the credit rating.
- **Non-performing:** cash and off-balance sheet exposures (loans, securities, derivatives), for which a party is insolvent (even if not yet legally ascer-

tained) or in an equivalent situation of difficulty, regardless of any loss forecast formulated by the lender.

Exposures classified as performing or non-performing, as described above, can be **forborne**, where forbearance is granted by the lender to its borrowers with the aim of overcoming existing or imminent difficulties in meeting their financial commitments. **The fundamental element for forbearance is the difficulties of the borrower**, this regardless of the presence of amounts past due and/or classification of the exposures as impaired. With regard to the above, note the naming of exposures as "forborne performing" or "forborne non-performing". The borrower's difficulties can be presumed in absolute terms or to be ascertained.

RECOGNITION CRITERIA

The initial recognition of a loan is at the disbursement date or, for a debt security, the settlement date, based on the fair value of the financial instrument. The latter is normally equal to the amount disbursed, or the subscription price, including costs/income directly attributable to the individual receivable and calculable from the start of the transaction, even if settled at a later date. Excluded are costs which, despite having the above characteristics, are subject to reimbursement by the payee counterparty or can be considered normal internal costs of an administrative nature. For any lending transactions concluded other than at arm's length, the fair value is measured using special measurement approaches. The difference compared to the amount disbursed or the subscription price is recognised directly in the income statement. Forward contracts and repurchase agreements with compulsory buy-back or sell-back are recognised in the financial statements as funding or lending transactions. In particular, spot sales and buy-back transactions are recognised in the financial statements as debts for the spot price received, whilst spot purchases or sell-back transactions are recognised as receivables for the spot price paid.

VALUATION CRITERIA

After initial recognition, receivables are measured at amortised cost, equal to the value of initial recognition less/plus capital repayments, value adjustments/reversals and amortisation - calculated using the effective interest rate method - of the difference between the amount disbursed and that repayable on maturity, typically referring to the costs/income attributed directly to the individual receivable. The effective interest rate is identified by calculating the rate equal to the present value of future flows on the receivable, for capital and interest, on the amount disbursed, including costs/income attributable to the receivable. This accounting method, based on financial logic, allows distribution of the economic effect of costs and income over the estimated residual life of the receivable. The amortised cost method is not used for receivables whose short life makes the effect of discounting negligible. Such receivables are measured at historic cost and the related costs/income are recognised in the income statement. A similar valuation criterion is adopted for receivables with no defined maturity or good till cancelled.

Analytical valuation

At each annual or interim reporting date, receivables are tested to identify those which, as a result of events occurring after their recognition, show clear signs of impairment.

Receivables with defaulted, unlikely to pay or past due status, under cur-

rent Bank of Italy rules and consistent with IAS regulations, are subjected to a continuously updated analytical valuation process as new elements come to light that could change their recoverability options.

Collective valuation

Receivables for which no objective evidence of individual impairment is found, normally performing loans, are tested collectively. In accordance with IAS/IFRS, the setup of a generic reserve on performing loans must adopt a model based on incurred loss. The term "incurred loss" defines a loss clearly identifiable as already incurred, even if not yet recorded (an "incurred" but not yet "recognised" loss).

The collective valuation of performing loans involves dividing customers into standard segments in terms of credit risk. The related percentage losses are estimated by considering the probability of default (PD) and the loss given default (LGD), taking into account suitable adjustments to convert the Basel expected loss into incurred loss. The calculation of probability of default and the rate of recovery in the event of default, for every bank in the Group, uses the same method based on its own customer portfolio. With specific reference to the PD variable, this is calculated on the basis of internal rating models where available, and in all other cases on the basis of time series data on default classification.

As regards LGD, the Banca Sella Group has a WorkoutLossGiven Default estimation model based on internal data. The estimate sample is divided into sub-groups with similar risk profiles and the resulting LGD for each sub-group is adopted as the future LGD estimate for all loans with the same characteristics.

The method described above allows estimation of the "latent loss" in each credit category. The collectively-measured value adjustments are recognised in the Income Statement. At every annual and interim reporting date, any additional adjustments or reversals are recalculated separately in reference to the entire performing loans portfolio.

ELIMINATION CRITERIA

Assigned receivables are eliminated from assets in the financial statements only if the disposal involved the essential transfer of all risks and benefits associated with them. Vice versa, if the risks and benefits of the assigned receivables are retained, they continue to be recognised among assets in the financial statements, even if legal ownership of the loan or receivable has effectively been transferred. If essential transfer of the risks and benefits cannot be ascertained, the receivables are eliminated from the financial statements when no form of control over them is retained. Otherwise, the retention of all or part of such control requires keeping the receivables in the financial statements to the extent of the residual involvement, measured by the exposure to changes in the value of the receivables assigned and to changes in their cash flows. Lastly, receivables are eliminated from the financial statements when the contractual rights to receive the related cash flows are retained and, at the same time, liability is accepted to pay such cash flows - and only such cash flows - to other third parties.

5 - HEDGING TRANSACTIONS

CLASSIFICATION CRITERIA: HEDGE TYPE

The asset and liability items include hedging derivatives which, at the reporting date, respectively recorded a positive or negative fair value.

Risk hedging transactions are designed to neutralise potential losses on a given financial instrument or group of financial instruments, attributable to a given risk, by means of gains recorded on a different financial instrument or group of financial instruments if that particular risk should actually arise.

IAS 39 envisages the following types of hedges:

- fair value hedge, which aims to hedge exposure to changes in the fair value of a financial statements item attributable to a particular risk;
- cash flow hedge, which aims to hedge exposure to changes in future cash flows attributable to specific risks associated with financial statements items;
- foreign investment hedge, which aims to hedge risks of an investment in a foreign entity expressed in foreign currency.

RECOGNITION CRITERIA

The derivative is designated as a hedge if there is formal documentation of the relationship between the hedged instrument and the hedging instrument and if it is effective at the time the hedging commences and, in prospective terms, throughout its life. Hedge effectiveness depends on the extent to which fair value changes in the hedged instrument or related expected cash flows are offset by those of the hedging instrument. Therefore, the effectiveness is seen by comparing the aforementioned changes, taking into account the intended aims of the company at the time the hedge was put into place.

Effectiveness is confirmed (within the set limits in the range 80-125%) when the changes in fair value (or cash flows) of the hedging financial instrument almost fully neutralise the changes in the hedged instrument in terms of the risk element hedged. Hedge effectiveness testing is performed on a half-yearly basis using:

- forward testing, which justifies the application of hedge accounting, to the extent the expected effectiveness is shown;
- back testing, which shows the degree of hedge effectiveness achieved in the period of reference. In other words, it measures the extent to which the actual results deviate from the perfect hedge.

If testing does not confirm hedge effectiveness, in accordance with the above explanation, hedge accounting is interrupted and the hedging derivative contract is reclassified among trading instruments.

VALUATION CRITERIA

Hedging derivatives are measured at fair value, and therefore for fair value hedges the change in fair value of the hedged item is offset against the change in fair value of the hedging instrument. This offsetting is recognised in the income statement as a change in value in reference to the hedged item (as regards changes generated by the underlying risk factor) and to the hedging instrument. Any difference, which represents partial ineffectiveness of the hedge, is consequently the net economic effect.

The fair value measurement of hedged fixed-rate mortgages requires financial coherence between the assets hedged and the IRS taken out as hedging instruments. At every fair value measurement date, therefore, the accumulated stock of hedging IRSs and the accumulated stock of hedged mortgages form the basis of testing, firstly to confirm that there is an initial correspondence between the IRS amortisation profile and the amortisation profile of the hedged mortgages.

Then the weighted average fixed rate of the hedging IRSs is calculated. This rate represents the average market rates in force at the time the various IRSs were taken out and therefore reflects the interest portion they were intended to hedge at the time of hedging the mortgages. In other words, this rate represents the portion of interest effectively hedged by the IRS, distinguishing this from the portion of interest that is instead not hedged and which corresponds to the spread (an expression more of customer risk than rate risk).

At this point, starting from the actual residual amortisation plan for the capital portion of the total mortgages hedged, it becomes reasonable to construct the amortisation plan for the mortgages to be used in identifying the fair value. This will comprise the flows from the capital portions of the mortgages (i.e. the difference between the residual debt for a period compared to the residual debt in the previous period, in accordance with the contractual amortisation plan) and the interest portions obtained by applying the weighted average rate of the hedging IRSs (expressing the hedged interest portion) to the residual debt for the period.

The instalments obtained can then be discounted using the same rate curve as for the calculation of fair value of the hedging IRSs, and reduced based on the hedge effectiveness percentage at the measurement date (surface ratio - i.e. the sum of residual capital portions for the related days existing - of the amortisation plans on the residual notional value of the IRSs divided by the residual amount receivable on the mortgages), to give the present value of the hedged mortgages. The residual receivable at the mortgage measurement date (this too multiplied by the hedging percentage) must then be subtracted from the present value.

This procedure (present value of instalments less the residual debt reduced by the hedging percentage) is then used to calculate the fair value at the end of year T and the fair value at the end of year T-1. The difference between these two values is the difference in fair value of the mortgages to be compared with the difference in fair value of the IRSs.

The calculation of the fair value difference of IRSs uses the following methods:

- the fair value is calculated by discounting of future cash flows (Net Present Value - NPV): this method consists in discounting the estimated cash flows at a current rate expressing the risk intrinsic in the instrument measured;
- for the mortgage-hedging IRSs in place at the end of the previous year, the fair value difference is the difference between the fair value at year end and the fair value at the end of the previous year;
- for the mortgage-hedging IRSs taken out during the year, the fair value difference is the fair value of the IRS at year end;
- both the market value and intrinsic value are calculated for all IRSs.

6 - INVESTMENTS

CLASSIFICATION CRITERIA

The item includes interests in associates and subsidiaries. Associates are considered to be minority interests over which significant influence is exercised. It is presumed that the company exercises significant influence in all cases where 20% or more of the voting rights are held and, regardless of the percentage holding if there is the power to participate in operating and financial decisions of the investees.

RECOGNITION CRITERIA

Initial recognition of the financial asset is the date of settlement. On initial recognition, the financial assets in this category are recognised at cost.

VALUATION CRITERIA

If there is any indication of impairment of an investee, the recoverable value of the investment is estimated, taking into account the present value of future cash flows, transaction multiples, equity and the discounting method the investment could generate, including the value of final disposal of the investment. If the recoverable value proves lower than the book value, the related difference is recognised in the income statement. If the reasons for impairment no longer apply as a result of an event occurring after its recognition, the value is reversed in the income statement.

7 - PROPERTY, PLANT AND EQUIPMENT

CLASSIFICATION CRITERIA

Property, plant and equipment include technical systems, fixtures and fittings, furnishings and equipment of any kind. Property, plant and equipment are assets held for use in production or the provision of goods and services, for lease to third parties or for administrative purposes, and are expected to be used for more than one reporting period. Leasehold improvements included among these items are improvements and incremental costs associated with identifiable and separable property, plant and equipment. Such investments are normally incurred to prepare property leased from third parties for use.

The improvements and incremental costs relating to identifiable but inseparable property, plant and equipment are instead recorded in Item 160 "Other assets".

RECOGNITION CRITERIA

Property, plant and equipment are initially recognised at cost, which in addition to the purchase price includes all accessory charges directly attributable to the purchase and the operational start-up of the asset. Extraordinary maintenance expense resulting in an increase in future economic benefits are recorded as an increase in the value of the assets, whilst other maintenance expense is recognised in the income statement.

VALUATION CRITERIA

Property, plant and equipment are measured at cost, less any depreciation and impairment losses. The fixed assets are systematically depreciated over their useful life, adopting the straight-line depreciation method.

At every reporting date, if there is any indication of impairment, a comparison is made between the book value of the asset and its recoverable value, equal to the higher between the fair value and related value in use of the asset, intended as the present value of future flows originated by the asset. Any adjustments are recognised in the income statement. If the reasons for recognising the impairment loss should no longer apply, a value reversal is recorded, which cannot exceed the value the asset would have had, net of accumulated depreciation calculated in the absence of previous impairment losses.

ELIMINATION CRITERIA

An item of property, plant and equipment is eliminated from the Balance Sheet at the time of disposal or when the asset is permanently withdrawn from use and when no future economic benefits are expected.

8 - INTANGIBLE ASSETS**CLASSIFICATION CRITERIA**

Intangible assets include goodwill and application software for multi-year use. Goodwill represents the positive difference between the purchase cost and the fair value of assets and liabilities acquired. Other intangible assets are recognised as such if they are identifiable and originate from legal or contractual rights.

RECOGNITION CRITERIA

An intangible asset can be recorded as goodwill when the positive difference between the fair value of the asset items acquired and the cost of the business combination is represented by the future profit-generating capacity of the assets and liabilities acquired. If the difference is negative (i.e. badwill) or if the goodwill is not justified by the profit-generating capacity of the investee, the difference is recognised directly in the income statement.

Other intangible assets are recognised at cost, inclusive of any accessory charges only if it is likely that future economic benefits attributable to the asset will be realised and if the cost of the asset itself can be reliably determined. Otherwise, the cost of the intangible asset is recognised in the income statement in the year in which it was incurred.

VALUATION CRITERIA

With regard to goodwill, every time there is evidence of impairment and in any event at least once a year following preparation of the three-year plan, impairment testing is performed. For this purpose, a cash generating unit is identified to which the goodwill can be attributed. The amount of any impairment loss is calculated on the difference between the recognition value of the goodwill and its recovery value, if lower. This recovery value is equal to the higher between the fair value of the cash generating unit and the related value in use. The value in use is the present value of future cash flows expected from the cash generating units to which the goodwill was attributed. The resulting value adjustments are recognised in the income statement.

The cost of intangible assets is amortised on a straight-line basis over the related useful life. If the useful life is indefinite, amortisation is not applied, but only periodic testing of the recognition value of the assets. At each reporting date, if there is evidence of impairment, the recoverable value of the asset is estimated. The amount of the impairment loss recognised in the income statement is equal to the difference between the book value and recoverable value of the asset.

ELIMINATION CRITERIA

An intangible asset is eliminated from the Balance Sheet at the time of disposal and when no future economic benefits are expected.

9 - CURRENT AND DEFERRED TAXES

The items respectively include current and deferred tax assets, and current and deferred tax liabilities.

Income taxes are recognised in the income statement, except those relating to items charged or credited directly to equity. The provision for income taxes is determined on the basis of a prudential forecast of the current tax charge, deferred tax assets and deferred tax liabilities.

Deferred tax assets and liabilities are calculated on the temporary differences, without time limits, between the book values and tax values of individual assets or liabilities.

Deferred tax assets are recognised in the financial statements if their recovery is probable. In this respect note that, on behalf of the companies included in the tax consolidation, on 28 July 2016 the tax consolidating entity, Banca Sella Holding SpA, adopted the option of maintaining application of the measures for transforming deferred tax assets into tax credits envisaged in art. 11, Italian Law Decree no. 59 of 3 May 2016, converted with amendments to Law no. 119 of 30 June 2016. It follows that, as envisaged in articles 55 to 56-bis of Italian Law 225/2010, the option of converting deferred tax assets recognised against write-downs in receivables and goodwill into tax credits is maintained, particularly when the separate financial statements report a loss for the year. This conversion option offers an additional and supplementary recovery method suitable for ensuring the recovery of such types of deferred tax assets in every situation, regardless of the company's future profitability. In all cases, therefore, this conversion option is sufficient grounds for recognising and retaining such types of deferred tax assets in the financial statements.

Deferred tax liabilities are recognised in the financial statements, with the only exceptions being assets recognised for amounts higher than the recog-

nised value for tax purposes and untaxed reserves, for which it is reasonable to assume no transactions will be carried out that result in taxation. The recognised deferred tax assets and liabilities are systematically measured to take into account any changes in regulations or tax rates.

10 - PROVISIONS FOR RISKS AND CHARGES

Other provisions for risks and charges include allocations relating to current obligations arising from a past event for which outlay is probably to comply with that obligation, always provided that the related amount can be reliably estimated.

The sub-item "other provisions" includes provisions for risks and charges allocated to comply with the provisions of international accounting standards, except for write-downs due to impairment of the guarantees given recorded under "other liabilities".

An allocation to provisions for risks and charges is only recognised when:

- there is a current obligation (legal or implicit) resulting from a past event;
- it is probable that the use of funds expected to generate economic benefits will be necessary to meet the obligation;
- the total obligation can be reliably estimated.

The amount allocated represents the best estimate of the charge required to settle the obligation. This estimate takes into consideration the risks and uncertainties associated with the events and circumstances under review.

If the deferral period in incurring the charge is significant, the amount allocated is represented by the present value of the charge that is expected will be necessary to settle the obligation. In such cases, a discounting rate is used which reflects the present market appraisals of the actual cash value. In particular, Banca Patrimoni Sella & C. uses the "zero curve".

Periodic review is also performed of the fairness of these amounts.

If new, greater or additional information on the risk event is obtained, sufficient to result in updating of the estimate originally performed, the related provision is immediately adjusted.

A provision can only be used against the risk events for which it was originally allocated.

11 - PAYABLES

CLASSIFICATION CRITERIA

The items "due to banks" and "due to customers" include the various forms of interbank and customer funding.

RECOGNITION CRITERIA

The initial recognition of such financial liabilities is at the time of receipt of the amount funded or the issue of the debt securities. Initial recognition is based on the fair value of the liabilities, normally equal to the amount collected or the issue price, plus any additional costs/income attributable directly to the individual funding transaction or issue, and not reimbursed by the credit counterparty. Internal costs of an administrative nature are excluded.

VALUATION CRITERIA

After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method. Exceptions are current liabilities, where the time factor proves negligible, for which the amount collected remains recognised and any recorded costs are attributed to the income statement. Also note that funding instruments that are effectively hedged are measured on the basis of hedge accounting rules.

For structured instruments, if the requirements of IAS 39 are met, the embedded derivative is unbundled from the host contract and recognised at fair value as a trading liability. In the latter case the host contract is recognised at amortised cost.

ELIMINATION CRITERIA

The financial liabilities are eliminated from the financial statements when expired or settled. Elimination is arranged even in the presence of repurchases of securities previously issued. The difference between the book value of the liability and the amount paid for its purchase is recognised in the income statement. The re-placement of own securities on the market after their repurchase is considered a new issue with recognition of the new placement price, with no impact on the income statement.

12 - FINANCIAL LIABILITIES HELD FOR TRADING**CLASSIFICATION CRITERIA**

Only the negative value of trading derivative contracts designated at fair value is included in this category.

Also included are the embedded derivatives which, pursuant to IAS 39, were unbundled from the complex host financial instruments and recognised separately since:

- their economic and risk characteristics could not be strictly correlated with the characteristics of the underlying contract;
- bundled instruments, even if unbundled, satisfy the definition of a derivative;
- the hybrid instruments they refer to are not designated at fair value with related changes in the income statement.

RECOGNITION CRITERIA

The financial liabilities are initially recognised on the subscription date for derivative contracts.

On initial recognition, financial liabilities held for trading are recognised at cost, intended as the fair value of the instrument. Any derivatives embedded in complex contracts but not strictly correlated and with characteristics satisfying the definition of derivative are unbundled from the primary contract and measured at fair value, whilst the appropriate reference accounting policy is applied to the primary contract.

VALUATION CRITERIA

After initial recognition, financial liabilities held for trading are measured at fair value.

Gains and losses deriving from changes in fair value and/or the disposal of trading instruments are recognised in the income statement.

ELIMINATION CRITERIA

The financial liabilities are eliminated from the financial statements when expired or settled.

13 - TRANSACTIONS IN FOREIGN CURRENCY**INITIAL RECOGNITION**

At the time of initial recognition, transactions in foreign currency are recorded in the reporting currency, applying the spot rate on the date of the transaction to the foreign currency amount.

SUBSEQUENT RECOGNITION

At each reporting date, financial statement items in foreign currencies are measured as follows:

- monetary items are translated at the year-end exchange rate;
- non-monetary items measured at historic cost are translated at the spot rate on the date of the transaction. To translate revenue and cost elements, an exchange rate approximate to the spot rate at the date of transaction is often used, e.g. an average exchange rate for the period;
- non-monetary items designated at fair value are converted at the year-end exchange rate.

Exchange differences deriving from the settlement of monetary items or the translation of non-monetary items at rates other than the initial translation rates, or for translation of previous financial statements, are recognised in the income statement in the period in which they arise.

When a gain or loss relating to a non-monetary item is recognised in equity, the exchange difference for that item is also recognised in equity. Vice versa, when a gain or loss is recorded in the income statement, the income statement also records the related exchange difference.

14 - OTHER INFORMATION**EMPLOYEE BENEFITS**

Employee severance indemnity is recognised on the basis of their discounted value. For discounting purposes the projected unit credit method is used, which envisages the projection of future outlay based on statistical time series and the demographic curve, and the financial discounting of these flows based on a market interest rate. The difference between actuarial gains and losses is recognised in equity, whilst the residual components (the discounting effect) will be recognised in the income statement.

Based on the provisions of IAS 19, Employee severance indemnity is a defined benefit, the recognition of which must be through actuarial methods.

In view of the provisions of the 2007 Finance Act, Employee severance indemnity accrued from 1 January 2007 and destined for supplementary pension forms or to the INPS treasury fund are considered defined contribution plans, and therefore no longer subject to discounting.

In relation to the international accounting standards, in fact, Employee severance indemnity cannot be recognised in the financial statements or an amount corresponding to that accrued (assuming all employees leave the company on the reporting date), but rather the liabilities in question must be calculated by projecting the amount already accrued to a future moment in time of termination of the employment contract, then discounting this amount at the reporting date using the projected unit credit method.

RECOGNITION OF REVENUE AND COSTS

Revenue is recognised at the time it is achieved or, in any event, for the sale of goods or products when it is probable that future benefits will be received and such benefits can be reliably quantified or, for the provision of services, at the time such services are provided. In particular:

- the interest paid is recognised pro rata on the basis of the contractual interest rate, or at the effective interest rate if amortised cost is applied;
- default interest, if contractually envisaged, is recognised in the income statement only at the actual time of collection;
- dividends are recognised in the income statement during the year in which distribution is agreed;
- fees and commissions on service revenue are recognised, based on existing contractual arrangements, in the period in which the services are provided;
- gains and losses from financial instruments trading are recognised in the income statement at the time of completion of the sale, based on the difference between the price paid or collected and the recognition value of the instruments themselves;
- revenue from the sale of non-financial assets is recognised at the time of completion of the sale, unless most of the risks and benefits associated with the asset have been retained.

Costs are recognised in the income statement in the period in which the related revenue is recorded. If the association between costs and revenue cannot be performed generically and indirectly, the costs are systematically spread over multiple periods by rational procedures. Costs that cannot be associated with the income are recognised directly in the income statement.

ACCRUALS AND DEFERRALS

Accruals and deferrals that include income and charges for the period accrued on assets and liabilities are recognised in the financial statements as an adjustment to the assets or liabilities to which they refer.

LEASEHOLD IMPROVEMENT EXPENSE

Restructuring costs for third-party properties are capitalised in consideration of the fact that for the duration of the lease the user company has control of the assets and can draw future economic benefits from them. The aforementioned costs, classified among Other assets as envisaged in Bank of Italy instructions, are amortised over a period equal to the duration of the lease.

ALLOCATIONS TO GUARANTEES GIVEN AND COMMITMENTS

Allocations made on a collective basis, in relation to the estimated outlay associated with the credit risk on guarantees, determined by applying the same criteria illustrated previously for receivables, are recorded under Other liabilities as envisaged in Bank of Italy instructions.

USE OF ESTIMATES AND ASSUMPTIONS IN PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

For the preparation of the financial statements, the Bank made use of estimates and assumptions that can result in effects on the values recognised in the Balance Sheet and the Income Statement. These estimates are prepared through:

- the use of available information;
- the adoption of measurements, also based on past experience, used to formulate rational assumptions for the reporting of operating events.

In future years, the present values recognised in the financial statements could differ, even significantly, following changes in the measurements used as, by their nature, the estimates and assumptions adopted can change from year to year.

The main situations in which the use of estimates is more strongly required are:

- for the calculation of impairment losses on receivables and other financial assets;
- for the fair value calculation of financial instruments not listed on active markets, the use of measurement models;
- for goodwill and other intangible assets, their estimated fair value;
- for provisions for personnel and provisions for risks and charges, their estimated value;
- for deferred tax assets, the estimates and assumptions regarding their recoverability.

FAIR VALUE DEFINITION AND MEASUREMENT CRITERIA

On 12 May 2011, the IASB published IFRS 13 “Fair Value Measurement”, which provides full guidance on how to measure the fair value of financial and non-financial assets and liabilities and on the related reporting. IFRS 13 was endorsed by Commission Regulation (EU) 1255/2012 of 11 December 2012.

The new standard applies every time another accounting standard calls for the measurement of an asset or liability at fair value or requires additional information on the fair value measurements.

Based on the provisions of IFRS 13, fair value is defined as “the price that would be received for the sale of an asset or would be paid for the disposal of a liability in an arm’s length transaction between market participants as at the measurement date”.

The standard requires that if there are transactions directly observable on the market, the fair value calculation is immediate. If these conditions are not met, measurement approaches must be adopted. IFRS 13 identifies three widely-used measurement approaches and establishes that every entity, in measuring fair value, must use measurement approaches consistent with one or more of the following:

- Market valuation approach: this approach makes use of prices and other information relating to transactions that involved identical or similar financial assets or liabilities. Measurements based on determining market multiples are included in this method.

- *Cost approach*: the fair value is represented by the replacement cost of a financial asset.
- *Income approach*: the fair value equals the present value of future cash flows. These approaches can be based on the present value.

In the calculation of fair value of a financial asset, IFRS 13 envisages the inclusion of a fair value adjustment factor to identify the counterparty risk (CVA). This credit risk must be quantified as would be determined by a market operator when defining the purchase price of a financial asset.

In the calculation of fair value of a financial liability, IFRS 13 also envisages the quantification of a fair value adjustment factor referring to own credit risk (DVA).

As mentioned previously, based on IFRS 13 the fair value measurement of financial instruments should use measurement approaches that maximise recourse to input data observable on the market.

For this purpose, IFRS 13 establishes a fair value hierarchy which classifies the technical inputs adopted for fair value measurement into three levels:

Level 1: prices listed (unadjusted) on active markets for identical assets or liabilities to which the entity has access at the measurement date.

Level 2: inputs other than listed prices included in Level 1, observable directly or indirectly for the asset or liability. The prices of assets or liabilities are deduced from market prices for similar assets or through measurement approaches for which all the significant factors (credit spreads and liquidity) are taken from observable market data.

Level 3: input data not observable for the asset or liability. The prices of assets or liabilities are deduced using measurement approaches based on data processed on the best information available relating to assumptions that would be used by market operators to determine the price of the asset or liability (therefore involving estimates and assumptions by management).

IFRS 13 defines an active market as a “market on which transactions relating to assets or liabilities are carried out with a frequency or in volumes sufficient to provide useful information for determination of the price on a continuous basis”.

INPUTS FOR FAIR VALUE MEASUREMENT

The various input levels to be used in calculating the fair value of financial instruments designated at fair value are illustrated below:

(L1) Instruments whose fair value is represented by the market value (instruments listed on an active market):

- Securities listed on a regulated market or multilateral trading facility (on which one or more market makers operate on a continuous basis).
- Securities listed on Bloomberg, provided the issue total is equal to or greater than EUR 500 million and at least one market maker is present with regularly available prices.
- Funds for which the daily NAV or daily listed price is available.
- Investments listed on a regulated market.
- Derivatives listed on regulated markets.

An “active market” refers to:

- The regulated market on which the instrument is traded and regularly listed;
- The multilateral trading facility on which one or more market makers operate on a continuous basis;
- The Bloomberg contribution, provided the issue total is equal to or greater than EUR 500 million and at least one market maker is present with regularly available prices.

(L2) Instruments whose fair value is measured using inputs other than prices listed on an active market, which are observable directly (prices) or indirectly (derived from prices) on the market:

- Securities for which Bloomberg lists a price characterised by an issue total of less than EUR 500 million or securities, albeit characterised by an issue total of more than EUR 500 million, for which no market maker with regularly available prices is present on Bloomberg.
- Securities listed on a multilateral trading facility for which no market maker with regularly available prices is present.
- Bonds issued by the Banca Sella Group, the measurement of which uses the following methods commonly used on the market:
 - Fixed-rate bonds: asset swap spreads
 - Floating-rate bonds: discount margin
 - Structured bonds: net present value (for the bond component)

Structured bonds which, in addition to the bond component have an embedded option (derivative), envisage the measurement of the latter on the basis of prices practised by market counterparties and on the basis of external measurement models (e.g. the Black-Scholes model) or proprietary models.

- Securities defined as illiquid are specifically measured according to a model based on inputs observable directly or indirectly on the market.
- Funds for which no daily NAV or daily listed price is available, but which periodically express a NAV or a reliable price.
- Investments with no active market for which a number of transactions is found that is limited but recurring over time.
- OTC derivatives for which market benchmarks are available for measurement purposes.

(L3) Instruments whose fair value is determined using inputs not based on observable market data:

- Defaulted or delisted securities in cases where the price reported by the reference provider for each security is greater than zero. If this price is 0, however, such securities are considered “not designated at fair value”.
- Securities defined as illiquid are specifically measured according to a model based on non-observable inputs.
- Securities deriving from Mars 2600 securitisations and other ABS.
- Funds or SICAVS specialising in ABS.
- Unlisted closed-end funds.
- Private equity funds.
- Investments with no active market for which one-off transactions are found or for which measurement approaches are used.
- OTC derivatives for which no market benchmarks are available for the measurement.

Assessment of the fairness of the instrument's classification compared to the assigned input level is performed on a half-yearly basis (June and December) by the Securities Records Office, which also orders any changes to be made to the specific information contained in the securities records.

In order to calculate the fair value of OTC derivatives in accordance with IFRS 13, they are separated into two levels:

- L2: Plain vanilla OTC derivatives for which market benchmarks are available for the measurement;
- L3: OTC derivatives for which no market benchmarks are available for the measurement.

In order to apply the rules envisaged in European Parliament and Council Regulation (EU) 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR), it is expected that OTC derivatives included in L2 and L3 above are measured on the basis a mark-to-model.

In European Parliament and Council Regulation (EU) 648/2012 of 4 July 2012 on OTC derivatives, the central counterparties and trading data registries (EMIR), only OTC derivatives included in L3 above are to be measured on the basis of a model.

COUNTERPARTY RISK ASSESSMENT

In the calculation of fair value of a financial asset, IFRS 13 envisages the inclusion of a fair value adjustment factor to identify the counterparty risk (CVA). This credit risk must be quantified as would be determined by a market operator when defining the purchase price of a financial asset.

In the calculation of fair value of a financial liability, IFRS 13 also envisages the quantification of a fair value adjustment factor referring to own credit risk (DVA).

With regard to bonds issued by the Banca Sella Group (structured and otherwise), the issuer counterparty risk is included in the spread defined in accordance with the rules stated in Addendum 1.

As regards the OTC derivatives exposure, the quantification of CVA adjustments (for receivable exposures) and DVA (for payable exposures) is performed by Dealer Wizard for all contracts except those covered by offsetting and collateralisation arrangements (e.g. ISDA, CSA, etc.).

The calculation method for adjusted CVA/DVA implemented in the Dealer Wizard is based on the discounted cash flows approach. This approach, applied to all types of derivatives handled by the Group, envisages the application of a credit spread to the discounting of expected cash flows and leads to the generation of a risk-adjusted fair value, whose difference compared to the risk-free fair value is represented by the CVA/DVA.

The choice of credit spreads to be applied to the discounting of expected cash flows is associated with the direction of flows and with the type of counterparty. Specifically, depending on whether the flows are "receive" or "pay" types, the spread to be applied has to take into account the counterparty credit risk (receive) or the own entity credit risk (pay).

In relation to the type of counterparty, the possible cases to which reference must be made for assignment of the related credit spread are listed below:

- *Institutional counterparty with which a CSA was NOT stipulated*: for the credit spread, reference is made to the CDS listing downloaded from the provider Bloomberg. In the absence of a specific listing for that particular counterparty, reference is made to the CDS price for a counterparty considered comparable in terms of sector, dimension and rating.
- *Institutional counterparty with which a CSA was stipulated*: in this case, the assigned spread is equal to zero as the counterparty risk is mitigated by the collateralisation arrangement, and therefore the risk-adjusted fair value coincides with the risk-free fair value.
- *GBS customers (retail or corporate)*: reference is made to the internal assessment provided by the Credit Risk office of the Risk Management Department. Specifically, the internally estimated credit spread represents the rate of return required to cover the two loss components (expected and unexpected) that determine the credit risk. To quantify the impact of expected loss, recourse is made to the probability of default value associated with the rating class of the specific customer (if the customer is subject to calculation of the internal rating), or the average decay rate recorded in the last 24 months in the bank's credit portfolio (if the customer is not subject to calculation of an internal rating). To quantify the impact of unexpected loss, the equity value necessary to satisfy the target return requested by shareholders is estimated, in the case of a 1-year current account loan.

With regard to the Banca Sella Group, the credit spread necessary as input benchmark to calculate the adjusted DVA is determined in line with the spread applied at the same date on ordinary bonds issued by the Group.

The CVA/DVA valuations are performed daily by the OTC Exchange Office of Banca Sella. Risk Management arranges second level sample checks after ex ante validation of the approach and market benchmarks used (agreed with the Finance Division).

The measurements relating to embedded caps, pending full automation of measurement by the Credit Division of Banca Sella and of the Group companies concerned, are performed by the Parent Company Finance Division using the discounted cash flows approach.

As these are options sold to the customer (embedded in maximum-rate mortgages), the adjusted DVA is calculated by applying the credit spread for the Banca Sella Group as indicated above.

FAIR VALUE MEASUREMENT FREQUENCY

Measurement of the fair value according to the rules dictated by the Group's Fair Value Policy is normally performed daily (in general weekly for bonds issued by the Group in view of their low level of volatility, unless a need arises that calls for a shorter frequency).

A.3 – Information on transfers between financial asset portfolios

A.3.1 RECLASSIFIED FINANCIAL ASSETS: BOOK VALUE, FAIR VALUE AND EFFECTS ON COMPREHENSIVE INCOME

The following table shows the reclassifications of financial instruments carried out during the year.

Note that no reclassifications were performed in previous years.

A.3.1 RECLASSIFIED FINANCIAL ASSETS: BOOK VALUE, FAIR VALUE AND EFFECTS ON COMPREHENSIVE INCOME

TYPE OF FINANCIAL INSTRUMENT (1)	SOURCE PORTFOLIO (2)	TARGET PORTFOLIO (3)	BOOK	FAIR	INCOME COMPONENTS WITHOUT TRANSFER (PRE-TAX)		INCOME COMPONENTS RECOGNISED DURING THE YEAR (PRE-TAX)	
			VALUE AT 31/12/2017 (4)	VALUE AT 31/12/2017 (5)	MEASURE-MENT (6)	OTHER (7)	MEASURE-MENT (8)	OTHER (9)
A. DEBT SECURITIES			(19,804)	(19,876)	(203)	48	-	58
	AFS	HTM	(19,804)	(19,876)	(203)	48	-	58
TOTAL			(19,804)	(19,876)	(203)	48	-	58

The reclassification illustrated refers to the German ten-year bund transferred from AFS to HTM for around EUR 20 million in the third quarter of 2017.

The column "income components without transfer" summarises the results of measurements that would have been recognised in the income statement for the reporting period or in shareholders' equity if the transfer were not performed. Likewise, the column "income components recognised during the year" indicates income components actually recognised in the income statement or in shareholders' equity.

A.3.2 RECLASSIFIED FINANCIAL ASSETS: EFFECTS ON COMPREHENSIVE INCOME PRIOR TO TRANSFER

The table summarises the gains/losses recorded on financial assets transferred up to the time of transfer, separating those recognised in the income statement from those with an impact on shareholders' equity.

A.3.2 RECLASSIFIED FINANCIAL ASSETS: EFFECTS ON COMPREHENSIVE INCOME PRIOR TO TRANSFER

TYPE OF FINANCIAL INSTRUMENT (1)	SOURCE PORTFOLIO (2)	TARGET PORTFOLIO (3)	GAINS/LOSSES IN THE INCOME STATEMENT (PRE-TAX)		GAINS/LOSSES IN SHAREHOLDERS' EQUITY (PRE-TAX)	
			31/12/2017	31/12/2016	31/12/2017	31/12/2016
			(4)	(5)	(6)	(7)
A. DEBT SECURITIES			-	-	(275)	-
	AFS	HTM	-	-	(275)	-
TOTAL			-	-	(275)	-

A.3.3 TRANSFER OF FINANCIAL ASSETS HELD FOR TRADING

There were no transfers of financial assets between portfolios involving financial assets held for trading.

A.3.4 EFFECTIVE INTEREST RATE AND EXPECTED CASH FLOWS FROM RECLASSIFIED ASSETS

The effective interest rate referring to all reclassified securities is 0.39% and the estimated cash flows at the date of reclassification of the financial assets totals EUR 758.6 thousand.

A.4 – Fair value disclosure

QUALITATIVE INFORMATION**A.4.1 FAIR VALUE LEVELS 2 AND 3: MEASUREMENT APPROACHES AND INPUTS USED**

In relation to the measurement approaches, the inputs and related adjustments used to measure the fair value of level 2 and 3 instruments are illustrated in the following abstract of details specified in the Fair Value Policy adopted by the Group and in force up to 31 December 2017.

For the measurement of fixed-rate bonds, the asset swap spread model is used, whilst for floating-rate bonds the discount margin model is used. Recourse to these models is justified by the consideration that at European level they represent the market standard for this type of securities.

As pricing input for the fixed-rate bonds, the Euro swap rate curve is used, derived from infoproviders available to the Bank, whilst the spread levels used deriving from the processing of variables associated with the credit spreads recorded by the same infoproviders. The purpose of such processing is to consider different variables that could affect the pricing procedure.

If the bonds have an embedded option component, if at all possible the pricing model available on Bloomberg is used in order to guarantee an estimate based on the approach widely adopted by the market. For this purpose, in a manner similar to the previous cases, a spread level deduced from the processing of variables associated with the credit spreads recorded by the infoprovider is used as the option-adjusted spread (OAS).

Bonds with a structure that cannot be priced using models available on Bloomberg are instead priced by unbundling the structure into more simple components.

Their measurement is performed using valuations deduced from those provided by the counterparties for the hedging instrument or, if unavailable, from Monte Carlo simulations that use the variables recorded by the leading infoproviders as the input values.

The OTC derivatives generally present in the financial statements refer to swaps, options on interest rates and options on exchange rates.

The swap rate is assessed according to the discounted cash flow (DCF) approach, which in effect represents the market standard, and which uses the swap rate curve relating to the contract's currency as input data. This curve is periodically updated to that published by the main infoproviders (Bloomberg/Reuters) available to the Bank. If the swap structure is more complex, so much so that the contract value cannot be estimated with reasonable certainty, a contract assessment is requested from the transaction counterparty.

For the GBS, the options on interest rates to date refer solely to caps and floors, and are measured using the Black model. This choice is based on the consideration that alternative models could pose a benchmarking problem for the pricing stage and would not provide a significant improvement in the price estimation. Further elements that would point to this choice are associated with the consideration that an extensive implicit volatility matrix is recorded by the leading infoproviders, matched to the option prices by standard maturity.

The plain vanilla and exotic exchange rate options (with European or US barriers) are measured on the basis of the Black&Scholes model. The volatility curves necessary to calculate the implicit volatility of each option, and the prices of market rates and swaps used to assess the contracts, are taken from the leading infoproviders available to the Bank (Bloomberg). For the more complex exotic option structures, that do not allow reasonable certainty as regards the value of the contract, where possible a measurement algorithm is developed internally or, again if possible, an assessment of it is requested from another counterparty to the transaction. These measurements, where present, are used for price setting along with the measurement provided by the transaction counterparty.

The fair value calculation for ABS included in the bank-owned portfolio is based on Bloomberg pricing models. These models are based on the DCF (discounted cash flow) approach, which used the latest data provided by the securitisation company as the input data.

The discount margin level used is deduced from that obtained from research, based on spreads seen on the secondary market for securities that are similar in terms of underlying assets, country and rating. This level can be adjusted, if necessary, to take into account external factors (typical of the security) such as the different quality of the asset, performance, underlying, etc.

For the measurement of AFS investments, the approaches adopted on a case-by-case basis are:

- the income-based approach, which determines the value of the company based on its profit-generating capacity. For this purpose, the value of the company is calculated by discounting the expected profit and loss results. The average future income is estimated on the basis of corporate data (financial statements, interim reports, budgets, business plans). In addition to the return on risk-free assets, the discounting rate considers a premium for investments in business assets;
- the multiples are expressed by a sample of listed companies as similar as possible to the company to be assessed. Numerous factors are taken into account to establish the degree of similarity in the sample: the sector of operations, company size, financial risks deriving from the company's financial structure, market prices, geographic diversification, etc.
- other measurement approaches commonly used by market operators to price companies, if such approaches have shown that they provide reliable estimates of the prices practised in current market transactions (one such case is recourse to the equity method, which determines the value of the company based on the algebraic balance between assets and liabilities; the analysis is based on historic data available on the corporate databases, financial statements, interim reports, budgets and business plans).

Unlisted closed-end funds and private equity funds are measured on the basis of data provided by the issuer or, if none, on the basis of the amount of the contribution to the fund. Particular attention is paid to ABS funds where, as far as possible, the investor reports on each individual ABS with a significant presence in each fund are analysed.

In relation to the loans issued by each Group bank and hedged, calculation of the fair value to measure the hedge effectiveness uses the discounted cash flow method. For this purpose, the risk-free curve used to measure the hedging derivative is used and the spread paid is deduced from the coupon in accordance with the terms of the hedge contract.

For fixed-rate mortgages hedged, the fair value measurement requires financial coherence between the assets hedged and the IRS taken out as hedging instruments. At every fair value measurement date, therefore, the accumulated stock of hedging IRSs and the accumulated stock of hedged mortgages form the basis of testing, firstly to confirm that there is an initial correspondence between the IRS amortisation profile and the amortisation profile of the hedged mortgages.

Then the weighted average fixed rate of the hedging IRSs is calculated. This rate represents the average market rates in force at the time the various IRSs were taken out and therefore reflects the interest portion they were intended to hedge at the time of hedging the mortgages. In other words, this rate represents the portion of interest effectively hedged by the IRS, distinguishing this from the portion of interest that is instead not hedged and which corresponds to the spread (an expression more of customer risk than rate risk).

At this point, starting from the actual residual amortisation plan for the capital portion of the total mortgages hedged, it becomes reasonable to construct the amortisation plan for the mortgages to be used in identifying the fair value. This will comprise the flows from the capital portions of the mortgages (i.e. the difference between the residual debt for a period compared to the residual debt in the previous period, in accordance with the contractual amortisation plan) and the interest portions obtained by applying the weighted average rate of the hedging IRSs (expressing the hedged interest portion) to the residual debt for the period.

The instalments obtained can then be discounted using the same rate curve as for the calculation of fair value of the hedging IRSs, and reduced based on the hedge effectiveness percentage at the measurement date (surface ratio - i.e. the sum of residual capital portions for the related days existing - of the amortisation plans on the residual notional value of the IRSs divided by the residual amount receivable on the mortgages), to give the present value of the hedged mortgages. The residual receivable at the mortgage measurement date (this too multiplied by the hedging percentage) must then be subtracted from the present value.

This procedure (present value of instalments less the residual debt reduced by the hedging percentage) is then used to calculate the fair value at the end of year T and the fair value at the end of year T-1. The difference between these two values is the difference in fair value of the mortgages to be compared with the difference in fair value of the IRSs.

A.4.2 MEASUREMENT PROCESSES AND SENSITIVITY

Use of the measurement models and approaches described above calls for the selection and quantification of certain benchmarks, varying based on the financial instrument to be measured.

These benchmarks are selected and applied to the calculation application at the time of the request to measure a new instrument.

The Risk Management Service is responsible for validating the defined benchmarks.

For every fair value calculation frequency for the financial instrument, the above benchmarks are reviewed and updated by the department performing the calculation and by Risk Management.

For example, the main observable benchmarks can refer to:

RATE CURVE

This consists in a series of rates of return on synthetic zero-coupon securities, in increasing order in relation to their maturities. These rates are obtained by means of consolidated bootstrapping methods from the deposit market rates (for maturities not exceeding 12 months) and the IRS market rates (for maturities not less than 2 years). For measurement purposes, the mid rates are considered. This is the measurement basis for any OTC derivative.

VOLATILITY MATRIX

This is a table illustrating the related mid volatility value listed by the market for each maturity and strike of the options concerned. This table covers both cap and floor options.

SPREAD

To measure bonds issued by the Group (structured and otherwise), two types of spread are taken into consideration:

Rate spread: the spread on the floating rate indexed (for floating-rate securities) or the IRS rate for the same maturity (for fixed rate securities).

Price spread: represents the spread to be deducted from the theoretical price to take into account the degree of structural risk.

IMPLICIT VOLATILITY

This refers to the price volatility of listed options on a specific underlying asset.

For every maturity, the at-the-money value of the options is considered, or a weighted average of the price volatility of the listed options (albeit with different strikes) with the same maturity.

DIVIDEND YIELD

Among the measurement approaches, this is obtained as the annualised logarithm of the ratio between dividend and price, as recorded by the leading infoproviders (Bloomberg, Reuters, etc.) on maturities similar to those of the derivative under review.

For example, the main unobservable benchmarks can refer to:

CORRELATION

For correlation calculation, the logarithmic changes in the prices of the two assets concerned (exchange rate and price of the underlying) are used. Normally, the figures for the last 6 months are considered for this purpose.

HISTORIC VOLATILITY

If the implicit volatilities of the options are not listed, the historic volatility of the underlying instrument is used, measured on the basis of the standard deviation in logarithmic changes in their prices.

There are no significant observable inputs used to measure the fair value of level 3 assets and liabilities.

A.4.3 FAIR VALUE HIERARCHY

Any transfers from one fair value level to another in the hierarchy are made on the basis of developments in the characteristics of each security and in relation to criteria that distinguish the classification in the different levels of the fair value hierarchy. These are recognised twice a year, in the half-yearly and annual financial statements. The input levels that determine classification in a fair value level are listed in these financial statements in the paragraph "Inputs for fair value measurement" in Part A.2 - Part relating to the main financial statement items.

A.4.4 OTHER INFORMATION

The Bank does not manage groups of financial assets or liabilities on the basis of its own net exposure to market risks or credit risk.

QUANTITATIVE INFORMATION**A.4.5 FAIR VALUE HIERARCHY****A.4.5.1 ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE ON A RECURRING BASIS: BREAKDOWN BY FAIR VALUE LEVEL**

ASSETS/LIABILITIES DESIGNATED AT FAIR VALUE	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
1. FINANCIAL ASSETS HELD FOR TRADING	6,001	1,439	-	2,754	1,406	-
2. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	-	-	-	-	-	-
3. AVAILABLE-FOR-SALE FINANCIAL ASSETS	211,882	2,019	29,099	106,297	4,206	17,772
4. HEDGING DERIVATIVES	-	-	-	-	-	-
5. PROPERTY, PLANT AND EQUIPMENT	-	-	-	-	-	-
6. INTANGIBLE ASSETS	-	-	-	-	-	-
TOTAL	217,883	3,458	29,099	109,051	5,612	17,772
1. FINANCIAL LIABILITIES HELD FOR TRADING	-	669	-	-	1,405	-
2. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE	-	-	-	-	-	-
3. HEDGING DERIVATIVES	-	1,118	-	-	1,436	-
TOTAL	-	1,787	-	-	2,841	-

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

The CVA/DVA valuations are performed daily by the OTC Exchange Office of Banca Sella. Risk Management arranges second level sample checks after ex ante validation of the approach and market benchmarks used (agreed with the Finance Division).

The following table summarises the impact of the application of IFRS 13, broken down by derivative type:

NET IMPACT AT 31 DECEMBER 2017

	BANCA PATRIMONI SELLA & C.	
	CVA	DVA
IRS	-7	-
CAP_FLOOR	-	3
NDF_NON DELIVERABLE FORWARD	-79	-
OUTRIGHT	-10	-
IMPLICIT OPTIONS ON MORTGAGES	-	3
TOTAL	-96	6

A.4.5.2 CHANGES IN THE YEAR OF ASSETS DESIGNATED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	AVAILABLE- FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES	PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS
1. OPENING BALANCE	-	-	17,772	-	-	-
2. INCREASES	4,533	-	13,780	-	-	-
2.1. PURCHASES	4,455	-	7,057	-	-	-
2.2. GAINS RECOGNISED THROUGH:						
2.2.1. INCOME STATEMENT	78	-	293	-	-	-
- OF WHICH CAPITAL GAINS	78	-	46	-	-	-
2.2.2. SHAREHOLDERS' EQUITY	X	X	95	-	-	-
2.3. TRANSFER FROM OTHER LEVELS	-	-	535	-	-	-
2.4. OTHER INCREASES	-	-	5,800	-	-	-
3. DECREASES	4,534	-	2,454	-	-	-
3.1. SALES	4,534	-	1,133	-	-	-
3.2. REPAYMENTS	-	-	-	-	-	-
3.3. LOSSES RECOGNISED IN:						
3.3.1. INCOME STATEMENT	-	-	1,004	-	-	-
- OF WHICH CAPITAL LOSSES	-	-	15	-	-	-
3.3.2. SHAREHOLDERS' EQUITY	X	X	77	-	-	-
3.4. TRANSFERS TO OTHER LEVELS	-	-	-	-	-	-
3.5. OTHER DECREASES	-	-	240	-	-	-
4. CLOSING BALANCE	(1)	-	29,098	-	-	-

A.4.5.3 CHANGES IN THE YEAR OF LIABILITIES DESIGNATED AT FAIR VALUE ON A RECURRING BASIS (LEVEL 3)

Banca Patrimoni Sella & C. had no financial liabilities of this nature at 31 December 2017.

A.4.5.4 ASSETS AND LIABILITIES NOT DESIGNATED AT FAIR VALUE OR DESIGNATED AT FAIR VALUE ON A NON-RECURRING BASIS: BREAKDOWN BY FAIR VALUE LEVEL

ASSETS/LIABILITIES NOT DESIGNATED AT FAIR VALUE OR DESIGNATED AT FAIR VALUE ON A NON-RECURRING BASIS	31/12/2017				31/12/2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. FINANCIAL ASSETS HELD TO MATURITY	43,139	43,785	-	-	-	-	-	-
2. DUE FROM BANKS	616,109	-	-	616,110	884,697	-	493	884,197
3. DUE FROM CUSTOMERS	486,450	-	-	487,121	364,530	-	-	365,484
4. PROPERTY, PLANT AND EQUIPMENT HELD FOR INVESTMENT PURPOSES	5,301	-	-	6,500	5,367	-	-	6,500
5. NON-CURRENT ASSETS AND DISCONTINUED OPERATIONS	-	-	-	-	-	-	-	-
TOTAL	1,150,999	43,785	-	1,109,731	1,254,594	-	493	1,256,181
1. DUE TO BANKS	106,151	-	-	106,151	59,355	-	-	59,355
2. DUE TO CUSTOMERS	1,260,455	-	-	1,260,455	1,297,006	-	-	1,297,006
3. OUTSTANDING SECURITIES	-	-	-	-	-	-	-	-
4. LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	-	-	-	-	-	-	-	-
TOTAL	1,366,606	-	-	1,366,606	1,356,361	-	-	1,356,361

Key
BV=book value
L1=Level 1
L2=Level 2
L3=Level 3

A.5 - INFORMATION ON DAY ONE PROFIT/LOSS

IAS 39 envisages that the initial recognition of financial instruments in the financial statements must be at fair value, normally coinciding with the price at which the purchase transaction was concluded. IFRS 7 then envisages that if the security involved in the transaction is level 3, more discretion is possible in assessment of the price since there is no fixed and specific comparison for the fair value. In this case, initial recognition must always be at the price at which the purchase or sale was concluded, recognising the next fair value measurement as day one profit/loss. This rule clearly applies to the categories of securities for which designation at fair value in the income statement is envisaged and, with specific reference to the Bank's financial statements, to securities held for trading.

This being said, in 2017 no amounts were identified to be recognised as day one profit/loss in relation to the purchase of securities not listed on an active market and qualifying as HFT securities.

Part B - Information on the Balance Sheet

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 CASH AND CASH EQUIVALENTS: BREAKDOWN

	TOTAL 31/12/2017	TOTAL 31/12/2016
A) CASH	613	493
B) DEMAND DEPOSITS AT CENTRAL BANKS	-	-
TOTAL	613	493

SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING - ITEM 20

2.1 FINANCIAL ASSETS HELD FOR TRADING: BREAKDOWN BY TYPE

ITEM/VALUE	TOTAL 31/12/2017			TOTAL 31/12/2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
A. CASH ASSETS						
1. DEBT SECURITIES	3,923	842	-	2,536	50	-
1.1 STRUCTURED SECURITIES	-	-	-	-	-	-
1.2 OTHER DEBT SECURITIES	3,923	842	-	2,536	50	-
2. EQUITIES	1,907	-	-	-	-	-
3. UCITS UNITS	-	-	-	-	-	-
4. LOANS	-	-	-	-	-	-
4.1 REPURCHASE AGREEMENTS	-	-	-	-	-	-
4.2 OTHER	-	-	-	-	-	-
TOTAL A	5,830	842	-	2,536	50	-
B. DERIVATIVES						
1. FINANCIAL DERIVATIVES:	171	597	-	218	1,356	-
1.1 FOR TRADING	171	597	-	218	1,356	-
1.2 ASSOCIATED WITH THE FAIR VALUE OPTION	-	-	-	-	-	-
1.3 OTHER	-	-	-	-	-	-
2. CREDIT DERIVATIVES:	-	-	-	-	-	-
2.1 FOR TRADING	-	-	-	-	-	-
2.2 ASSOCIATED WITH THE FAIR VALUE OPTION	-	-	-	-	-	-
2.3 OTHER	-	-	-	-	-	-
TOTAL B	171	597	-	218	1,356	-
TOTAL (A+B)	6,001	1,439	-	2,754	1,406	-

2.2 FINANCIAL ASSETS HELD FOR TRADING: BREAKDOWN BY PAYEE/ISSUER

ITEM/VALUE	TOTAL 31/12/2017	TOTAL 31/12/2016
A. CASH ASSETS		
1. DEBT SECURITIES	4,765	2,586
A) GOVERNMENTS AND CENTRAL BANKS	399	-
B) OTHER PUBLIC ENTITIES	-	-
C) BANKS	842	1,264
D) OTHER ISSUERS	3,524	1,322
2. EQUITIES	1,907	-
A) BANKS	-	-
B) OTHER ISSUERS:	1,907	-
- INSURANCE COMPANIES	-	-
- FINANCIAL COMPANIES	1,413	-
- NON-FINANCIAL COMPANIES	494	-
- OTHER	-	-
3. UCITS UNITS	-	-
4. LOANS	-	-
A) GOVERNMENTS AND CENTRAL BANKS	-	-
B) OTHER PUBLIC ENTITIES	-	-
C) BANKS	-	-
D) OTHER ENTITIES	1	-
TOTAL A	6,673	2,586
B. DERIVATIVES		
A) BANKS	233	556
B) CUSTOMERS	534	1,018
TOTAL B	767	1,574
TOTAL (A+B)	7,440	4,160

Financial assets held for trading increased by EUR 3,280.3 thousand (78.9%) compared to the balances at 31 December 2016 due to the investment decisions made. For further details of the bank-owned portfolio, see paragraph 5.2 of the Management Report.

SECTION 4 - AVAILABLE-FOR-SALE FINANCIAL ASSETS - ITEM 40**4.1 AVAILABLE-FOR-SALE FINANCIAL ASSETS: BREAKDOWN BY TYPE**

ITEM/VALUE	31/12/2017			31/12/2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
1. DEBT SECURITIES	191,543	935	-	102,761	3,548	-
1.1 STRUCTURED SECURITIES	-	-	-	-	-	-
1.2 OTHER DEBT SECURITIES	191,543	935	-	102,761	3,548	-
2. EQUITIES	4,590	-	5,280	2,492	-	4,123
2.1 DESIGNATED AT FAIR VALUE	4,590	-	930	2,492	-	857
2.2 MEASURED AT COST	-	-	4,350	-	-	3,266
3. UCITS UNITS	15,749	1,084	12,776	1,044	658	8,406
4. LOANS	-	-	11,043	-	-	5,243
TOTAL	211,882	2,019	29,099	106,297	4,206	17,772

In the AFS portfolio, the equities include minority interests which at 31 December 2017 totalled EUR 8.5 million.

AFS IMPAIRMENT TESTING

As required by IFRS, financial instruments classified as AFS are impairment tested for any objective evidence to suggest that their recognition value is not fully recoverable.

The policy relating to impairment test management envisages testing for impairment indicators and the calculation of any related write-down. Impairment testing is performed quarterly (and any time there is clear objective evidence of impairment), in correspondence with measurements made for the interim reports, half-yearly report and annual financial statements, or in any event at any time it appears necessary following events that could have a negative impact on the value and degree of risk of the investment.

The analyses carried out determined the need to apply value adjustments to certain investments. Specifically to 2 AFS securities for a total of EUR 292.3 thousand⁸ and to 1 equity instrument classified as AFS for EUR 160 thousand⁹. In addition, following IDPF action in favour of the Caricesena, Carim and Carismi banks, arrangements were made to write down the equity instrument from subscription to the Voluntary Scheme for a total of EUR 573.4 thousand. Overall therefore, the net value adjustments made in 2017 for AFS impairment totalled EUR 1,025.7 thousand.

⁸ This refers to the bond OB.MICOPERI SPA 5.75% EUR 29APR20 written down by EUR 210 thousand and the bond OB.TUNDO 8% EUR 30NOV22 PUT written down by EUR 82 thousand.

⁹ This refers to the profit sharing in the film "Fai bei sogni" produced by IBC Movie.

4.2 AVAILABLE-FOR-SALE FINANCIAL ASSETS: BREAKDOWN BY PAYEE/ISSUER

ITEM/VALUE	TOTAL 31/12/2017	TOTAL 31/12/2016
1. DEBT SECURITIES	192,478	106,309
A) GOVERNMENTS AND CENTRAL BANKS	56,582	30,955
B) OTHER PUBLIC ENTITIES	-	-
C) BANKS	63,195	34,975
D) OTHER ISSUERS	72,701	40,379
2. EQUITIES	9,870	6,615
A) BANKS	2,098	2,098
B) OTHER ISSUERS:	7,772	4,517
- INSURANCE COMPANIES	-	-
- FINANCIAL COMPANIES	4,803	1,350
- NON-FINANCIAL COMPANIES	604	548
- OTHER	2,365	2,619
3. UCITS UNITS	29,609	10,108
4. LOANS	11,043	5,243
A) GOVERNMENTS AND CENTRAL BANKS	-	-
B) OTHER PUBLIC ENTITIES	-	-
C) BANKS	-	-
D) OTHER ENTITIES	11,043	5,243
TOTAL	243,000	128,275

During the year, no equity instruments were issued by entities classified as defaulted or delinquent were in the portfolio.

4.3 MICRO-HEDGED AVAILABLE-FOR-SALE FINANCIAL ASSETS

Banca Patrimoni Sella & C. had no financial assets of this nature at 31 December 2017.

AVAILABLE-FOR-SALE FINANCIAL ASSETS: BREAKDOWN OF UCITS UNITS

	31/12/2017	31/12/2016
EQUITIES	1,084	2,877
BALANCED	2,525	-
MONEY MARKET	-	-
BONDS	13,225	4,161
OTHER SEGMENT	12,775	3,070
TOTAL	29,609	10,108

SECTION 5 - FINANCIAL ASSETS HELD TO MATURITY - ITEM 50**5.1 FINANCIAL ASSETS HELD TO MATURITY: BREAKDOWN BY TYPE**

	TOTAL 31/12/2017				TOTAL 31/12/2016			
	BV	FV			BV	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
1. DEBT SECURITIES	43,139	43,785	-	-	-	-	-	-
- STRUCTURED	-	-	-	-	-	-	-	-
- OTHER	43,139	43,785	-	-	-	-	-	-
2. LOANS	-	-	-	-	-	-	-	-
TOTAL	43,139	43,785	-	-	-	-	-	-

Key
FV = fair value
BV = Book value

5.2 FINANCIAL ASSETS HELD TO MATURITY: PAYEE/ISSUER

TRANSACTION TYPE/VALUES	31/12/2017	31/12/2016
1. DEBT SECURITIES	43,139	-
A) GOVERNMENTS AND CENTRAL BANKS	37,943	-
B) OTHER PUBLIC ENTITIES	-	-
C) BANKS	1,055	-
D) OTHER ISSUERS	4,141	-
2 LOANS	-	-
A) GOVERNMENTS AND CENTRAL BANKS	-	-
B) OTHER PUBLIC ENTITIES	-	-
C) BANKS	-	-
D) OTHER ENTITIES	-	-
TOTAL	43,139	-
TOTAL FAIR VALUE	43,785	-

5.3 MICRO-HEDGED FINANCIAL ASSETS HELD TO MATURITY

Banca Patrimoni Sella & C. had no financial assets of this nature at 31 December 2017.

SECTION 6 - DUE FROM BANKS - ITEM 60**6.1 DUE FROM BANKS: BREAKDOWN BY TYPE**

TRANSACTION TYPE/VALUES	TOTAL 31/12/2017				TOTAL 31/12/2016			
	BV	FV			BV	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
A. DUE FROM CENTRAL BANKS	17,339	-	-	17,339	10,552	-	-	10,552
1. TERM DEPOSITS	-	X	X	X	-	X	X	X
2. COMPULSORY RESERVE	17,339	X	X	X	10,552	X	X	X
3. REPURCHASE AGREEMENTS	-	X	X	X	-	X	X	X
4. OTHER	-	X	X	X	-	X	X	X
B. DUE FROM BANKS	598,770	-	-	598,770	874,145	-	493	873,645
1. LOANS	598,770	-	-	598,770	873,645	-	-	873,645
1.1 CURRENT ACCOUNTS AND DEMAND DEPOSITS	597,425	X	X	X	857,919	X	X	X
1.2 TERM DEPOSITS	-	-	-	-	-	-	-	-
1.3 OTHER LOANS:	1,345	X	X	X	15,726	X	X	X
- REPURCHASE AGREEMENTS	-	X	X	X	-	X	X	X
- FINANCE LEASES	-	X	X	X	-	X	X	X
- OTHER	1,345	X	X	X	15,726	X	X	X
2. DEBT SECURITIES	-	-	-	-	500	-	493	-
2.1 STRUCTURED SECURITIES	-	X	X	X	-	X	X	X
2.2 OTHER DEBT SECURITIES	-	X	X	X	500	X	X	X
TOTAL	616,109	-	-	616,109	884,697	-	493	884,197

Key
FV=fair value
BV=book value

The amounts due from banks, except debt securities, are all on demand, and therefore the fair value is considered to be aligned with the book value.

The item Loans - Current accounts and demand deposits refers to liquidity deposited with Banca Sella Holding S.p.A. and, to a marginal extent, with Banca Sella S.p.A. As regards the TLTRO programme, the Bank subscribed for EUR 40 million, held as a term deposit with pledged securities at Banca Sella Holding S.p.A. The item Other loans - Other represents the portion of liquidity pledged with Banca Sella Holding S.p.A. to allow derivative transactions.

6.2 MICRO-HEDGED AMOUNTS DUE FROM BANKS

Banca Patrimoni Sella & C. has no outstanding amounts due to banks subject to micro hedging.

6.3 FINANCE LEASES

Banca Patrimoni Sella & C. has no outstanding finance lease agreements with banks.

SECTION 7 - DUE FROM CUSTOMERS - ITEM 70

7.1 DUE TO CUSTOMERS: BREAKDOWN BY TYPE

TRANSACTION TYPE/VALUES	TOTAL 31/12/2017					
	BOOK VALUE			FAIR VALUE		
	NON-PERFORMING					
	PERFORMING	PURCHASED	OTHER	L1	L2	L3
LOANS	485,080	-	1,370	-	-	487,121
1. CURRENT ACCOUNTS	214,431	-	276	X	X	X
2. REPURCHASE AGREEMENTS	-	-	-	X	X	X
3. MORTGAGES	137,326	-	855	X	X	X
4. CREDIT CARDS, PERSONAL LOANS AND SALARY-BASED LOANS	22,693	-	147	X	X	X
5. FINANCE LEASES	-	-	-	X	X	X
6. FACTORING	-	-	-	X	X	X
7. OTHER LOANS	110,630	-	92	X	X	X
DEBT SECURITIES	-	-	-	-	-	-
8. STRUCTURED SECURITIES	-	-	-	X	X	X
9. OTHER DEBT SECURITIES	-	-	-	X	X	X
TOTAL	485,080	-	1,370	-	-	487,121

The sub-item "Other loans" includes EUR 5.5 million relating to **operating loans**, represented by advances paid on bonuses pending maturity, disbursed to the private bankers on the basis of the agency agreement governing the relations. The remainder of "Other loans" mainly includes loans disbursed to Group companies (Biella Leasing and Consel) for a total of EUR 105 million.

7.2 DUE FROM CUSTOMERS: BREAKDOWN BY PAYEE/ISSUER

TRANSACTION TYPE/VALUES	TOTAL 31/12/2017			TOTAL 31/12/2016		
	NON-PERFORMING			NON-PERFORMING		
	PERFORMING	PURCHASED	OTHER	PERFORMING	PURCHASED	OTHER
1. DEBT SECURITIES	-	-	-	-	-	-
A) GOVERNMENT AUTHORITIES	-	-	-	-	-	-
B) OTHER PUBLIC ENTITIES	-	-	-	-	-	-
C) OTHER ISSUERS	-	-	-	-	-	-
- NON-FINANCIAL COMPANIES	-	-	-	-	-	-
- FINANCIAL COMPANIES	-	-	-	-	-	-
- INSURANCE	-	-	-	-	-	-
- OTHER	-	-	-	-	-	-
2. LOANS TO:	485,080	-	1,370	362,551	-	1,979
A) GOVERNMENT AUTHORITIES	-	-	-	-	-	-
B) OTHER PUBLIC ENTITIES	-	-	-	-	-	-
C) OTHER ENTITIES	485,080	-	1,370	362,551	-	1,979
- NON-FINANCIAL COMPANIES	110,866	-	526	97,222	-	1,140
- FINANCIAL COMPANIES	126,540	-	1	52,760	-	2
- INSURANCE	-	-	-	-	-	-
- OTHER	247,674	-	843	212,569	-	837
TOTAL	485,080	-	1,370	362,551	-	1,979

TOTAL 31/12/2016					
BOOK VALUE			FAIR VALUE		
NON-PERFORMING					
PERFORMING	PURCHASED	OTHER	L1	L2	L3
362,551	-	1,979	-	-	365,484
163,999	-	644	X	X	X
-	-	-	X	X	X
112,965	-	1,174	X	X	X
30,768	-	13	X	X	X
-	-	-	X	X	X
-	-	-	X	X	X
54,819	-	148	X	X	X
-	-	-	-	-	-
-	-	-	X	X	X
-	-	-	X	X	X
362,551	-	1,979	-	-	365,484

7.3 MICRO-HEDGED AMOUNTS DUE FROM CUSTOMERS

Banca Patrimoni Sella & C. has no outstanding amounts due to customers subject to micro hedging.

7.4 FINANCE LEASES

Banca Patrimoni Sella & C. has no outstanding finance lease agreements with customers.

**SECTION 9 - VALUE ADJUSTMENT TO FINANCIAL ASSETS
UNDERLYING MACRO HEDGES - ITEM 90****9.1 VALUE ADJUSTMENT TO THE HEDGED ASSETS: BREAKDOWN BY HEDGED PORTFOLIO**

VALUE ADJUSTMENT TO THE HEDGED ASSETS/VALUES	TOTAL 31/12/2017	TOTAL 31/12/2016
1. POSITIVE ADJUSTMENT	1,059	1,370
1.1 TO SPECIFIC PORTFOLIOS:	1,059	1,370
A) RECEIVABLES	1,059	1,370
B) AVAILABLE-FOR-SALE FINANCIAL ASSETS	-	-
1.2 GLOBAL	-	-
2. NEGATIVE ADJUSTMENT	-	-
2.1 TO SPECIFIC PORTFOLIOS:	-	-
A) RECEIVABLES	-	-
B) AVAILABLE-FOR-SALE FINANCIAL ASSETS	-	-
2.2 GLOBAL	-	-
TOTAL	1,059	1,370

9.2 ASSETS SUBJECT TO MACRO-HEDGING AGAINST INTEREST RATE RISK

HEDGED ASSETS	TOTAL 31/12/2017	TOTAL 31/12/2016
1. RECEIVABLES	5,604	7,837
2. AVAILABLE-FOR-SALE FINANCIAL ASSETS	-	-
3. PORTFOLIO	-	-
TOTAL	5,604	7,837

The value adjustment to financial assets subject to macro-hedging refers to the changes in fair value, attributable to interest rate fluctuations, in the receivables hedged, the total for which is shown in table 9.2 below.

The related hedging derivatives, negative at 31 December 2017, are reported under liability item 60 "Hedging derivatives".

The gains and losses from measurement of hedging derivatives and the hedged portfolio are recognised in item 90 "Net gains from hedging".

The total for macro-hedged receivables is EUR 5.6 million. In detail, this is a portfolio of fixed-rate mortgages recorded as due from customers in the financial statements.

SECTION 10 - INVESTMENTS - ITEM 100**10.1 INVESTMENTS: DISCLOSURE ON INVESTMENT RELATIONSHIPS**

NAME	REGISTERED OFFICE AND HQ	% INTEREST HELD	% VOTES HELD
A. FULLY CONTROLLED ENTITIES			
1. FAMILY ADVISORY SIM S.P.A. - SELLA & PARTNERS	TURIN	85.00%	85.00%
2. SELFID S.P.A.	TURIN	70.00%	70.00%
B. JOINTLY-CONTROLLED ENTITIES			
C. ENTITIES SUBJECT TO SIGNIFICANT INFLUENCE			

In 2017, Banca Patrimoni Sella & C. acquired a 70% interest in the trust company Selfid S.p.A. for a total of EUR 1.5 million. The investment is represented by 140,000 shares. Additional details in this respect can be found in paragraph 2 - "Events during the year" in the Management Report.

In 2010, Family Advisory SIM S.p.A. - Sella & Partners was established, a new investment firm of the Banca Sella Group in which Banca Patrimoni Sella & C. holds an interest equal to 85% of the share capital. Note that this interest is represented by 22,500 Class A shares (75% of the total shares in this class) and 20,000 Class B shares (the total shares in this class).

10.2 SIGNIFICANT INVESTMENTS: BOOK VALUE, FAIR VALUE AND DIVIDENDS RECEIVABLE

NAME	BOOK VALUE	FAIR VALUE	DIVIDENDS RECEIVABLE
A. FULLY CONTROLLED ENTITIES			
FAMILY ADVISORY SIM S.P.A. - SELLA & PARTNERS	430	430	-
SELFID S.P.A.	1,558	1,558	-
TOTAL	1,988	1,988	-

The fair value of investments is aligned to the book value at 31 December 2017. The impairment testing carried out confirmed the absence of indicators of impairment for determining any write-downs.

10.3 SIGNIFICANT INVESTMENTS: ACCOUNTING DATA

NAME	CASH AND CASH EQUIVALENTS	FINANCIAL ASSETS	NON-FINANCIAL ASSETS	FINANCIAL LIABILITIES	NON-FINANCIAL LIABILITIES	TOTAL REVENUE	INTEREST MARGIN
A. FULLY CONTROLLED ENTITIES							
SELFID S.P.A.	0	1,415	873		184	1,156	
FAMILY ADVISORY SIM S.P.A. - SELLA & PARTNERS	1	817	211		273	1,223	
B. JOINTLY-CONTROLLED ENTITIES							
C. ENTITIES SUBJECT TO SIGNIFICANT INFLUENCE							

10.4 MINORITY INTERESTS: ACCOUNTING DATA

Banca Patrimoni Sella & C. has no immaterial equity interests in companies subject to joint control or significant influence.

10.5 INVESTMENTS: CHANGES IN THE YEAR

	TOTAL 31/12/2017	TOTAL 31/12/2016
A. OPENING BALANCE	430	430
B. INCREASES	1,558	-
B.1 PURCHASES	1,558	-
B.2 REVERSALS	-	-
B.3 REVALUATIONS	-	-
B.4 OTHER CHANGES	-	-
C. DECREASES	-	-
C.1 SALES	-	-
C.2 VALUE ADJUSTMENTS	-	-
C.3 OTHER CHANGES	-	-
D. CLOSING BALANCE	1,988	430
E. TOTAL REVALUATIONS	-	-
F. TOTAL ADJUSTMENTS	-	-

The purchase made in 2017 refers to the 70% interest in the trust company Selfid S.p.A. The 85% interest in Family Advisory SIM S.p.A. did not change during 2017.

NET VALUE ADJUSTMENTS TO PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS	PROFIT (LOSS) FROM CURRENT OPERATIONS BEFORE TAX	PROFIT (LOSS) FROM CURRENT OPERATIONS AFTER TAX	GAINS (LOSSES) ON GROUPS OF ASSETS HELD FOR SALE AFTER TAX	PROFIT (LOSS) FOR THE YEAR (1)	OTHER INCOME COMPONENTS AFTER TAX (2)	COMPREHEN- SIVE INCOME (3) = (1) + (2)
(2)	1,385	1,366		1,366		1,366
(7)	110	70		70		70

10.6 - 10.7 COMMITMENTS REFERRING TO JOINT INTERESTS IN SUBSIDIARIES OR INVESTMENTS IN COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

Banca Patrimoni Sella & C. has no joint interests in subsidiaries or investments in companies subject to significant influence.

10.8 - SIGNIFICANT RESTRICTIONS

At the reporting date there were no significant restrictions.

10.9 - OTHER INFORMATION

For the purpose of impairment testing, as required by IFRS, the presence of indicators of impairment was assessed in order to determine any write-downs in reference to the aforementioned investments. Both companies (Family Advisory SIM S.p.A. and Selfid S.p.A.) closed 2017 in profit and at the reporting date there were no grounds to believe impairment tests were necessary.

SECTION 11 - PROPERTY, PLANT AND EQUIPMENT - ITEM 110**11.1 PROPERTY, PLANT AND EQUIPMENT FOR USE IN OPERATIONS: BREAKDOWN OF ASSETS MEASURED AT COST**

ASSET/VALUE	TOTAL 31/12/2017	TOTAL 31/12/2016
1. OWNED ASSETS	23,113	22,982
A) LAND	6,154	6,154
B) BUILDING	11,398	11,648
C) FIXTURES AND FITTINGS	3,597	3,037
D) ELECTRONIC SYSTEMS	532	540
E) OTHER	1,432	1,603
2. ASSETS ACQUIRED UNDER FINANCE LEASES	-	-
A) LAND	-	-
B) BUILDING	-	-
C) FIXTURES AND FITTINGS	-	-
D) ELECTRONIC SYSTEMS	-	-
E) OTHER	-	-
TOTAL	23,113	22,982

Property, plant and equipment for use in operations increased in 2017 by a total of EUR 130 thousand, particularly as a result of the opening or moving of branches or financial advisor offices, which led to greater investments in terms of fixtures, fittings and furnishings. For this purpose it is important to consider the expansion of the Naples branch, the change of premises of the Bologna branch and the branch openings in Lecce (in 2017) and Arzignano (beginning of 2018).

**11.2 PROPERTY, PLANT AND EQUIPMENT HELD FOR INVESTMENT PURPOSES:
BREAKDOWN OF ASSETS MEASURED AT COST**

ASSET/VALUE	TOTAL 31/12/2017				TOTAL 31/12/2016			
	FAIR VALUE				FAIR VALUE			
	BOOK VALUE	L1	L2	L3	BOOK VALUE	L1	L2	L3
1. OWNED ASSETS	5,302	-	-	6,500	5,367	-	-	6,500
A) LAND	2,277	-	-	2,600	2,277	-	-	2,600
B) BUILDING	3,025	-	-	3,900	3,090	-	-	3,900
2. ASSETS ACQUIRED UNDER FINANCE LEASES	-	-	-	-	-	-	-	-
A) LAND	-	-	-	-	-	-	-	-
B) BUILDING	-	-	-	-	-	-	-	-
TOTAL	5,302	-	-	6,500	5,367	-	-	6,500

11.3 PROPERTY, PLANT AND EQUIPMENT FOR USE IN OPERATIONS: BREAKDOWN OF REVALUED ASSETS

At the reporting date there were no items of property, plant and equipment used in operations designated at fair value or revalued.

**11.4 - PROPERTY, PLANT AND EQUIPMENT HELD FOR INVESTMENT PURPOSES:
BREAKDOWN OF ASSETS DESIGNATED AT FAIR VALUE**

At the reporting date there were no items of property, plant and equipment held for investment purposes designated at fair value.

11.5 PROPERTY, PLANT AND EQUIPMENT FOR USE IN OPERATIONS: CHANGES IN THE YEAR

ASSET/VALUE	LAND	BUILDING	FIXTURES AND FITTINGS	ELECTRONIC SYSTEMS	OTHER	TOTAL
A. GROSS OPENING BALANCE	6,154	12,694	4,795	2,327	3,869	29,839
A.1 DECREASES IN TOTAL NET VALUE	-	(1,046)	(1,758)	(1,787)	(2,266)	(6,857)
A.2 NET OPENING BALANCE	6,154	11,648	3,037	540	1,603	22,982
B. INCREASES	-	18	1,026	160	191	1,395
B.1 PURCHASES	-	18	1,026	160	191	1,395
- OF WHICH: BUSINESS COMBINATIONS	-	-	-	-	-	-
B.2 CAPITALISED IMPROVEMENT EXPENSES	-	-	-	-	-	-
B.3 REVERSALS	-	-	-	-	-	-
B.4 POSITIVE CHANGES IN FAIR VALUE	-	-	-	-	-	-
RECOGNISED:	-	-	-	-	-	-
- A) EQUITY	-	-	-	-	-	-
- B) INCOME STATEMENT	-	-	-	-	-	-
B.5 EXCHANGE GAINS	-	-	-	-	-	-
B.6 TRANSFERS FROM PROPERTY HELD FOR INVESTMENT PURPOSES	-	-	-	-	-	-
B.7 OTHER CHANGES	-	-	-	-	-	-
C. DECREASES	-	268	466	167	363	1,264
C.1 SALES	-	-	2	-	-	2
- OF WHICH:	-	-	-	-	-	-
BUSINESS COMBINATIONS	-	-	-	-	-	-
C.2 DEPRECIATION	-	268	463	166	363	1,260
C.3 IMPAIRMENT LOSSES	-	-	-	-	-	1
RECOGNISED:	-	-	-	-	-	1
- A) EQUITY	-	-	-	-	-	-
- B) INCOME STATEMENT	-	-	-	-	-	1
C.4 NEGATIVE CHANGES IN FAIR VALUE	-	-	-	-	-	-
RECOGNISED:	-	-	-	-	-	-
- A) EQUITY	-	-	-	-	-	-
- B) INCOME STATEMENT	-	-	-	-	-	-
C.5 EXCHANGE LOSSES	-	-	-	-	-	-
C.6 TRANSFERS TO:	-	-	-	-	-	-
- A) PROPERTY, PLANT AND EQUIPMENT HELD FOR INVESTMENT PURPOSES	-	-	-	-	-	-
- B) DISCONTINUED OPERATIONS	-	-	-	-	-	-
C.7 OTHER CHANGES	-	-	1	1	-	2
D. NET CLOSING BALANCE	6,154	11,398	3,597	533	1,431	23,113
D.1 DECREASES IN TOTAL NET VALUE	-	(1,314)	(2,166)	(1,953)	(2,598)	(8,031)
D.2 GROSS CLOSING BALANCE	6,154	12,712	5,763	2,486	4,029	31,144
E. MEASUREMENT AT COST	-	-	-	-	-	-

Items "A1" and "D1 - Decreases in total net value" include the amounts relating to depreciation provisions to align the book value of the asset to its recoverable value. Sub-item "E - Measurement at cost" has no value in accordance with Bank of Italy instructions, since its completion is envisaged only for property, plant and equipment designated at fair value.

11.6 PROPERTY, PLANT AND EQUIPMENT HELD FOR INVESTMENT PURPOSES: CHANGES IN THE YEAR

	TOTAL	
	LAND	BUILDING
A. OPENING BALANCE	2,277	3,089
B. INCREASES	-	6
B.1 PURCHASES	-	6
- OF WHICH: BUSINESS COMBINATIONS	-	-
B.2 CAPITALISED IMPROVEMENT EXPENSES	-	-
B.3 POSITIVE CHANGES IN FAIR VALUE	-	-
B.4 REVERSALS	-	-
B.5 EXCHANGE GAINS	-	-
B.6 TRANSFERS FROM PROPERTY FOR USE IN OPERATIONS	-	-
B.7 OTHER CHANGES	-	-
C. DECREASES	-	71
C.1 SALES	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-
C.2 DEPRECIATION	-	71
C.3 NEGATIVE CHANGES IN FAIR VALUE	-	-
C.4 IMPAIRMENT LOSSES	-	-
C.5 EXCHANGE LOSSES	-	-
C.6 TRANSFERS TO OTHER ASSET PORTFOLIOS	-	-
A) PROPERTY FOR USE IN OPERATIONS	-	-
B) NON-CURRENT ASSETS HELD FOR SALE	-	-
C.7 OTHER CHANGES	-	-
D. CLOSING BALANCE	2,277	3,024
E. DESIGNATED AT FAIR VALUE	2,600	3,900

11.7 COMMITMENTS TO PURCHASE PROPERTY, PLANT AND EQUIPMENT (IAS 16/74.C)

At 31 December 2017, Banca Patrimoni Sella & C. had no outstanding commitments to purchase property, plant and equipment.

SECTION 12 - INTANGIBLE ASSETS - ITEM 120**12.1 INTANGIBLE ASSETS: BREAKDOWN BY ASSET TYPE**

ASSET/VALUE	TOTAL 31/12/2017		TOTAL 31/12/2016	
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE
A.1 GOODWILL	X	-	X	-
A.2 OTHER INTANGIBLE ASSETS	3,154	-	2,530	-
A.2.1 ASSETS MEASURED AT COST:	3,154	-	2,530	-
A) INTANGIBLE ASSETS GENERATED INTERNALLY	-	-	-	-
B) OTHER ASSETS	3,154	-	2,530	-
A.2.2 ASSETS DESIGNATED AT FAIR VALUE:	-	-	-	-
A) INTANGIBLE ASSETS GENERATED INTERNALLY	-	-	-	-
B) OTHER ASSETS	-	-	-	-
TOTAL	3,154	-	2,530	-

12.2 INTANGIBLE ASSETS: CHANGES IN THE YEAR

	GOODWILL	OTHER INTANGIBLE ASSETS: GENERATED INTERNALLY		OTHER INTANGIBLE ASSETS:		TOTAL
		FINITE	INDEFINITE	FINITE	INDEFINITE	
A. OPENING BALANCE	-	-	-	11,343	-	11,343
A.1 DECREASES IN TOTAL NET VALUE	-	-	-	(8,813)	-	(8,813)
A.2 NET OPENING BALANCE	-	-	-	2,530	-	2,530
B. INCREASES	-	-	-	1,427	-	1,427
B.1 PURCHASES	-	-	-	1,427	-	1,427
- OF WHICH: BUSINESS COMBINATIONS	-	-	-	-	-	-
B.2 INCREASE IN INTERNALLY-GENERATED INTANGIBLE ASSETS	X	-	-	-	-	-
B.3 REVERSALS	X	-	-	-	-	-
B.4 POSITIVE CHANGES IN FAIR VALUE	-	-	-	-	-	-
- IN EQUITY	X	-	-	-	-	-
- IN THE INCOME STATEMENT	X	-	-	-	-	-
B.5 EXCHANGE GAINS	-	-	-	-	-	-
B.6 OTHER CHANGES	-	-	-	-	-	-
C. DECREASES	-	-	-	803	-	803
C.1 SALES	-	-	-	-	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-	-	-	-	-
C.2 VALUE ADJUSTMENTS	-	-	-	803	-	803
- AMORTISATION	X	-	-	803	-	803
- WRITE-DOWNS	-	-	-	-	-	-
+ SHAREHOLDERS' EQUITY	X	-	-	-	-	-
+ INCOME STATEMENT	-	-	-	-	-	-
C.3 NEGATIVE CHANGES IN FAIR VALUE	-	-	-	-	-	-
- IN EQUITY	X	-	-	-	-	-
- IN THE INCOME STATEMENT	X	-	-	-	-	-
C.4 TRANSFERS TO NON-CURRENT ASSETS HELD FOR SALE	-	-	-	-	-	-
C.5 EXCHANGE LOSSES	-	-	-	-	-	-
C.6 OTHER CHANGES	-	-	-	-	-	-
D. NET CLOSING BALANCE	-	-	-	3,154	-	3,154
D.1 TOTAL NET VALUE ADJUSTMENTS	-	-	-	(9,616)	-	(9,616)
E. GROSS CLOSING BALANCE	-	-	-	12,770	-	12,770
F. MEASUREMENT AT COST	-	-	-	-	-	-

Purchases refer essentially to new IT installations made during the year for projects in progress. Specifically, they can be summarised as follows:

- automation of off-premises operations and graphometric signatures
- IT development and upgrades for Mifid 2
- development and upgrades for various IT programmes used by the Bank.

12.3 - OTHER INFORMATION

There is no information to report other than that already provided in this Section.

SECTION 13 - TAX ASSETS AND LIABILITIES - ASSET ITEM 130 AND LIABILITY ITEM 80**CURRENT TAX ASSETS: BREAKDOWN**

	TOTAL 31/12/2017	TOTAL 31/12/2016
PAYMENTS ON ACCOUNT TO TAX AUTHORITIES	2,910	4,788
RECEIVABLES FOR WITHHOLDINGS	-	1
ASSETS FOR ADOPTION OF THE TAX CONSOLIDATION	-	-
DUE FROM TAX AUTHORITIES	994	984
TOTAL	3,904	5,773

The current tax assets reduced as a result of lower payments on account made in 2017. The payments on account made to the Tax Authorities reflect IRES and IRAP tax payments for 2017, net of tax credits used, which at 31 December 2017 were fully offset against excess payments on account made in previous years. Vice versa, these credits include the ACE (Aid to Economic Development) tax benefits of EUR 276 thousand obtained after a ruling request for 2016 submitted to the Italian Inland Revenue and accepted in the Bank's favour on 29 November 2017.

Due from tax authorities mainly refers to:

- the Art Bonus¹⁰ (EUR 10,833);
- the contribution to production of the film "Fai bei sogni"¹¹ (EUR 160,000);
- the reimbursement claims made pursuant to art. 6, Italian Decree Law no. 185 of 29 November 2008 (IRAP deduction for labour costs from the IRAP taxable amount for 2003 to 2011 (EUR 814,892).

¹⁰ Pursuant to art. 1, Italian Law Decree no. 83 of 31 May 2014, "Urgent measures for the protection of cultural heritage, culture development and the relaunch of tourism", converted with amendments to Italian Law no. 106 of 29 July 2014, as amended, a tax credit was introduced for cash donations made to support culture and theatrical arts, the "Art Bonus", as patronage in favour of cultural heritage.

¹¹ Cinematographic tax credit (art. 1, paragraph 327, Italian Law 244/2007 and Decree of 7 May 2009 on "cinematographic producers' tax credits") - The provisions on the Cinematographic Tax Credit envisage the option of offsetting tax payables (IRES, IRAP, IRPEF, VAT, social security and insurance contributions) with the credit accrued following an investment in the film industry. The beneficiaries are cinema production and distribution companies, production and post-production companies (technical industries) and businesses not pertaining to the cinema and audio-visual industry but are associate investors in a cinematographic work.

CURRENT TAX LIABILITIES: BREAKDOWN

	TOTAL 31/12/2017	TOTAL 31/12/2016
PROVISION FOR DIRECT TAXES	6,109	3,450
PROVISION FOR INDIRECT TAXES	-	-
TOTAL	6,109	3,450

The provision for direct taxes reflects the allocation for the year for IRES income tax and IRAP regional tax on production. As regards the provision for IRES taxes, it should be emphasised that this liability is considered payable by the Parent Company, since Banca Patrimoni Sella & C. has adopted the national tax consolidation.

13.1 DEFERRED TAX ASSETS: BREAKDOWN

	IRES	IRAP	OTHER	31/12/2017	31/12/2016
LOSSES ON RECEIVABLES	66	15	-	81	89
PROVISIONS FOR OTHER RISKS AND CHARGES	1,354	-	-	1,354	1,427
PROPERTY DEPRECIATION AND APPRAISAL	132	30	-	162	149
OTHER ADMINISTRATIVE EXPENSE	10	-	-	10	76
WRITE-DOWN OF INVESTMENTS	-	-	-	-	-
PERSONNEL EXPENSE	-	-	-	-	-
COLLECTIVE MEASUREMENT OF GUARANTEES GIVEN	1	-	-	1	2
MARS MORTGAGES	-	-	-	-	-
GOODWILL AND EXPENSE ASSOCIATED WITH BUSINESS UNIT PURCHASE	584	118	-	702	780
PART DERIVING FROM TAX LOSSES THAT CAN BE CARRIED FORWARD	-	-	-	-	-
MEASUREMENT OF AFS FINANCIAL ASSETS	-	6	-	6	1
RELEASE OF CONSOLIDATED GOODWILL	-	-	-	-	-
OTHER ASSETS	61	-	-	61	72
TOTAL DEFERRED TAX ASSETS (WITH BALANCING ENTRY IN THE INCOME STATEMENT)	2,208	169	-	2,377	2,596
PROPERTY DEPRECIATION AND APPRAISAL	-	-	-	-	-
MEASUREMENT OF AFS FINANCIAL ASSETS	313	78	-	391	500
OTHER ASSETS	-	-	-	-	-
TOTAL DEFERRED TAX ASSETS (WITH BALANCING ENTRY IN SHAREHOLDERS' EQUITY)	313	78	-	391	500

13.2 DEFERRED TAX LIABILITIES: BREAKDOWN

	IRES	IRAP	OTHER	31/12/2017	31/12/2016
GAINS (LOSSES) FROM DISPOSAL OF AVAILABLE-FOR-SALE FINANCIAL ASSETS	-	-	-	-	50
CALCULATION DIFFERENCE IN DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	-	-	-	-	-
CALCULATION DIFFERENCE IN AMORTISATION OF INTANGIBLE ASSETS	-	-	-	-	-
CONTRIBUTIONS TO TRAINING COSTS	-	-	-	-	-
DISCOUNTING OF PROVISIONS FOR OTHER RISKS AND CHARGES	-	-	-	-	1
MARS MORTGAGES	-	-	-	-	-
DISCOUNTING OF EMPLOYEE SEVERANCE INDEMNITY	-	-	-	-	-
CAPITAL GAIN ON BUSINESS UNIT DISPOSAL	-	-	-	-	-
IMPAIRMENT OF RECEIVABLES	-	-	-	-	-
GOODWILL	-	-	-	-	-
OTHER LIABILITIES	8	2	-	10	-
TOTAL DEFERRED TAX LIABILITIES (WITH BALANCING ENTRY IN THE INCOME STATEMENT)	8	2	-	10	51
MEASUREMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS	58	18	-	76	294
MEASUREMENT OF PROPERTY, PLANT AND EQUIPMENT	-	-	-	-	-
CAPITAL GAIN ON BUSINESS UNIT DISPOSAL	-	-	-	-	-
PROPERTY DEPRECIATION AND APPRAISAL	-	-	-	-	-
OTHER LIABILITIES	-	-	-	-	-
TOTAL DEFERRED TAX LIABILITIES (WITH BALANCING ENTRY IN SHAREHOLDERS' EQUITY)	58	18	-	76	294

13.3 CHANGES IN DEFERRED TAX ASSETS (WITH BALANCING ENTRY IN THE INCOME STATEMENT)

	TOTAL 31/12/2017	TOTAL 31/12/2016
1. OPENING BALANCE	2,596	2,701
2. INCREASES	319	270
2.1 DEFERRED TAX ASSETS RECOGNISED DURING THE YEAR	319	270
A) RELATING TO PREVIOUS YEARS	57	-
B) DUE TO CHANGES IN ACCOUNTING POLICIES	-	-
C) REVERSALS	-	-
D) OTHER	262	270
2.2 NEW TAXES OR TAX RATE INCREASES	-	-
2.3 OTHER INCREASES	-	-
- BUSINESS COMBINATIONS	-	-
3. DECREASES	536	375
3.1 DEFERRED TAX ASSETS CANCELLED DURING THE YEAR	536	375
A) REVERSALS	486	375
B) WRITE-DOWNS FOR UNCOLLECTIBLE AMOUNTS	-	-
C) CHANGES IN ACCOUNTING POLICIES	-	-
D) OTHER	50	-
3.2 TAX RATE DECREASES	-	-
3.3 OTHER DECREASES	-	-
A) TRANSFORMATION INTO TAX CREDITS, LAW 214/2011	-	-
B) OTHER	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-
4. CLOSING BALANCE	2,379	2,596

The increases in item "2.1 d) Other" include the deferred tax assets recognised for the year in relation to costs becoming taxable in years after 2017.

The decreases in item "3.1 a) Reversals" include the deferred tax assets used during the year against costs from previous years becoming taxable in 2017.

13.3.1 CHANGES IN DEFERRED TAX ASSETS PURSUANT TO ITALIAN LAW 214/2011 (WITH BALANCING ENTRY IN THE INCOME STATEMENT)

	TOTAL 31/12/2017	TOTAL 31/12/2016
1. OPENING BALANCE	869	952
2. INCREASES	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-
3. DECREASES	86	83
3.1 REVERSALS	86	83
3.2 TRANSFORMATION INTO TAX CREDITS	-	-
A) DERIVING FROM LOSSES FOR THE YEAR	-	-
B) DERIVING FROM TAX LOSSES	-	-
3.3 OTHER DECREASES	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-
4. CLOSING BALANCE	783	869

13.4 CHANGES IN DEFERRED TAX LIABILITIES (WITH BALANCING ENTRY IN THE INCOME STATEMENT)

	TOTAL 31/12/2017	TOTAL 31/12/2016
1. OPENING BALANCE	51	1
2. INCREASES	51	66
2.1 DEFERRED TAX LIABILITIES RECOGNISED DURING THE YEAR	51	66
A) RELATING TO PREVIOUS YEARS	-	-
B) DUE TO CHANGES IN ACCOUNTING POLICIES	-	-
C) OTHER	51	66
2.2 NEW TAXES OR TAX RATE INCREASES	-	-
2.3 OTHER INCREASES	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-
3. DECREASES	92	17
3.1 DEFERRED TAX LIABILITIES CANCELLED DURING THE YEAR	92	17
A) REVERSALS	92	17
B) DUE TO CHANGES IN ACCOUNTING POLICIES	-	-
C) OTHER	-	-
3.2 TAX RATE DECREASES	-	-
3.3 OTHER DECREASES	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-
4. CLOSING BALANCE	10	50

13.5 CHANGES IN DEFERRED TAX ASSETS (WITH BALANCING ENTRY IN SHAREHOLDERS' EQUITY)

	TOTAL 31/12/2017	TOTAL 31/12/2016
1. OPENING BALANCE	500	17
2. INCREASES	171	483
2.1 DEFERRED TAX ASSETS RECOGNISED DURING THE YEAR	171	483
A) RELATING TO PREVIOUS YEARS	-	-
B) DUE TO CHANGES IN ACCOUNTING POLICIES	-	-
C) OTHER	171	483
2.2 NEW TAXES OR TAX RATE INCREASES	-	-
2.3 OTHER INCREASES	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-
3. DECREASES	279	-
3.1 DEFERRED TAX ASSETS CANCELLED DURING THE YEAR	279	-
A) REVERSALS	279	-
B) WRITE-DOWNS FOR UNCOLLECTIBLE AMOUNTS	-	-
C) DUE TO CHANGES IN ACCOUNTING POLICIES	-	-
D) OTHER	-	-
3.2 TAX RATE DECREASES	-	-
3.3 OTHER DECREASES	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-
4. CLOSING BALANCE	392	500

The increases in item "2.1 c) Other" include the deferred tax assets recognised for the year in relation to capital losses from the measurement of AFS securities becoming taxable at the time of actual realisation.

The decreases in item "3.1 a) Reversals" include the use of tax assets which reflect the change in valuation of AFS securities during 2017.

13.6 CHANGES IN DEFERRED TAX LIABILITIES (WITH BALANCING ENTRY IN SHAREHOLDERS' EQUITY)

	TOTAL 31/12/2017	TOTAL 31/12/2016
1. OPENING BALANCE	294	231
2. INCREASES	37	95
2.1 DEFERRED TAX LIABILITIES RECOGNISED DURING THE YEAR	37	95
A) RELATING TO PREVIOUS YEARS	-	-
B) DUE TO CHANGES IN ACCOUNTING POLICIES	-	-
C) OTHER	37	95
2.2 NEW TAXES OR TAX RATE INCREASES	-	-
2.3 OTHER INCREASES	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-
3. DECREASES	255	32
3.1 DEFERRED TAX LIABILITIES CANCELLED DURING THE YEAR	255	32
A) REVERSALS	255	32
B) DUE TO CHANGES IN ACCOUNTING POLICIES	-	-
C) OTHER	-	-
3.2 TAX RATE DECREASES	-	-
3.3 OTHER DECREASES	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-
4. CLOSING BALANCE	76	294

The increases in item "2.1 c) Other" include the deferred tax assets recognised for the year in relation to capital gains from the measurement of AFS securities becoming taxable at the time of actual realisation.

13.7 - OTHER INFORMATION

There is no information to report other than that already provided in this Section.

SECTION 15 - OTHER ASSETS - ITEM 150**15.1 OTHER ASSETS: BREAKDOWN**

	TOTAL 31/12/2017	TOTAL 31/12/2016
PAYMENT INSTRUCTIONS FROM OTHERS PENDING DEBIT	3	-
CURRENT ACCOUNT CHEQUES DRAWN ON THIRD PARTIES	2,561	751
CURRENT ACCOUNT CHEQUES DRAWN ON THE BANK	11	-
ADVANCES ON COMMISSIONS	158	380
FEES, COMMISSIONS AND OTHER INCOME PENDING DEBIT	21,834	16,242
LEASEHOLD IMPROVEMENT EXPENSE	1,667	1,678
ADVANCES TO SUPPLIERS AND TRADE RECEIVABLES	238	124
CHARGES/INVOICES TO BE ISSUED TO CUSTOMERS	4,818	3,885
CHARGES FOR DISPUTED ITEMS NOT DERIVING FROM LENDING TRANSACTIONS	167	175
PREPAID EXPENSE	10,778	11,459
TAX CREDITS (NOT INCOME TAX)	15,501	15,035
INVENTORIES	46	66
GOLD, SILVER AND PRECIOUS METALS	32	36
CUSTOMERS FOR SECURITIES AND CURRENCY PURCHASES PENDING DEBIT	82	92
OTHER	1,300	367
TOTAL	59,196	50,290

Other assets increased compared to 31 December 2016, mainly as a result

of the impact of the increase in “Fees, commissions and other income pending debit”.

The main reasons for this increase are attributable to

- management commissions, which increased from EUR 6.9 million at 31 December 2016 to EUR 9.6 million at 31 December 2017. This accounting item includes management commissions for the fourth quarter, as well as overperformance commissions for the entire year, which are debited in January of the following year;
- receivables due from product companies, relating to commission income due for collection from the product companies in the next year. This item increased by around EUR 1.3 million as the receivables rose from approximately EUR 4.2 million at the end of 2016 to EUR 5.4 million at 31 December 2017.

Also note the increase recorded in receivables from stamp duty to be charged to customers, up from EUR 4.2 million at 31 December 2016 to EUR 5.7 million at 31 December 2017. This type of receivable is also included in the table item “Fees, commissions and other income pending debit”.

The sub-item “Prepaid expense” totalled EUR 10,778 thousand, **of which EUR 9.9 million referring to prepaid expense on sales commission bonuses paid to financial advisors**, for which maturity has not yet been completed because the related stability agreements have not yet terminated.

In line with previous years, the sub-item “Other” includes residual credit positions mainly attributable to receivables due from third parties for amounts subject to credit collection. To compare the sub-item “Other” with 31 December 2016 it is important to consider that in last year’s financial statements it also included the items “Inventories”, “Gold, silver and precious metals” and “Customers for securities and currency purchases pending debit”, now illustrated separately in the table, for EUR 525 thousand.

Part B – Information on the Balance Sheet

LIABILITIES

SECTION 1 - DUE TO BANKS - ITEM 10

1.1 DUE TO BANKS: BREAKDOWN BY TYPE

TRANSACTION TYPE/VALUES	TOTAL 31/12/2017	TOTAL 31/12/2016
1. DUE TO CENTRAL BANKS	-	-
2. DUE TO BANKS	106,151	59,355
2.1 CURRENT ACCOUNTS AND DEMAND DEPOSITS	66,314	44,382
2.2 TERM DEPOSITS	39,831	14,969
2.3 LOANS	-	-
2.3.1 REVERSE REPURCHASE AGREEMENTS	-	-
2.3.2 OTHER	-	-
2.4 LIABILITIES FOR COMMITMENTS TO REPURCHASE OWN EQUITY INSTRUMENTS	-	-
2.5 OTHER PAYABLES	6	4
TOTAL	106,151	59,355
FAIR VALUE - LEVEL 1	-	-
FAIR VALUE - LEVEL 2	-	-
FAIR VALUE - LEVEL 3	106,151	59,355
TOTAL FAIR VALUE	106,151	59,355

The amounts due to banks are all on demand, and therefore the fair value is considered to be aligned with the book value.

The increase in amounts due to banks in the form of current accounts and demand deposits is due:

- partly to the increase in balances on correspondence accounts in EUR with Banca Sella Holding for the TLTRO programme subscription, based on which BSH disbursed a loan of EUR 40 million. At 31 December 2016, BPA's subscription to the TLTRO programme was EUR 15 million;
- partly to the increase in payables to certain banks due to their decision to invest in Banca Patrimoni Sella & C. asset management.

1.2 - BREAKDOWN OF ITEM 10 "DUE TO BANKS": SUBORDINATED DEBT

At 31 December 2017, Banca Patrimoni Sella & C. had no outstanding subordinated debt owed to banks.

1.3 - BREAKDOWN OF ITEM 10 "DUE TO BANKS": STRUCTURED DEBT

At 31 December 2017, Banca Patrimoni Sella & C. had no outstanding structured debt owed to banks.

1.4 - MICRO-HEDGED AMOUNTS DUE TO BANKS

At 31 December 2017, Banca Patrimoni Sella & C. had no outstanding debt owed to banks subject to micro hedging.

1.5 - FINANCE LEASE PAYABLES

At 31 December 2017, Banca Patrimoni Sella & C. had no outstanding finance lease payables.

SECTION 2 - DUE TO CUSTOMERS - ITEM 20**2.1 DUE TO CUSTOMERS: BREAKDOWN BY TYPE**

TRANSACTION TYPE/VALUES	TOTAL 31/12/2017	TOTAL 31/12/2016
1. CURRENT ACCOUNTS AND DEMAND DEPOSITS	1,253,726	1,289,605
2. TERM DEPOSITS	2,133	2,723
3. LOANS	8	6
3.1 REVERSE REPURCHASE AGREEMENTS	8	6
3.2 OTHER	-	-
4. LIABILITIES FOR COMMITMENTS TO REPURCHASE OWN EQUITY INSTRUMENTS	-	-
5. OTHER PAYABLES	4,588	4,672
TOTAL	1,260,455	1,297,006
FAIR VALUE - LEVEL 1	-	-
FAIR VALUE - LEVEL 2	-	-
FAIR VALUE - LEVEL 3	1,260,455	1,297,006
TOTAL FAIR VALUE	1,260,455	1,297,006

With reference to the fair value, as the amounts due to banks are primarily on demand, it is considered that this is aligned with the book value.

2.2 - BREAKDOWN OF ITEM 20 "DUE TO CUSTOMERS": SUBORDINATED DEBT

At 31 December 2017, Banca Patrimoni Sella & C. had no outstanding subordinated debt owed to customers.

2.3 - BREAKDOWN OF ITEM 20 "DUE TO CUSTOMERS": STRUCTURED DEBT

At 31 December 2017, Banca Patrimoni Sella & C. had no outstanding structured debt owed to customers.

2.4 - MICRO-HEDGED AMOUNTS DUE TO CUSTOMERS

At 31 December 2017, Banca Patrimoni Sella & C. had no outstanding debt owed to customers subject to micro hedging.

2.5 - FINANCE LEASE PAYABLES

At 31 December 2017, Banca Patrimoni Sella & C. had no outstanding amounts owed to customers on finance leases.

SECTION 4 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 40**4.1 FINANCIAL LIABILITIES HELD FOR TRADING: BREAKDOWN BY TYPE**

TRANSACTION TYPE/VALUES	TOTAL 31/12/2017					TOTAL 31/12/2016				
	NV	FV				NV	FV			
		L1	L2	L3	FV*		L1	L2	L3	FV*
A. CASH LIABILITIES										
1. DUE TO BANKS	-	-	-	-	-	-	-	-	-	-
2. DUE TO CUSTOMERS	-	-	-	-	-	-	-	-	-	-
3. DEBT SECURITIES	-	-	-	-	-	-	-	-	-	-
3.1 BONDS	-	-	-	-	-	-	-	-	-	-
3.1.1 STRUCTURED	-	-	-	-	X	-	-	-	-	X
3.1.2 OTHER BONDS	-	-	-	-	X	-	-	-	-	X
3.2 OTHER SECURITIES	-	-	-	-	-	-	-	-	-	-
3.2.1 STRUCTURED	-	-	-	-	X	-	-	-	-	X
3.2.2 OTHER	-	-	-	-	X	-	-	-	-	X
TOTAL A	-	-	-	-	-	-	-	-	-	-
B. DERIVATIVES										
1. FINANCIAL DERIVATIVES	X	-	669	-	X	X	-	1,405	-	X
1.1 FOR TRADING	X	-	669	-	X	X	-	1,405	-	X
1.2 ASSOCIATED WITH THE FAIR VALUE OPTION	X	-	-	-	X	X	-	-	-	X
1.3 OTHER	X	-	-	-	X	X	-	-	-	X
2. CREDIT DERIVATIVES	X	-	-	-	X	X	-	-	-	X
2.1 FOR TRADING	X	-	-	-	X	X	-	-	-	X
2.2 ASSOCIATED WITH THE FAIR VALUE OPTION	X	-	-	-	X	X	-	-	-	X
2.3 OTHER	X	-	-	-	X	X	-	-	-	X
TOTAL B	X	-	669	-	X	X	-	1,405	-	X
TOTAL (A+B)	X	-	669	-	X	X	-	1,405	-	X

Key
 FV = fair value
 FV* = fair value calculated by excluding changes in value due to changes in the issuer credit rating compared to the issue date

NV = nominal or notional value
 L1 = Level 1
 L2 = Level 2
 L3 = Level 3

4.2 - BREAKDOWN OF ITEM 40 "FINANCIAL LIABILITIES HELD FOR TRADING": SUBORDINATED DEBT

At 31 December 2017, Banca Patrimoni Sella & C. had no subordinated debt classified under "Financial liabilities held for trading".

4.3 - BREAKDOWN OF ITEM 40 "FINANCIAL LIABILITIES HELD FOR TRADING": STRUCTURED DEBT

At 31 December 2017, Banca Patrimoni Sella & C. had no structured debt classified under "Financial liabilities held for trading".

SECTION 6 - HEDGING DERIVATIVES - ITEM 60**6.1 HEDGING DERIVATIVES: BREAKDOWN BY HEDGE TYPE AND HIERARCHY LEVEL**

	FAIR VALUE 31/12/2017			NV 31/12/2017	FAIR VALUE 31/12/2016			NV 31/12/2016
	L1	L2	L3		L1	L2	L3	
A. FINANCIAL DERIVATIVES	-	1,118	-	6,700	-	1,436	-	7,506
1) FAIR VALUE	-	1,118	-	6,700	-	1,436	-	7,506
2) CASH FLOW	-	-	-	-	-	-	-	-
3) FOREIGN INVESTMENTS	-	-	-	-	-	-	-	-
B. CREDIT DERIVATIVES	-	-	-	-	-	-	-	-
1) FAIR VALUE	-	-	-	-	-	-	-	-
2) CASH FLOW	-	-	-	-	-	-	-	-
TOTAL	-	1,118	-	6,700	-	1,436	-	7,506

Key
 NV = nominal or notional value
 L1 = Level 1
 L2 = Level 2
 L3 = Level 3

6.2 HEDGING DERIVATIVES: BREAKDOWN BY PORTFOLIOS HEDGED AND BY HEDGE TYPE

TRANSACTION/HEDGE TYPE	FAIR VALUE				
	MICRO				
	INTEREST RATE RISK	EXCHANGE RATE RISK	CREDIT RISK	PRICE RISK	MULTIPLE RISK
1. AVAILABLE-FOR-SALE FINANCIAL ASSETS	-	-	-	-	-
2. RECEIVABLES	-	-	-	X	-
3. FINANCIAL ASSETS HELD TO MATURITY	X	-	-	X	-
4. PORTFOLIO	X	X	X	X	X
5. OTHER TRANSACTIONS	-	-	-	-	-
TOTAL ASSETS	-	-	-	-	-
1. FINANCIAL LIABILITIES	-	-	-	X	-
2. PORTFOLIO	X	X	X	X	X
TOTAL LIABILITIES	-	-	-	-	-
1. TRANSACTIONS PENDING	X	X	X	X	X
2. FINANCIAL ASSETS AND LIABILITIES PORTFOLIO	X	X	X	X	X

SECTION 8 - TAX LIABILITIES - ITEM 80

With reference to this section, reference should be made to information contained in Section 13 on Assets in the Balance Sheet.

CASH FLOW

MACRO	MICRO	MACRO	FOREIGN INVESTMENTS
X	-	X	X
X	-	X	X
X	-	X	X
1,118	X	-	X
X	-	X	-
1,118	-	-	-
X	-	X	X
-	X	-	X
-	-	-	-
X	-	X	X
-	X	-	-

SECTION 10 - OTHER LIABILITIES - ITEM 100**10.1 OTHER LIABILITIES: BREAKDOWN**

	TOTAL 31/12/2017	TOTAL 31/12/2016
AMOUNTS AVAILABLE TO CUSTOMERS AND BANKS FOR TRANSACTIONS PENDING	6	106
AMOUNTS DUE TO TAX AUTHORITIES ON BEHALF OF THIRD PARTIES	5,758	3,781
DUE FOR SRF COMMITMENTS	-	246
VALUES FOR SECURITIES AND DERIVATIVE TRADING PENDING SETTLEMENT	303	-
DEFERRED INCOME	45	50
FUND TRANSFERS AND OTHER PAYMENTS TO BE EXECUTED	2,525	2,076
TRADE PAYABLES AND FEES AND COMMISSIONS TO BE CREDITED TO OTHERS	13,366	11,841
PAYABLES FOR PERSONNEL EXPENSE	7,684	6,346
PAYABLES FOR COLLECTIVE MEASUREMENT OF GUARANTEES AND COMMITMENTS	6	6
CONTRIBUTIONS TO BE PAID TO OTHER ENTITIES	2,157	1,269
ADVANCES AND AMOUNTS DUE TO CUSTOMERS	27	13
CUSTOMERS FOR SECURITIES AND CURRENCY SALES PENDING CREDIT	42	77
OTHER	90	51
TOTAL	32,009	25,862

Other liabilities increased by 23.8% compared to the previous year, mainly due to the rise in amounts due as personnel expense not yet paid, trade payables and fees and commissions to be charged back to others.

The "other" sub-item mainly includes residual payables attributable to amounts due from third parties for amounts pending debit. For comparison with 31 December 2016 it is important to consider that in last year's financial statements the item "Other" also included the items "Customers for securities and currency sales pending credit", now illustrated separately in the table, for EUR 128 thousand.

Instead with regard to the sub-item "Due to suppliers and fees and commissions to be credited to others", note that this includes the **pro rata amount for sales commission bonuses** accruing year by year, the invoiced disbursement of which has not yet occurred, however, as the contractually envisaged disbursement deadline has not yet been reached. The 2017 pro rata total relating to this phenomenon was EUR 2,065 thousand.

SECTION 11 - EMPLOYEE SEVERANCE INDEMNITY - ITEM 110**11.1 EMPLOYEE SEVERANCE INDEMNITY: CHANGES IN THE YEAR**

	TOTAL 31/12/2017	TOTAL 31/12/2016
A. OPENING BALANCE	1,873	1,747
B. INCREASES	41	153
B.1 ALLOCATIONS FOR THE YEAR	25	7
B.2 OTHER CHANGES	16	146
C. DECREASES	69	27
C.1 SETTLEMENTS PAID	64	20
C.2 OTHER CHANGES	5	7
D. CLOSING BALANCE	1,845	1,873

A summary is provided below of the discounting method used by the external expert to estimate the allocation for the period.

With regard to the international accounting standards and compliance with instructions provided by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), employee severance indemnity is considered to be a post-employment benefit in the form of a defined benefit plan, for accounting purposes to be calculated by discounting.

The adopted model is summarised by a series of simulation methods applied on an individual basis to each company employee in order to identify future expense, which could result outlay for various reasons (death, invalidity, withdrawal, etc.) in each year after the valuation date.

The IAS value of the company expense to be recognised corresponds to the present value of this future expense. The discounting is obviously performed not only from a financial point of view, but also in demographic terms to take into account the likelihood for every employee that they will leave the company before the natural accrual of the right to receive the benefit (i.e. before reaching pension age).

To summarise, based on collective personal and economic data, the adopted model operates at individual level according to the following processing steps:

1. calculation - for each future year until the right to the benefit accrues - of employee severance indemnity amounts if the various events, i.e. death, invalidity, withdrawal and retirement, were to occur;
2. estimation of the probabilistic values of the amounts referred to in paragraph a), adopting suitable technical bases of a demographic nature (for the aforementioned events) and an economic nature (inflation and salary increases);
3. calculation of the present values of the amounts from the previous point (based on a suitable financial market rate) and any other indicators useful to objective model valuations, which at the same time allow their fairness and extent to be established.

For the calculations in question, in addition to mere numeric calculations, the scenarios are represented by the following (paragraph numbering refers to International Accounting Standard 19R):

1. mortality assumptions, for which (paragraphs 81 and 82) "An entity shall determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment". This assumption is deduced from that of serving and retired employees of a large corporate group with over 3,000 staff. The statistical data on mortality rates relate to over 20 years of readings carried out until 2001 and later updated on the basis of standard mortality, the latter processed using ISTAT figures for 2001, 2011 and 2015;
2. invalidity assumptions deduced from statistics provided by INPS in this respect, updated at 2000;
3. staff turnover assumptions which must be sufficiently precautionary, also in relation to the type and legal format of the company concerned and which is deduced from corporate databases and average statistics of a significant aggregate of companies in the same business sector as the Group;
4. employee severance indemnity advance assumptions deduced from corporate databases and average statistics of a significant aggregate of companies in the same business sector as the Banca Sella Group;

5. even distribution of outflows over the year (for different reasons: death, invalidity and redemption), necessary to identify probability in the sub-annual portion;
6. salary increase assumptions (paragraph 87(b)), broken down by category (paragraphs 87(b) and 90). This increase reflects the assumptions of future remuneration levels in the sense that, in addition to inflation-indexed pay increases, takes into account seniority, promotions and any changes in category. The method matches the specific requirements of IAS regulations on such matters (paragraph 84, IAS 19R). It is obvious for employee severance indemnity, pursuant to the aforementioned Welfare Reform, this technical basis only affects companies with less than 50 employees;
7. discount rate (paragraphs 83-86), determined according to the market yield rate curve for all the bonds of leading companies in the Eurozone at the valuation date. More precisely, the Composite AA rate curve (source: Bloomberg) was identified, available at the valuation reference date, duly extracted for durations of 10-15 years and the subsequent 15 years, using the yield curve (source: ECB) of all Government bonds in the Eurozone (including AAA ratings) at that same date.

SECTION 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 PROVISIONS FOR RISKS AND CHARGES: BREAKDOWN

ITEM/VALUE	TOTAL 31/12/2017	TOTAL 31/12/2016
1. COMPANY PENSION FUNDS	-	-
2. OTHER PROVISIONS FOR RISKS AND CHARGES	8,497	7,781
2.1 LEGAL DISPUTES AND CUSTOMER COMPLAINTS	1,451	2,156
2.2 PERSONNEL CHARGES	226	374
2.3 OPERATIONAL RISKS	-	-
2.4 AGENTS' LEAVING INDEMNITIES AND TERMINATION OF AGENCY CONTRACT	5,956	5,137
2.5 OTHER	864	114
TOTAL	8,497	7,781

As regards the provision for agents' leaving indemnities, note that this represents the liability allocated to the indemnity that the Bank is required to pay to a private banker if the agency agreement should be terminated and the conditions envisaged in Art. 1751 of the Italian Civil Code are met.

The estimated allocation is measured according to IAS 37, using the actuarial method, pursuant to the legal provisions referred to above, later clarified by the Economic Agreement for the Trade Sector. From an approach point of view, calculation of the indemnities led to a projection of the average future outlay to each agent and the related discounting in accordance with IAS indications. Furthermore, as required by IAS 37, the assessment referred only to indemnities accrued at the time of assessment.

The item "Other" mainly includes the following provisions:

- Multi-year retention plan relating to the private bankers, for which provisions of EUR 163.7 thousand were allocated;
- Provision for sales risks and charges, relating to disputes involving newly acquired bankers, for which the allocation for the period was EUR 512 thousand;

- Provision for fast-track investigation fees to be reimbursed to customers, for EUR 71 thousand.

12.2 PROVISIONS FOR RISKS AND CHARGES: CHANGES IN THE YEAR

ITEM/COMPONENTS	PENSION FUNDS	LEGAL DISPUTES AND CUSTOMER COMPLAINTS	OPERATIONAL RISKS	PERSONNEL CHARGES	AGENTS LEAVING AND TERMINATION OF AGENCY CONTRACT	OTHER	TOTAL
A. OPENING BALANCE	-	2,155	-	374	5,137	114	7,780
B. INCREASES	-	98	-	17	1,069	750	1,934
B.1 ALLOCATIONS FOR THE YEAR	-	96	-	16	1,069	749	1,930
B.2 CHANGES DUE TO THE PASSAGE OF TIME	-	2	-	1	-	1	4
B.3 CHANGE DUE TO CHANGES IN THE DISCOUNT RATE	-	-	-	-	-	-	-
B.4 OTHER CHANGES	-	-	-	-	-	-	-
- BUSINESS COMBINATIONS	-	-	-	-	-	-	-
- CALCULATED EXCHANGE DIFFERENCE (-)	-	-	-	-	-	-	-
- OTHER CHANGES (+)	-	-	-	-	-	-	-
C. DECREASES	-	802	-	165	251	-	1,217
C.1 USE DURING THE YEAR	-	265	-	-	90	-	354
C.2 CHANGE DUE TO CHANGES IN THE DISCOUNT RATE	-	-	-	-	-	-	-
C.3 OTHER CHANGES	-	537	-	165	161	-	863
- BUSINESS COMBINATIONS	-	-	-	-	-	-	-
- CALCULATED EXCHANGE DIFFERENCE (-)	-	-	-	-	-	-	-
- OTHER CHANGES (-)	-	537	-	165	161	-	863
D. CLOSING BALANCE	-	1,451	-	226	5,955	864	8,497

With reference to the decreases, it is confirmed that the changes are attributable to the reversal to the income statement of amounts previously allocated in view of the need to release the related provisions due to the successful outcomes of the underlying proceedings. With particular reference to the provision for agents' leaving indemnities, the decreases relate to the reversal to the income statement of amounts allocated in relation to financial advisors that resigned during the year without accruing the right to receive the indemnity.

SECTION 14 - SHAREHOLDERS' EQUITY - ITEMS 130, 150, 160, 170, 180, 190 AND 200**14.1 "CAPITAL" AND "TREASURY SHARES": BREAKDOWN**

	31/12/2017			31/12/2016		
	SHARES ISSUED	SHARES SUBSCRIBED AND NOT YET PAID	TOTAL	SHARES ISSUED	SHARES SUBSCRIBED AND NOT YET PAID	TOTAL
A. CAPITAL						
A.1 ORDINARY SHARES	28,000	-	28,000	28,000	-	28,000
A.2 SAVINGS SHARES	-	-	-	-	-	-
A.3 PREFERENCE SHARES	-	-	-	-	-	-
A.4 OTHER SHARES	-	-	-	-	-	-
B. TREASURY SHARES						
B.1 ORDINARY SHARES	-	-	-	-	-	-
B.2 SAVINGS SHARES	-	-	-	-	-	-
B.3 PREFERENCE SHARES	-	-	-	-	-	-
B.4 OTHER SHARES	-	-	-	-	-	-

14.2 CAPITAL - NUMBER OF SHARES: CHANGES IN THE YEAR

ITEM/TYPE	ORDINARY	OTHER
A. SHARES OUTSTANDING: OPENING BALANCE	28,000,000	-
- FULLY PAID-UP	28,000,000	-
- NOT YET FULLY PAID-UP	-	-
A.1 TREASURY SHARES (-)	-	-
A.2 SHARES OUTSTANDING: OPENING BALANCE	28,000,000	-
B. INCREASES	-	-
B.1 NEW ISSUES	-	-
- AGAINST PAYMENT	-	-
- BUSINESS COMBINATIONS	-	-
- BOND CONVERSION	-	-
- EXERCISE OF WARRANTS	-	-
- OTHER	-	-
- FREE OF CHARGE	-	-
- TO EMPLOYEES	-	-
- TO DIRECTORS	-	-
- OTHER	-	-
B.2 SALE OF TREASURY SHARES	-	-
B.3 OTHER CHANGES	-	-
C. DECREASES	-	-
C.1 CANCELLATION	-	-
C.2 PURCHASE OF TREASURY SHARES	-	-
C.3 BUSINESS DISPOSALS	-	-
C.4 OTHER CHANGES	-	-
D. SHARES OUTSTANDING: CLOSING BALANCE	28,000,000	-
D.1 TREASURY SHARES (+)	-	-
D.2 SHARES OUTSTANDING AT YEAR END	28,000,000	-
- FULLY PAID-UP	28,000,000	-
- NOT YET FULLY PAID-UP	-	-

The table is expressed in euro.

14.3 CAPITAL: OTHER INFORMATION

	31/12/2017	31/12/2016
NOMINAL VALUE PER SHARE (ZERO IF THE SHARES HAVE NO NOMINAL VALUE)	1	1
- FULLY PAID-UP:	-	-
NUMBER	28,000,000	28,000,000
VALUE	28,000,000	28,000,000
EXISTING AGREEMENTS FOR THE SALE OF SHARES:		
NUMBER OF SHARES UNDER CONTRACT	-	-
TOTAL VALUE	-	-

The table is expressed in euro.

14.4 PROFIT RESERVES: OTHER INFORMATION

PROFIT RESERVES:	31/12/2017	31/12/2016
LEGAL RESERVE	8,529	8,171
STATUTORY RESERVE	-	-
EXTRAORDINARY RESERVE	32,304	28,197
UNRESTRICTED EXTRAORDINARY RESERVE	32,142	28,197
EXTRAORDINARY RESTRICTED RESERVE - ART. 1, PARAGRAPH 469, ITALIAN LAW 266/05	162	-
REALIGNMENT RESERVE - ART. 1, PARAGRAPH 469, ITALIAN LAW 266/05	-	162
TOTAL PROFIT RESERVES	40,833	36,530

PROPOSED PROFIT ALLOCATION

	31/12/2017	31/12/2016
PROFIT (LOSS) FOR THE YEAR	8,060,371.45	7,171,511.66
TO THE LEGAL RESERVE, AS PER THE ARTICLES OF ASSOCIATION	403,018.57	358,575.58
TO SHAREHOLDERS		
DIVIDEND	3,224,294.79	2,868,600.00
NUMBER OF SHARES	30,415,006	28,000,000
TO THE PROVISION FOR CHARITY AND SIMILAR DONATIONS		
THE REMAINDER TO THE EXTRAORDINARY RESERVE	4,433,058.09	3,944,336.08

As required by art. 2427, paragraph 22-septies of the Italian Civil Code, the proposed profit allocation is included. Note that the table is expressed in Euros to two decimal points.

BREAKDOWN OF THE USE OF RESERVES (PREPARED PURSUANT TO ART. 2427, PARAGRAPH 7-BIS OF THE ITALIAN CIVIL CODE)

	AMOUNT	USAGE OPTIONS (*)	DISTRIBUTABLE PORTION	SUMMARY OF USES IN THE PREVIOUS THREE YEARS	
				LOSS COVERAGE	OTHER REASONS
CAPITAL	28,000				
CAPITAL RESERVES					
SHARE PREMIUM RESERVE	4,483	A-B-C	4,483	-	-
RESERVE FOR SHARE CAPITAL INCREASES	-				
PROFIT RESERVES					
LEGAL RESERVE	8,529	A ⁽¹⁾ -B	2,929	-	-
STATUTORY RESERVE	-	B	-	-	-
UNRESTRICTED EXTRAORDINARY RESERVE	32,142	A-B-C	32,142	-	-
EXTRAORDINARY RESTRICTED RESERVE - ART. 1, PARAGRAPH 469, ITALIAN LAW 266/05	162	A-B ⁽²⁾ -C ⁽³⁾	162	-	-
VALUATION RESERVES					
REVALUATION RESERVE FROM FIRST-TIME ADOPTION OF IAS/IFRS - ART. 7, PARAGRAPH 6(4), ITALIAN LEG. DECREE 38/05	(829)	A-B ⁽¹⁾ -C ⁽²⁾	-	-	-
VALUATION RESERVE: ACTUARIAL GAINS AND LOSSES ON DEFINED BENEFIT PLANS (AS PER BREAKDOWN TABLE)	(248)	A-B-C	(248)	-	-
TOTAL	72,239		39,468		
RESTRICTED PORTION, ART. 2426, PARAGRAPH 5, ITALIAN CIVIL CODE			-		
RESIDUAL DISTRIBUTABLE PORTION			39,468		

^(*)Key

A: for share capital increase

B: for loss coverage

C: for distribution to shareholders

(1) Usable for share capital increase (A) for the por-

tion exceeding one-fifth of the share capital.

(2) If used as loss coverage (B), no distribution of profit can be arranged until the reserve is topped up or reduced by a corresponding amount. The reduction must be on the basis of an extraordinary

shareholders' meeting resolution, without compliance with the provisions of art. 2445, paragraphs 2 and 3 of the Italian Civil Code.

(3) If not attributed to capital, the reserve can only be reduced in compliance with the provisions of

art. 2445, paragraphs 2 and 3 of the Italian Civil Code. If distributed to shareholders it forms part of the Company's taxable income.

(4) The reserve is restricted pursuant to art. 6, Italian Legislative Decree 38/2005.

OTHER INFORMATION**1. GUARANTEES GIVEN AND COMMITMENTS**

TRANSACTIONS	AMOUNT 31/12/2017	AMOUNT 31/12/2016
1) FINANCIAL GUARANTEES GIVEN	5	7
A) BANKS	-	-
B) CUSTOMERS	5	7
2) COMMERCIAL GUARANTEES GIVEN	7,702	6,903
A) BANKS	-	-
B) CUSTOMERS	7,702	6,903
3) IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS	23,806	18,656
A) BANKS	11,410	7,210
I) USE CERTAIN	11,410	7,210
II) USE UNCERTAIN	-	-
B) CUSTOMERS	12,396	11,446
I) USE CERTAIN	3,170	2,771
II) USE UNCERTAIN	9,226	8,675
4) COMMITMENTS UNDERLYING CREDIT DERIVATIVES: PROTECTION SALES	-	-
5) ASSETS PLEDGED AS GUARANTEES ON THIRD-PARTY BONDS	-	-
6) OTHER COMMITMENTS	-	-
TOTAL	31,513	25,566

2. ASSETS PLEDGED AS GUARANTEES ON OWN LIABILITIES AND COMMITMENTS

PORTFOLIO	AMOUNT 31/12/2017	AMOUNT 31/12/2016
1. FINANCIAL ASSETS HELD FOR TRADING	-	-
2. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	-	-
3. AVAILABLE-FOR-SALE FINANCIAL ASSETS	29,059	16,505
4. FINANCIAL ASSETS HELD TO MATURITY	19,825	-
5. DUE FROM BANKS	1,345	706
6. DUE FROM CUSTOMERS	-	-
7. PROPERTY, PLANT AND EQUIPMENT	-	-

3. INFORMATION ON OPERATING LEASES

Banca Patrimoni Sella & C. had no outstanding operating lease transactions at 31 December 2017.

4. MANAGEMENT AND INTERMEDIATION FOR THIRD PARTIES

TYPE OF SERVICE	AMOUNT 31/12/2017	AMOUNT 31/12/2016
1. ORDER EXECUTION ON BEHALF OF CUSTOMERS	266,908	333,674
A) PURCHASES	-	-
1. REGULATED	73,006	159,830
2. UNREGULATED	-	-
B) SALES	-	-
1. REGULATED	193,902	173,844
2. UNREGULATED	-	-
2. PORTFOLIO MANAGEMENT	4,792,961	4,238,867
A) INDIVIDUAL	4,792,961	4,238,867
B) COLLECTIVE	-	-
3. CUSTODY AND ADMINISTRATION OF SECURITIES	8,084,098	7,254,700
A) THIRD-PARTY SECURITIES UNDER CUSTODY: ASSOCIATED WITH INVOLVEMENT OF THE CUSTODIAN BANK (EXCLUDING PORTFOLIO MANAGEMENT)	-	-
1. SECURITIES ISSUED BY THE BANK PREPARING THE FINANCIAL STATEMENTS	-	-
2. OTHER SECURITIES	-	-
B) THIRD-PARTY SECURITIES UNDER CUSTODY (EXCLUDING PORTFOLIO MANAGEMENT): OTHER	3,016,657	2,372,252
1. SECURITIES ISSUED BY THE BANK PREPARING THE FINANCIAL STATEMENTS	-	-
2. OTHER SECURITIES	3,016,657	2,372,252
C) THIRD-PARTY SECURITIES DEPOSITED WITH THIRD PARTIES	4,743,510	3,977,354
D) OWN SECURITIES DEPOSITED WITH THIRD PARTIES	323,931	905,094
4. OTHER TRANSACTIONS	18,575,975	17,044,015

Other transactions include the volume of order acceptance and transmission business, for EUR 9,312 million in purchases and EUR 9,264 million in sales.

With reference to 2016 figures, also note that it was necessary to indicate the volumes traded under paragraph 1 "Order execution on behalf of customers".

**5. FINANCIAL ASSETS SUBJECT TO OFFSETTING IN THE FINANCIAL STATEMENTS,
OR SUBJECT TO OFFSETTING FRAMEWORK AGREEMENTS OR SIMILAR ARRANGEMENTS**

TYPE	GROSS TOTAL OF FINANCIAL ASSETS (A)	TOTAL FINANCIAL ASSETS OFFSET (B)	NET TOTAL OF FINANCIAL ASSETS RECOGNISED (C=A-B)	CORRELATED AMOUNTS NOT SUBJECT TO OFFSETTING		NET TOTAL 31/12/2017 (F=C-D-E)	NET TOTAL 31/12/2016
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS RECEIVED AS GUARANTEE (E)		
1. DERIVATIVES	233	-	233	233	-	-	-
2. REPURCHASE AGREEMENTS	-	-	-	-	-	-	-
3. SECURITIES LENDING	-	-	-	-	-	-	-
4. OTHER	-	-	-	-	-	-	-
TOTAL 31/12/2017	233	-	233	233	-	-	X
TOTAL 31/12/2016	556	-	556	556	-	X	-

**6. FINANCIAL LIABILITIES SUBJECT TO OFFSETTING IN THE FINANCIAL STATEMENTS,
OR SUBJECT TO OFFSETTING FRAMEWORK AGREEMENTS OR SIMILAR ARRANGEMENTS**

TYPE	GROSS TOTAL OF FINANCIAL LIABILITIES (A)	TOTAL FINANCIAL LIABILITIES OFFSET (B)	NET TOTAL OF FINANCIAL LIABILITIES RECOGNISED (C=A-B)	CORRELATED AMOUNTS NOT SUBJECT TO OFFSETTING		NET TOTAL 31/12/2017 (F=C-D-E)	NET TOTAL 31/12/2016
				FINANCIAL INSTRUMENTS (D)	CASH DEPOSITS GIVEN AS GUARANTEE (E)		
1. DERIVATIVES	1,518	-	1,518	233	1,285	-	1,019
2. REPURCHASE AGREEMENTS	-	-	-	-	-	-	-
3. SECURITIES LENDING	-	-	-	-	-	-	-
4. OTHER	-	-	-	-	-	-	-
TOTAL 31/12/2017	1,518	-	1,518	233	1,285	-	X
TOTAL 31/12/2016	2,281	-	2,281	556	706	X	1,019

Part C – Information on the Income Statement

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 INTEREST INCOME AND SIMILAR INCOME: BREAKDOWN

ITEM/TYPE	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL 31/12/2017	TOTAL 31/12/2016
1. FINANCIAL ASSETS HELD FOR TRADING	111	-	504	615	504
2. AVAILABLE-FOR-SALE FINANCIAL ASSETS	2,219	-	-	2,219	3,897
3. FINANCIAL ASSETS HELD TO MATURITY	274	-	-	274	-
4. DUE FROM BANKS	5	706	-	711	658
5. DUE FROM CUSTOMERS	-	5,837	-	5,837	5,522
6. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	-	-	-	-	-
7. HEDGING DERIVATIVES	x	x	6	6	5
8. OTHER ASSETS	x	x	14	14	6
TOTAL	2,609	6,543	524	9,676	10,592

Interest income decreased by 8.6% compared to 31 December 2016, mainly in relation on the one hand to reduced market rate profitability which stayed at mostly low levels during the year, as well as to changes in the securities portfolio invested by the Treasury Office. In this sense, despite the bank-owned portfolio recording volumes up on 2016, the return on investments decreased in consideration of investments with a lower but stable return from an interest rate risk point of view.

The breakdown of interest accrued on non-performing, unlikely to pay, past due and restructured positions is provided below:

INTEREST INCOME AND SIMILAR INCOME: BREAKDOWN OF INTEREST ACCRUED ON NON-PERFORMING POSITIONS

	31/12/2017	31/12/2016
ACCRUED ON NON-PERFORMING LOANS	-	-
ACCRUED ON UNLIKELY TO PAY LOANS	24	33
ACCRUED ON PAST DUE LOANS	53	25

1.3 INTEREST INCOME AND SIMILAR INCOME: OTHER INFORMATION**1.3.1 INTEREST INCOME ON FINANCIAL ASSETS IN FOREIGN CURRENCIES**

	31/12/2017	31/12/2016
INTEREST INCOME ON FINANCIAL ASSETS IN FOREIGN CURRENCIES	1,171	638

1.3.2 INTEREST INCOME ON FINANCIAL LEASE TRANSACTIONS

Banca Patrimoni Sella & C. does not carry out this type of transaction.

1.4 INTEREST EXPENSE AND SIMILAR CHARGES: BREAKDOWN

ITEM/TYPE	PAYABLES	SECURITIES	OTHER TRANSACTIONS	TOTAL 31/12/2017	TOTAL 31/12/2016
1. DUE TO CENTRAL BANKS	15	X	-	15	-
2. DUE TO BANKS	24	X	-	24	52
3. DUE TO CUSTOMERS	404	X	-	404	928
4. OUTSTANDING SECURITIES	X	-	-	-	-
5. FINANCIAL LIABILITIES HELD FOR TRADING	-	-	411	411	252
6. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE	-	-	-	-	-
7. OTHER LIABILITIES AND PROVISIONS	X	X	1,108	1,108	342
8. HEDGING DERIVATIVES	X	X	315	315	342
TOTAL	443	-	1,834	2,277	1,916

Interest expense rose by 18.8% from EUR 1,916 thousand at 31 December 2016 to EUR 2,277 thousand at 31 December 2017. A decisive role in its increase was attributable to the higher cost of liquidity deposited in correspondence accounts with Banca Sella Holding and Banca Sella SpA, as well as interest expense generated following the increase in amounts due to banks, which rose from EUR 59.4 million at the end of 2016 to EUR 106.2 million at the end of 2017. The trend in amounts due to banks (+78.8%) is partly affected by the subscription to the new tranche of the TLTRO 2 auction, which for BPA led to further indebtedness by EUR 25 million, as well as the increase due to the these banks' decisions concerning the Bank's forms of investment, typically asset management.

1.5 INTEREST EXPENSE AND SIMILAR CHARGES: DIFFERENCES RELATING TO HEDGING TRANSACTIONS

ITEMS	31/12/2017	31/12/2016
A. POSITIVE SPREADS ON HEDGING TRANSACTIONS	6	5
B. NEGATIVE SPREADS ON HEDGING TRANSACTIONS	315	342
C. BALANCE (A-B)	(309)	(337)

1.6 INTEREST EXPENSE AND SIMILAR CHARGES: OTHER INFORMATION**1.6.1 INTEREST EXPENSE ON LIABILITIES IN FOREIGN CURRENCIES**

ITEMS	31/12/2017	31/12/2016
INTEREST EXPENSE ON FINANCIAL LIABILITIES IN FOREIGN CURRENCIES	447	299

1.6.2 INTEREST EXPENSE ON LIABILITIES FOR FINANCE LEASE TRANSACTIONS

Banca Patrimoni Sella & C. has no outstanding finance lease transactions.

SECTION 2 - FEES AND COMMISSIONS - ITEMS 40 AND 50**2.1 FEE AND COMMISSION INCOME: BREAKDOWN**

TYPE OF SERVICE/VALUE	TOTAL 31/12/2017	TOTAL 31/12/2016
A) GUARANTEES GIVEN	75	52
B) CREDIT DERIVATIVES	-	-
C) MANAGEMENT, INTERMEDIATION AND ADVISORY SERVICES:	89,345	73,987
1. FINANCIAL INSTRUMENTS TRADING	145	153
2. FOREIGN CURRENCY TRADING	287	237
3. PORTFOLIO MANAGEMENT	37,206	30,189
3.1. INDIVIDUAL	37,206	30,189
3.2. COLLECTIVE	-	-
4. CUSTODY AND ADMINISTRATION OF SECURITIES	457	221
5. CUSTODIAN BANK	-	-
6. SECURITIES PLACEMENT	27,249	23,214
7. ORDER ACCEPTANCE AND TRANSMISSION	8,309	8,113
8. ADVISORY ACTIVITIES	1,812	1,093
8.1 INVESTMENT-RELATED	1,812	1,093
8.2 FINANCIAL STRUCTURE-RELATED	-	-
9. DISTRIBUTION OF THIRD-PARTY SERVICES	13,880	10,767
9.1 PORTFOLIO MANAGEMENT	2,814	2,321
9.1.1. INDIVIDUAL	2,814	2,321
9.1.2. COLLECTIVE	-	-
9.2 INSURANCE PRODUCTS	9,078	5,658
9.3 OTHER PRODUCTS	1,988	2,788
D) COLLECTION AND PAYMENT SERVICES	196	179
E) SERVICING FOR SECURITISATION TRANSACTIONS	-	-
F) FACTORING SERVICES	-	-
G) RATE AND TAX COLLECTION	-	-
H) MANAGEMENT OF MULTILATERAL TRADING FACILITIES	-	-
I) CURRENT ACCOUNT MANAGEMENT	281	262
J) OTHER SERVICES	774	660
TOTAL	90,671	75,140

Note that the fee and commission income from financial instruments trading in 2016 was classified under "order acceptance and transmission". Consequently, for correct classification and comparison with the previous year, in relation to the 2016 column the amount for fees and commissions from trading was therefore indicated under the correct reference item.

The breakdown of the sub-item "Other services" is provided below:

FEE AND COMMISSION INCOME: BREAKDOWN OF THE SUB-ITEM "OTHER SERVICES"

	31/12/2017	31/12/2016
CREDIT AND DEBIT CARDS	34	31
RECOVERY OF EXPENSE ON LOANS TO CUSTOMERS	1	2
FEES AND COMMISSIONS ON RELATIONS WITH CREDIT INSTITUTIONS	-	-
LEASE OF SAFE DEPOSIT BOXES	20	15
RECOVERY OF MAILING COSTS, PRINTING, ETC.	114	70
COMMISSIONS ON LOANS TO CUSTOMERS	124	141
OTHER	481	401
TOTAL "OTHER SERVICES"	774	660

2.2 FEE AND COMMISSION INCOME: DISTRIBUTION CHANNELS OF PRODUCTS AND SERVICES

CHANNEL/VALUE	TOTAL 31/12/2017	TOTAL 31/12/2016
A) AT OWN BRANCHES		
1. PORTFOLIO MANAGEMENT	15,088	11,276
2. SECURITIES PLACEMENT	3,559	1,992
3. THIRD-PARTY SERVICES AND PRODUCTS	2,043	1,033
B) PRIVATE BANKERS		
1. PORTFOLIO MANAGEMENT	22,118	18,913
2. SECURITIES PLACEMENT	23,689	21,222
3. THIRD-PARTY SERVICES AND PRODUCTS	11,837	9,734
C) OTHER DISTRIBUTION CHANNELS		
1. PORTFOLIO MANAGEMENT	-	-
2. SECURITIES PLACEMENT	-	-
3. THIRD-PARTY SERVICES AND PRODUCTS	-	-

2.3 FEE AND COMMISSION EXPENSE: BREAKDOWN

SERVICE/VALUE	TOTAL 31/12/2017	TOTAL 31/12/2016
A) GUARANTEES RECEIVED	2	2
B) CREDIT DERIVATIVES	-	-
C) MANAGEMENT AND INTERMEDIATION SERVICES:	48,487	43,344
1. FINANCIAL INSTRUMENTS TRADING	1,563	1,605
2. FOREIGN CURRENCY TRADING	-	-
3. PORTFOLIO MANAGEMENT	495	500
3.1 OWN	212	239
3.2 THIRD-PARTY MANDATES	283	261
4. CUSTODY AND ADMINISTRATION OF SECURITIES	258	237
5. FINANCIAL INSTRUMENTS PLACEMENT	-	-
6. DOOR-TO-DOOR SALES OF FINANCIAL INSTRUMENTS, PRODUCTS AND SERVICES	46,171	41,002
D) COLLECTION AND PAYMENT SERVICES	6	6
E) OTHER SERVICES	138	104
TOTAL	48,633	43,456

The increase in fee and commission expense is mainly attributable to the growth in funding volumes, which consequently led to higher retrocession of expense to the private bankers in relation to the investment products and services provided.

The item "Fee and commission expense" also includes the cost for the year relating to sales commission bonuses paid to the private bankers. Specifically, the latter are included under item c)6. "Door-to-door sales of financial instruments, products and services" and amount to EUR 6,150 thousand with

breakdown as follows:

- EUR 1,339 thousand: impact on the income statement for the year of sales commission bonuses accruing
- EUR 4,811 thousand: impact on the Income Statement for the year of sales commission bonuses already paid.

FEE AND COMMISSION EXPENSE: BREAKDOWN OF SUB-ITEM "OTHER SERVICES"

	31/12/2017	31/12/2016
BANK COMMISSIONS	11	2
LOANS	-	-
INTERMEDIATION	-	-
OTHER	127	102
TOTAL "OTHER SERVICES"	138	104

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 DIVIDENDS AND SIMILAR INCOME: BREAKDOWN

ITEM/INCOME	TOTAL 31/12/2017		TOTAL 31/12/2016	
	DIVIDENDS	INCOME FROM UCITS UNITS	DIVIDENDS	INCOME FROM UCITS UNITS
A. FINANCIAL ASSETS HELD FOR TRADING	15	-	6	-
B. AVAILABLE-FOR-SALE FINANCIAL ASSETS	205	479	197	55
C. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	-	-	-	-
D. INVESTMENTS	-	X	-	X
TOTAL	220	479	203	55

SECTION 4 - NET TRADING INCOME - ITEM 80

4.1 NET TRADING INCOME: BREAKDOWN

TRANSACTIONS/INCOME COMPONENTS	CAPITAL GAINS (A)	TRADING GAINS (B)	CAPITAL LOSSES (C)	TRADING LOSSES (D)	NET GAINS (LOSSES) [(A+B) - (C+D)]
1. FINANCIAL ASSETS HELD FOR TRADING	11	5,282	(30)	(85)	5,178
1.1 DEBT SECURITIES	11	5,254	(3)	(79)	5,183
1.2 EQUITIES	-	28	(27)	(6)	(5)
1.3 UCITS UNITS	-	-	-	-	-
1.4 LOANS	-	-	-	-	-
1.5 OTHER	-	-	-	-	-
2. FINANCIAL LIABILITIES HELD FOR TRADING	-	-	-	-	-
2.1 DEBT SECURITIES	-	-	-	-	-
2.2 PAYABLES	-	-	-	-	-
2.3 OTHER	-	-	-	-	-
3. FINANCIAL ASSETS AND LIABILITIES: EXCHANGE DIFFERENCES	X	X	X	X	2,466
4. DERIVATIVES	201	453	(55)	(17)	(366)
4.1 FINANCIAL DERIVATIVES:	201	453	(55)	(17)	(366)
- ON DEBT SECURITIES AND INTEREST RATES	106	17	(34)	(17)	72
- ON EQUITIES AND SHARE INDICES	95	436	(21)	-	510
- ON FOREIGN CURRENCY AND GOLD	X	X	X	X	(948)
- OTHER	-	-	-	-	-
4.2 CREDIT DERIVATIVES	-	-	-	-	-
TOTAL	212	5,735	(85)	(102)	7,278

SECTION 5 - NET RESULT OF HEDGING ACTIVITY - ITEM 90

5.1 NET RESULT OF HEDGING ACTIVITY: BREAKDOWN

INCOME COMPONENT/VALUES	TOTAL 31/12/2017	TOTAL 31/12/2016
A. GAINS RELATED TO:		
A.1 FAIR VALUE HEDGING DERIVATIVES	312	128
A.2 FINANCIAL ASSETS SUBJECT TO FAIR VALUE HEDGES	-	-
A.3 FINANCIAL LIABILITIES SUBJECT TO FAIR VALUE HEDGES	-	-
A.4 CASH FLOW HEDGING DERIVATIVES	-	-
A.5 ASSETS AND LIABILITIES IN OTHER CURRENCIES	-	-
TOTAL HEDGING GAINS	312	128
B. LOSSES RELATED TO:		
B.1 FAIR VALUE HEDGING DERIVATIVES	-	17
B.2 FINANCIAL ASSETS SUBJECT TO FAIR VALUE HEDGES	311	98
B.3 FINANCIAL LIABILITIES SUBJECT TO FAIR VALUE HEDGES	-	-
B.4 CASH FLOW HEDGING DERIVATIVES	-	-
B.5 ASSETS AND LIABILITIES IN OTHER CURRENCIES	-	-
TOTAL HEDGING LOSSES (B)	311	115
C. NET RESULT OF HEDGING ACTIVITY (A-B)	1	13

SECTION 6 - GAINS (LOSSES) FROM DISPOSAL/REPURCHASE - ITEM 100**6.1 GAINS (LOSSES) FROM DISPOSALS/REPURCHASES: BREAKDOWN**

ITEM/INCOME COMPONENTS	TOTAL 31/12/2017			TOTAL 31/12/2016		
	GAINS	LOSSES	NET GAIN (LOSS)	GAINS	LOSSES	NET GAIN (LOSS)
FINANCIAL ASSETS						
1. DUE FROM BANKS	-	-	-	-	-	-
2. DUE FROM CUSTOMERS	-	-	-	-	-	-
3. AVAILABLE-FOR-SALE FINANCIAL ASSETS	5,484	1,439	4,045	7,973	2,636	5,337
3.1 DEBT SECURITIES	4,007	1,364	2,643	7,924	2,565	5,359
3.2 EQUITIES	484	37	446	49	71	(22)
3.3 UCITS UNITS	700	38	662	-	-	-
3.4 LOANS	293	-	293	-	-	-
4. FINANCIAL ASSETS HELD TO MATURITY	-	-	-	-	-	-
TOTAL ASSETS	5,483	1,439	4,044	7,973	2,636	5,337
FINANCIAL LIABILITIES						
1. DUE TO BANKS	-	-	-	-	-	-
2. DUE TO CUSTOMERS	-	-	-	-	-	-
3. OUTSTANDING SECURITIES	-	-	-	-	-	-
TOTAL LIABILITIES	-	-	-	-	-	-

SECTION 8 - NET VALUE ADJUSTMENTS/REVERSALS FOR IMPAIRMENT - ITEM 130**8.1 NET VALUE ADJUSTMENTS/WRITE-BACKS FOR DETERIORATION OF LOANS: BREAKDOWN**

TRANSACTIONS/ INCOME COMPONENTS	VALUE ADJUSTMENTS (1)			REVERSALS (2)				TOTAL 31/12/2017	TOTAL 31/12/2016
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER	PORTFOLIO	A	B	A	B		
A. DUE FROM BANKS									
- LOANS	-	-	(1)	-	-	-	-	(1)	-
- DEBT SECURITIES	-	-	-	-	-	-	-	-	-
B. DUE FROM CUSTOMERS									
NON-PERFORMING LOANS PURCHASED									
- LOANS	-	-	X	-	-	-	X	-	-
- DEBT SECURITIES	-	-	X	-	-	-	X	-	-
OTHER RECEIVABLES									
- LOANS	(22)	(265)	-	22	32	-	40	(193)	64
- DEBT SECURITIES	-	-	-	-	-	-	-	-	-
C. TOTAL	(22)	(265)	(1)	22	32	-	40	(194)	64

A: interest
B: other recoveries

8.2 NET VALUE ADJUSTMENTS FOR DETERIORATION OF AVAILABLE-FOR-SALE FINANCIAL ASSETS: BREAKDOWN

TRANSACTIONS/INCOME COMPONENTS	VALUE ADJUSTMENTS (1)		REVERSALS (2)		TOTAL 31/12/2017	TOTAL 31/12/2016
	SPECIFIC		SPECIFIC			
	WRITE-OFFS	OTHER	A	B		
A. DEBT SECURITIES	-	(292)	-	-	(292)	(304)
B. EQUITIES	-	(733)	-	-	(733)	(186)
C. UCITS UNITS	-	-	X	X	-	-
D. LOANS TO BANKS	-	-	X	-	-	-
E. LOANS TO CUSTOMERS	-	-	-	-	-	-
F. TOTAL	-	(1,025)	-	-	(1,025)	(490)

A: interest
B: other recoveries

As regards available-for-sale financial assets, impairment tests showed that write-down of 2 AFS debt securities was necessary for a total of EUR 292 thousand¹² and 1 equity instrument classified as AFS for EUR 160 thousand¹³. In addition, following IDPF action in favour of the Caricesena, Carim and Carismi banks, arrangements were made to write down the equity instrument from subscription to the Voluntary Scheme for a total of EUR 573 thousand. Overall, the net value adjustments made for AFS impairment totalled EUR 1,025 thousand.

¹² This specifically refers to EUR 210 thousand for the bond OB.MICOPERI SPA 5.75% EUR 29APR20 and EUR 82 thousand for the bond OB.TUNDO 8% EUR 30NOV22 PUT.

¹³ This refers to the profit sharing in the film "Fai bei sogni" produced by IBC Movie.

8.3 NET VALUE ADJUSTMENTS FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS HELD TO MATURITY: BREAKDOWN

In 2017 there were no value adjustments for impairment losses on financial assets held to maturity.

8.4 NET VALUE ADJUSTMENTS FOR DETERIORATION OF OTHER FINANCIAL TRANSACTIONS: BREAKDOWN

TRANSACTIONS/ INCOME COMPONENTS	VALUE ADJUSTMENTS (1)			REVERSALS (2)				TOTAL 31/12/2017	TOTAL 31/12/2016
	SPECIFIC			SPECIFIC		PORTFOLIO			
	WRITE-OFFS	OTHER	PORTFOLIO	A	B	A	B		
A. GUARANTEES GIVEN	-	-	-	-	-	-	1	1	6
B. CREDIT DERIVATIVES	-	-	-	-	-	-	-	-	-
C. COMMITMENTS TO DISBURSE FUNDS	-	-	-	-	-	-	-	-	-
D. OTHER TRANSACTIONS	-	-	-	-	112	-	-	112	(22)
E. TOTAL	-	-	-	-	112	-	1	113	(16)

A: interest
B: other recoveries

The balance made up of other financial transactions refers to the reversal of two receivables from ongoing proceedings, recognised under other assets and written down in previous years. These proceedings were concluded during the year in favour of the Bank, allowing reversal of the aforementioned write-downs for a total of EUR 113 thousand.

SECTION 9 - ADMINISTRATIVE EXPENSE - ITEM 150**9.1 PERSONNEL EXPENSE: BREAKDOWN**

TYPE OF EXPENSE/VALUES	TOTAL 31/12/2017	TOTAL 31/12/2016
1) EMPLOYEES	28,394	22,596
A) SALARIES AND WAGES	20,950	16,686
B) SOCIAL SECURITY CHARGES	5,211	4,112
C) EMPLOYEE SEVERANCE INDEMNITY	490	454
D) WELFARE CHARGES	-	-
E) ALLOCATION TO EMPLOYEE SEVERANCE INDEMNITY	25	7
F) ALLOCATION TO THE PROVISION FOR PENSIONS AND SIMILAR OBLIGATIONS:	-	-
- DEFINED CONTRIBUTION PLANS	-	-
- DEFINED BENEFIT PLANS	-	-
G) PAYMENTS TO EXTERNAL SUPPLEMENTARY PENSION PLANS:	687	516
- DEFINED CONTRIBUTION PLANS	687	516
- DEFINED BENEFIT PLANS	-	-
H) COSTS DERIVING FROM SHARE-BASED PAYMENT ARRANGEMENTS ON OWN EQUITY INSTRUMENTS	-	-
I) OTHER EMPLOYEE BENEFITS	1,031	821
2) OTHER PERSONNEL IN SERVICE	73	100
3) DIRECTORS AND STATUTORY AUDITORS	911	881
4) RETIRED PERSONNEL	-	-
5) RECOVERY OF EXPENSE FOR PERSONNEL SECONDED TO OTHER COMPANIES	(258)	(92)
6) REIMBURSEMENT OF EXPENSE FOR THIRD-PARTY STAFF SECONDED TO THE COMPANY	291	242
TOTAL	29,411	23,727

9.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

TYPE OF EXPENSE/VALUES	TOTAL 31/12/2017	TOTAL 31/12/2016
1) EMPLOYEES	271	236
A) EXECUTIVES	24	20
B) MANAGERS	134	116
C) REMAINING PERSONNEL	113	101
2) OTHER PERSONNEL	2	1
TOTAL	273	237

9.3 DEFINED-BENEFIT COMPANY PENSION FUNDS: COSTS AND REVENUE

Banca Patrimoni Sella & C. has no defined-benefit company pension funds.

9.4 OTHER EMPLOYEE BENEFITS

TYPE OF EXPENSE/VALUES	TOTAL 31/12/2017	TOTAL 31/12/2016
STAFF LEAVING INCENTIVES AND INCOME SUPPORT FUND	60	12
BENEFITS FOR CHILDREN OF EMPLOYEES	11	8
BENEFITS IN KIND	478	431
INSURANCE EXPENSE	217	176
PROFESSIONAL UPDATING COURSES	205	163
OTHER	61	31
TOTAL	1,032	821

9.5 OTHER ADMINISTRATIVE EXPENSE: BREAKDOWN

TYPE OF SERVICE/VALUE	TOTAL 31/12/2017	TOTAL 31/12/2016
LEGAL AND NOTARY COSTS	327	142
IT SUPPORT AND MISCELLANEOUS ADVISORY SERVICES	2,560	2,156
OTHER EXPENSE FOR PROFESSIONAL SERVICES	-	-
PRINTED MATERIALS AND STATIONERY	82	54
ELECTRONIC MACHINES AND SOFTWARE ON LEASE	205	137
OTHER FEES AND COSTS FOR SERVICES PROVIDED BY THIRD PARTIES	3,683	3,553
FEES FOR DATA TRANSMISSION AND TELEPHONY	278	278
MAILING COSTS	103	76
TRANSPORT COSTS	185	136
OFFICE CLEANING	236	206
SURVEILLANCE AND SECURITY TRANSPORT	165	162
ELECTRICITY AND HEATING	234	210
OFFICE RENTAL	2,679	2,315
OTHER INSURANCE	298	311
ANNOUNCEMENTS AND ADVERTISING	291	219
ENTERTAINMENT EXPENSE	574	288
DONATIONS	71	40
MEMBERSHIP FEES	267	244
SUBSCRIPTIONS AND BOOKS	22	20
INFORMATION AND RECORD SEARCHES	18	27
TRAVEL EXPENSES	573	408
SERVICE COSTS FOR INTERBANK NETWORK	11	11
WELFARE COSTS FOR PRIVATE BANKERS	1,289	1,224
OTHER	165	141
MAINTENANCE AND REPAIR COSTS	693	508
- OWNED PROPERTY	75	98
- MOVEABLE ASSETS	143	64
- HARDWARE AND SOFTWARE	475	346
INDIRECT TAXES AND DUTIES	12,900	11,306
- STAMP DUTY	12,082	10,238
- SUBSTITUTE TAX, ITALIAN PRESIDENTIAL DECREE 601/73	171	84
- SINGLE MUNICIPAL TAX	43	39
- DGS AND SRF CONTRIBUTION	471	828
- OTHER INDIRECT TAXES	133	117
TOTAL	27,909	24,172

SECTION 10 - NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 160**10.1 NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES: BREAKDOWN**

	BALANCE AT 31/12/2017	BALANCE AT 31/12/2016
ALLOCATIONS TO PROVISIONS FOR PERSONNEL CHARGES	16	50
PROVISIONS FOR LEGAL PROCEEDINGS AS DEFENDANT	71	306
PROVISIONS FOR CUSTOMER COMPLAINTS	27	-
ALLOCATIONS TO THE PROVISION FOR AGENTS' LEAVING INDEMNITIES	1,069	1,104
ALLOCATIONS TO OTHER PROVISIONS	751	109
REVERSALS TO THE INCOME STATEMENT RELATING TO PROVISIONS FOR PERSONNEL CHARGES	(165)	-
REVERSALS TO THE INCOME STATEMENT RELATING TO LEGAL PROCEEDINGS AS DEFENDANT	(537)	(212)
REVERSALS TO THE INCOME STATEMENT RELATING TO CUSTOMER COMPLAINTS	-	(61)
REVERSALS TO THE INCOME STATEMENT RELATING TO THE PROVISION FOR AGENTS' LEAVING INDEMNITIES	(161)	(80)
TOTAL	1,071	1,216

SECTION 11 - NET VALUE ADJUSTMENTS/WRITE-BACKS TO PROPERTY, PLANT AND EQUIPMENT - ITEM 170**11.1 NET VALUE ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT: BREAKDOWN**

ASSETS/INCOME COMPONENT	DEPRECIATION (A)	IMPAIRMENT LOSSES (B)	WRITE-BACKS (C)	NET GAIN (LOSS) (A+B-C) 31/12/2017
A. PROPERTY, PLANT AND EQUIPMENT				
A.1 OWNED	1,331	-	-	1,331
- FOR USE IN OPERATIONS	1,260	-	-	1,260
- AS INVESTMENT	71	-	-	71
A.2 ACQUIRED UNDER FINANCE LEASES	-	-	-	-
- FOR USE IN OPERATIONS	-	-	-	-
- AS INVESTMENT	-	-	-	-
TOTAL	1,331	-	-	1,331

SECTION 12 - NET VALUE ADJUSTMENTS/WRITE-BACKS TO INTANGIBLE ASSETS - ITEM 180**12.1 NET VALUE ADJUSTMENTS TO INTANGIBLE ASSETS: BREAKDOWN**

ASSETS/INCOME COMPONENT	AMORTISATION (A)	IMPAIRMENT LOSSES (B)	WRITE-BACKS (C)	NET GAIN (LOSS) (A+B-C) 31/12/2017
A. INTANGIBLE ASSETS				
A.1 OWNED	803	-	-	803
- GENERATED WITHIN THE COMPANY	-	-	-	-
- OTHER	803	-	-	803
A.2 ACQUIRED UNDER FINANCE LEASES	-	-	-	-
TOTAL	803	-	-	803

SECTION 13 - OTHER OPERATING INCOME AND EXPENSE - ITEM 190**OTHER OPERATING EXPENSE/INCOME**

	31/12/2017	31/12/2016
TOTAL OTHER OPERATING EXPENSE	1,471	778
TOTAL OTHER OPERATING INCOME	13,734	11,344
OTHER OPERATING EXPENSE/INCOME	12,263	10,566

13.1 OTHER OPERATING EXPENSE: BREAKDOWN

	TOTAL 31/12/2017	TOTAL 31/12/2016
AMORTISATION OF LEASEHOLD IMPROVEMENT EXPENSE	392	332
LOSSES ASSOCIATED WITH OPERATIONAL RISKS	219	90
REIMBURSEMENT OF INTEREST ON COLLECTION AND PAYMENT TRANSACTIONS	-	-
PENALTIES PAYABLE FOR CONTRACTUAL DEFAULT	-	2
REIMBURSEMENT TO CUSTOMERS OF FUNDS-SICAV INCENTIVES (MIFID)	-	12
OTHER CHARGES	860	342
TOTAL	1,471	778

13.2 OTHER OPERATING INCOME: BREAKDOWN

	TOTAL 31/12/2017	TOTAL 31/12/2016
LEASE AND RENTAL INCOME	375	342
CHARGES BORNE BY THIRD PARTIES AND REIMBURSEMENTS RECEIVED:	12,202	10,290
- TAX RECOVERIES	12,202	10,290
- INSURANCE PREMIUMS AND REIMBURSEMENTS	-	-
RECOVERY OF EXPENSE AND OTHER INCOME ON DEPOSITS AND CURRENT ACCOUNTS	20	39
INCOME FROM SOFTWARE SERVICES	200	200
RECOVERY OF INTEREST ON COLLECTION AND PAYMENT TRANSACTIONS	3	1
POS LEASE INCOME	-	-
ADMINISTRATIVE SERVICES TO THIRD PARTIES	22	20
PENALTIES RECEIVABLE FOR CONTRACTUAL DEFAULT	378	29
RECOVERY OF EXPENSE FOR CREDIT COLLECTION SERVICES PROVIDED	34	54
RECOVERY OF OTHER EXPENSE	44	43
GAINS FROM BUSINESS UNIT DISPOSAL	-	-
OTHER INCOME	456	326
TOTAL	13,734	11,344

SECTION 17 - GAINS (LOSSES) FROM DISPOSAL OF INVESTMENTS - ITEM 240**17.1 GAINS (LOSSES) FROM DISPOSAL OF INVESTMENTS: BREAKDOWN**

INCOME COMPONENT/VALUES	TOTAL 31/12/2017	TOTAL 31/12/2016
A. PROPERTIES	-	-
- GAINS FROM DISPOSAL	-	-
- LOSSES FROM DISPOSAL	-	-
B. OTHER ASSETS	(15)	-
- GAINS FROM DISPOSAL	-	-
- LOSSES FROM DISPOSAL	(15)	-
NET GAIN (LOSS)	(15)	-

**SECTION 18 - INCOME TAXES FOR THE YEAR FROM CURRENT OPERATIONS -
ITEM 260**
18.1 INCOME TAXES FOR THE YEAR FROM CURRENT OPERATIONS: BREAKDOWN

INCOME COMPONENT/VALUES	TOTAL 31/12/2017	TOTAL 31/12/2016
1. CURRENT TAXES (-)	(4,164)	(3,489)
2. CHANGE IN CURRENT TAXES FROM PREVIOUS YEARS (+/-)	315	(43)
3. DECREASE IN CURRENT TAXES FOR THE YEAR (+)	-	-
3.BIS DECREASE IN CURRENT TAXES FOR THE YEAR AS A RESULT OF TAX CREDITS PURSUANT TO ITALIAN LAW 214/2011 (+)	9	163
4. CHANGE IN DEFERRED TAX ASSETS (+/-)	(218)	(105)
5. CHANGE IN DEFERRED TAX LIABILITIES (+/-)	41	(50)
6. TAXES FOR THE YEAR	(4,017)	(3,524)

18.2 RECONCILIATION BETWEEN THEORETICAL AND EFFECTIVE TAX CHARGES

DESCRIPTION	TAXABLE AMOUNT	RATE	INCOME TAXES
PROFIT (LOSS) FROM CURRENT OPERATIONS BEFORE TAX NOMINAL RATE ⁽¹⁾	12,077	33,09%	3,996
IRES RECONCILIATION:			
DIVIDENDS EXCLUDED FROM TAXES	(109)	-0,25%	(30)
WRITE-DOWN OF INVESTMENTS	314	0,71%	86
NON-DEDUCTIBLE COSTS	491	1,12%	135
IRAP ON LABOUR COSTS DEDUCTIBLE FOR IRES PURPOSES	(72)	-0,16%	(20)
ACE ("AID TO ECONOMIC DEVELOPMENT") TAX BENEFIT		-2,29%	(276)
OTHER TAX BENEFITS (ENERGY SAVINGS, ART BONUS)		-0,11%	(13)
CHANGE IN PREVIOUS YEAR'S IRES		0,27%	33
OTHER ADJUSTMENTS	(209)	-0,48%	(57)
ADJUSTED RATE		31,90%	3,853
IRAP RECONCILIATION:			
DIVIDENDS EXCLUDED FROM THE TAXABLE AMOUNT	(103)	-0,05%	(6)
NON-DEDUCTIBLE PERSONNEL EXPENSE	1,308	0,60%	73
NET VALUE ADJUSTMENTS ON NON-DEDUCTIBLE RECEIVABLES	(112)	-0,05%	(6)
NET VALUE ADJUSTMENTS FOR IMPAIRMENT LOSSES ON DEBT SECURITIES AND INVESTMENTS	452	0,21%	25
ALLOCATIONS NET OF THE USE OF NON-DEDUCTIBLE PROVISIONS FOR RISKS AND CHARGES	1,071	0,50%	59
ADMINISTRATIVE EXPENSE AND NON-DEDUCTIBLE AMORTISATION/DEPRECIATION	3,050	1,41%	170
CHANGE IN PREVIOUS YEAR'S IRAP	-	-0,65%	(79)
OTHER AMOUNTS EXCLUDED FROM THE TAXABLE AMOUNT	(1,328)	-0,61%	(74)
EFFECTIVE RATE	-	33,26%	4,016

(1) IRES rate + weighted average IRAP rate based on the geographic distribution of the taxable amount.

Part D - Comprehensive income

STATEMENT OF COMPREHENSIVE INCOME

ITEMS	GROSS AMOUNT	INCOME TAXES	NET AMOUNT
10 PROFIT (LOSS) FOR THE YEAR	X	X	8,060
OTHER INCOME COMPONENTS, WITHOUT REVERSAL TO THE INCOME STATEMENT			
20 PROPERTY, PLANT AND EQUIPMENT	-	-	-
30 INTANGIBLE ASSETS	-	-	-
40 DEFINED BENEFIT PLANS	4	(1)	3
50 NON-CURRENT ASSETS HELD FOR SALE	-	-	-
60 PORTION OF VALUATION RESERVES FOR INVESTMENTS MEASURED AT EQUITY	-	-	-
OTHER INCOME COMPONENTS, WITH REVERSAL TO THE INCOME STATEMENT			
70 FOREIGN INVESTMENT HEDGES:	-	-	-
A) CHANGES IN FAIR VALUE	-	-	-
B) REVERSAL TO THE INCOME STATEMENT	-	-	-
C) OTHER CHANGES	-	-	-
80 EXCHANGE DIFFERENCES:	-	-	-
A) CHANGES IN VALUE	-	-	-
B) REVERSAL TO THE INCOME STATEMENT	-	-	-
C) OTHER CHANGES	-	-	-
90 CASH FLOW HEDGES:	-	-	-
A) CHANGES IN FAIR VALUE	-	-	-
B) REVERSAL TO THE INCOME STATEMENT	-	-	-
C) OTHER CHANGES	-	-	-
100 AVAILABLE-FOR-SALE FINANCIAL ASSETS:	(483)	109	(374)
A) CHANGES IN FAIR VALUE	(452)	104	(348)
B) REVERSAL TO THE INCOME STATEMENT	(31)	5	(26)
- IMPAIRMENT LOSSES	23	(8)	15
- REALISED GAINS/LOSSES	(54)	13	(41)
C) OTHER CHANGES	-	-	-
110 NON-CURRENT ASSETS HELD FOR SALE:	-	-	-
A) CHANGES IN FAIR VALUE	-	-	-
B) REVERSAL TO THE INCOME STATEMENT	-	-	-
C) OTHER CHANGES	-	-	-
120 PORTION OF VALUATION RESERVES FOR INVESTMENTS MEASURED AT EQUITY:	-	-	-
A) CHANGES IN FAIR VALUE	-	-	-
B) REVERSAL TO THE INCOME STATEMENT	-	-	-
- IMPAIRMENT LOSSES	-	-	-
- REALISED GAINS/LOSSES	-	-	-
C) OTHER CHANGES	-	-	-
130 TOTAL OTHER INCOME COMPONENTS	(479)	108	(371)
140 COMPREHENSIVE INCOME (ITEMS 10+130)			7,689

Part E - Information on risks and related hedging policies

SECTION 1 - CREDIT RISK

INTRODUCTION

Lending activities, though growing constantly, are not the core business of the Bank and are performed with the aim of completing the range of services offered, particularly to depositors.

Given the above, lending mainly targets individuals and is backed by collateral or guarantees, or by irrevocable mandates to sell financial instruments deposited with the Bank.

Collateral is considered very carefully in order to allow access to credit, both to reduce risks associated with disbursement and for the mitigation that such instruments offer. The main types are credit facility opening, loans (mortgages or unsecured), interest-free loans and letters of credit.

The Bank has a specific organisational structure to manage lending in a highly centralised manner. The decision-making process is mostly centralised; the operational stages and limited decision-making powers are devolved to the branches. Decision-making powers are assigned to individuals, not on the basis of the office held but rather on the respective expertise and technical skills, as well as to central boards and committees.

Information of a general nature is provided below on credit risk management by Banca Patrimoni Sella & C.

QUALITATIVE INFORMATION

1 GENERAL ASPECTS

Banca Patrimoni Sella & C. assigns considerable importance to credit risk measurement and management. Lending activities have always been considered accessory to the Bank's core business, which instead focuses on the management of customers' financial investments. The credit policies and credit disbursement and monitoring practices are consequently defined in such a way as to combine customer requirements with the need to guarantee that the quality of lending activities is maintained.

With specific reference to credit risk control activities, these are the responsibility of the Risk Management Department¹⁴ and the Credit Division of the Bank jointly with the branches. The first has the duty of monitoring and quantifying the credit risk assumed by the Bank, assessing its sustainability and, through the use of shared tools, encouraging effective and proactive management, as well as verifying that performance monitoring of individual credit exposures is carried out correctly. The second is instead dedicated to more traditional monitoring, primarily the analysis of single credit positions and a number of variables considered significant for credit risk control.

¹⁴ The Risk Management Department of Banca Patrimoni also makes use of activities performed by the Parent Company's Risk Management Department in accordance with the specific outsourcing contract

2 CREDIT RISK MANAGEMENT POLICIES

2.1 ORGANISATIONAL ASPECTS

In general, loan applications are received directly by the Bank's branches, which then handle the initial phase of gathering documentation and starting the investigations necessary for the subsequent assessment of creditworthiness and the final decision. In support of the assessment process, the bank has adopted scoring and rating systems. The decision-making officer can, at his or her own discretion, accept, deny or occasionally amend the application (for example, requesting additional guarantees or proposing a reduction in the amount requested or a different type of facility).

Based on the amount and type of credit requested, the granting of loans is decided by individuals or bodies with specific decision-making powers, up to and including the Board of Directors.

After disbursement, the positions granted must be reviewed periodically to verify continuation of the credit rating and to assess any new needs of the customer.

2.2 MANAGEMENT, MEASUREMENT AND CONTROL SYSTEMS

With regard to management, measurement and control systems for credit risk exposure, the Risk Management Department is responsible for developing credit risk measurement approaches and for providing support in the creation of specific models to measure the risk components in each credit portfolio. The Risk Management Department is also responsible for supervisory activities, preparing periodic reports to all levels.

As regards default risk assessment, different management procedures and analysis tools are available based on customer segmentation consistent with Basel 3 Standardised Approach benchmarks, as indicated in Regulation 575/2013. As mentioned previously, lending is not the core business of Banca Patrimoni and that business primarily targets private customers.

Note the existence at Group level of the Credit Risk Control Committee, which aims to enhance coordination of the credit risk profile monitoring of all Banca Sella Group entities with credit exposures. The Committee meetings:

- a - discuss the performance and forecast developments of macroeconomic variables in relation to developments in the risk profile of the loans and risk metrics;
- b - monitor the deviation between final monthly values and the forecast values relating to RAF limits and credit adjustments;
- c - lastly, the Committee keeps a register of the main critical issues emerging and the responsibilities assigned; monitors compliance with deadlines and the effectiveness of remedial action associated with anomalies or the outcome of controls pursuant to Circular 285 (formerly 263/2006);
- d - plans meetings for in-depth discussion of specific points for attention and verification of the entities' compliance with governance defined in the Parent Company's Risk Management Policy.

With dedicated personnel and in cooperation with the branches, the Credit Department supervises the adequacy of credit risk control through constant monitoring of performance and customer data and through super-

vision of the distribution network operations.

2.3 CREDIT RISK MITIGATION APPROACHES

The allocation of loans involves an initial selection that is highly detailed in terms of potential borrowers, taking into consideration the actual capacity of the borrower to meet commitments assumed on the basis of their capacity to generate adequate cash flows and carefully assessing the forms of credit risk protection offered by the type of credit and the presence of guarantees.

In this respect, note the particular nature of the borrowers of Banca Patrimoni Sella & C., often depositors for whom the credit component obtained from the Bank is only a part, even a modest part, of the total assets under the Bank's management or administration.

The guarantees normally obtained from the counterparties are those characteristic of banking activities, i.e. mainly: personal guarantees and collateral on properties and financial instruments. Banca Patrimoni Sella & C. does not make use of offsetting arrangements in relation to recorded and off-balance sheet transactions, nor in the purchase of credit derivatives.

Banca Patrimoni Sella & C. is fully aware that the credit risk mitigation approaches are more effective if acquired and managed in a manner compliant with the provisions of Basel 3 in every possible situation: legal, prompt realisation, organisational and specific to every guarantee.

With specific reference to the guarantee acquisition phase, the process is supported by a special IT procedure that intervenes at decision-making and finalisation stages of the facility in order to manage guarantee acquisition (pledges, mortgages and sureties) and restricts finalisation until the envisaged controls prove successful.

In general, the credit disbursement practices do not envisage the acceptance of guarantees that contemplate contractual restrictions that could compromise their legal validity.

2.4 IMPAIRED FINANCIAL ASSETS

Throughout 2017, such instances had a very modest impact on Banca Patrimoni Sella & C. operations. Information of a general nature is provided, however, on the management methods adopted by the Banca Sella Group.

In accordance with IAS 39, impaired loans are subject to collective or analytical measurement depending on the impairment status and the amount involved. The total adjustment to any receivable is equal to the difference between the present value of expected future cash flows, calculated by applying the original effective interest rate, and the book value at the time of measurement.

For the portion of impaired receivables written off, the Non-Performing Exposures Department of Banca Sella, which manages credit collection activities in disputed cases for the Banca Sella Group, outsources the activities on behalf of Banca Patrimoni Sella & C. from the time of cancellation of the facilities to the management of enforcement action.

QUANTITATIVE INFORMATION**A. CREDIT QUALITY**

For the purpose of quantitative information on credit quality, the term "credit exposures" refers solely to equity instruments and UCITS units, whilst the broader term "exposures" includes these elements.

A.1 NON-PERFORMING AND PERFORMING CREDIT POSITIONS: BALANCES, VALUE ADJUSTMENTS, TRENDS, ECONOMIC AND GEOGRAPHIC DISTRIBUTION**A.1.1 BREAKDOWN OF FINANCIAL ASSETS BY RELATED PORTFOLIO AND BY CREDIT QUALITY (BOOK VALUES)**

PORTFOLIO/QUALITY	NON-PERFORMING	UNLIKELY TO PAY	IMPAIRED PAST DUE	PERFORMING PAST DUE LOANS	PERFORMING	TOTAL
1. AVAILABLE-FOR-SALE FINANCIAL ASSETS	-	451	-	-	203,070	203,521
2. FINANCIAL ASSETS HELD TO MATURITY	-	-	-	-	43,139	43,139
3. DUE FROM BANKS	-	-	-	-	616,109	616,109
4. DUE FROM CUSTOMERS	371	974	25	3,320	481,760	486,450
5. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	-	-	-	-	-	-
6. FINANCIAL ASSETS HELD FOR SALE	-	-	-	-	-	-
TOTAL 31/12/2017	371	1,425	25	3,320	1,344,078	1,349,219
TOTAL 31/12/2016	740	1,208	31	7,226	1,351,574	1,360,779

A.1.2 BREAKDOWN OF CREDIT EXPOSURES BY RELATED PORTFOLIO AND BY CREDIT QUALITY (GROSS AND NET VALUES)

PORTFOLIO/QUALITY	IMPAIRED ASSETS			PERFORMING ASSETS			TOTAL (NET EXPOSURE)
	GROSS EXPOSURE	SPECIFIC ADJUSTMENTS	NET EXPOSURE	GROSS EXPOSURE	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	
1. AVAILABLE-FOR-SALE FINANCIAL ASSETS	720	(269)	451	203,070	-	203,070	203,521
2. FINANCIAL ASSETS HELD TO MATURITY	-	-	-	43,139	-	43,139	43,139
3. DUE FROM BANKS	-	-	-	616,110	(1)	616,109	616,109
4. DUE FROM CUSTOMERS	2,416	(1,046)	1,370	485,316	(236)	485,080	486,450
5. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	-	-	-	x	x	-	-
6. FINANCIAL ASSETS HELD FOR SALE	-	-	-	-	-	-	-
TOTAL 31/12/2017	3,136	(1,315)	1,821	1,347,635	(237)	1,347,398	1,349,219
TOTAL 31/12/2016	2,795	(816)	1,979	1,359,076	(276)	1,358,800	1,360,779

PORTFOLIO/QUALITY	ASSETS OF CLEARLY POOR CREDIT QUALITY		OTHER ASSETS
	ACCUMULATED CAPITAL LOSSES	NET EXPOSURE	NET EXPOSURE
1. FINANCIAL ASSETS HELD FOR TRADING	-	-	5,533
2. HEDGING DERIVATIVES	-	-	-
TOTAL 31/12/2017	-	-	5,533
TOTAL 31/12/2016	-	-	4,160

**A.1.3 CASH AND OFF-BALANCE SHEET CREDIT EXPOSURES TO BANKS:
GROSS VALUES, NET VALUES AND PAST DUE RANGE**

EXPOSURE TYPE/VALUES	GROSS EXPOSURE							
	IMPAIRED ASSETS				PERFORMING ASSETS	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS	NET EXPOSURE
	UP TO 3 MONTHS	MORE THAN 3 MONTHS AND UP TO 6 MONTHS	MORE THAN 6 MONTHS AND UP TO 1 YEAR	MORE THAN 1 YEAR				
A. CASH EXPOSURES								
A) NON-PERFORMING	-	-	-	-	X	-	X	-
- OF WHICH: FORBEARANCE EXPOSURES	-	-	-	-	X	-	X	-
B) UNLIKELY TO PAY	-	-	-	-	X	-	X	-
- OF WHICH: FORBEARANCE EXPOSURES	-	-	-	-	X	-	X	-
C) IMPAIRED PAST DUE	-	-	-	-	X	-	X	-
- OF WHICH: FORBEARANCE EXPOSURES	-	-	-	-	X	-	X	-
D) PERFORMING PAST DUE LOANS	X	X	X	X	-	X	-	-
- OF WHICH: FORBEARANCE EXPOSURES	X	X	X	X	-	X	-	-
E) OTHER PERFORMING EXPOSURES	X	X	X	X	681,202	X	1	681,201
- OF WHICH: FORBEARANCE EXPOSURES	X	X	X	X	-	X	-	-
TOTAL A	-	-	-	-	681,202	-	1	681,201
B. OFF-BALANCE SHEET EXPOSURES								
A) IMPAIRED	-	-	-	-	X	-	X	-
B) PERFORMING	X	X	X	X	10,291	X	-	10,291
TOTAL B	-	-	-	-	10,291	-	-	10,291
TOTAL (A+B)	-	-	-	-	691,493	-	1	691,492

**A.1.6 CASH AND OFF-BALANCE SHEET CREDIT EXPOSURES TO CUSTOMERS:
GROSS VALUES, NET VALUES AND PAST DUE RANGE**

EXPOSURE TYPE/VALUES	GROSS EXPOSURE							
	IMPAIRED ASSETS				PERFORMING ASSETS	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS	NET EXPOSURE
	UP TO 3 MONTHS	MORE THAN 3 MONTHS AND UP TO 6 MONTHS	MORE THAN 6 MONTHS AND UP TO 1 YEAR	MORE THAN 1 YEAR				
A. CASH EXPOSURES								
A) NON-PERFORMING	-	-	-	1,325	X	954	X	371
- OF WHICH: FORBEARANCE EXPOSURES	-	-	-	-	X	-	X	-
B) UNLIKELY TO PAY	1,024	-	22	733	X	354	X	1,425
- OF WHICH: FORBEARANCE EXPOSURES	726	-	-	-	X	44	X	682
C) IMPAIRED PAST DUE	-	10	10	12	X	7	X	25
- OF WHICH: FORBEARANCE EXPOSURES	-	-	-	-	X	-	X	-
D) PERFORMING PAST DUE LOANS	X	X	X	X	3,322	X	2	3,320
- OF WHICH: FORBEARANCE EXPOSURES	X	X	X	X	-	X	-	-
E) OTHER PERFORMING EXPOSURES	X	X	X	X	667,877	X	234	667,643
- OF WHICH: FORBEARANCE EXPOSURES	X	X	X	X	-	X	-	-
TOTAL A	1,024	10	32	2,070	671,199	1,315	236	672,784
B. OFF-BALANCE SHEET EXPOSURES								
A) IMPAIRED	-	-	-	-	-	-	-	-
B) PERFORMING	X	X	X	X	21,997	X	5	21,992
TOTAL B	-	-	-	-	21,997	-	5	21,992
TOTAL (A+B)	1,024	10	32	2,070	693,196	1,315	241	694,776

**A.1.7 CREDIT EXPOSURES ON A CASH BASIS TO CUSTOMERS:
CHANGES IN GROSS IMPAIRED LOANS**

REASONS/CATEGORIES	NON-PERFORMING	UNLIKELY TO PAY	IMPAIRED PAST DUE
A. GROSS EXPOSURE - OPENING BALANCE	1,502	1,254	39
- OF WHICH: ASSIGNED BUT NOT YET ELIMINATED	-	-	-
B. INCREASES	164	1,306	45
B.1 TRANSFERRED FROM PERFORMING LOANS	-	1,104	18
B.2 TRANSFERS FROM OTHER IMPAIRED LOAN CATEGORIES	104	3	-
B.3 OTHER INCREASES	60	199	27
- OF WHICH: BUSINESS COMBINATIONS	-	-	-
C. DECREASES	341	781	52
C.1 TRANSFERRED TO PERFORMING LOANS	-	-	30
C.2 WRITE-OFFS	59	-	-
C.3 COLLECTIONS	282	668	19
C.4 GAINS REALISED ON DISPOSALS	-	-	-
C.5 LOSSES FROM DISPOSAL	-	-	-
C.6 TRANSFERS TO OTHER IMPAIRED LOAN CATEGORIES	-	104	3
C.7 OTHER DECREASES	-	9	-
- OF WHICH: BUSINESS COMBINATIONS	-	-	-
D. GROSS EXPOSURE - CLOSING BALANCE	1,325	1,779	32
- OF WHICH: ASSIGNED BUT NOT YET ELIMINATED	-	-	-

**A.1.7BIS CREDIT EXPOSURES ON A CASH BASIS TO CUSTOMERS:
CHANGES IN GROSS FORBEARANCE EXPOSURES BROKEN DOWN BY CREDIT QUALITY**

REASONS/CATEGORIES	FORBEARANCE EXPOSURES: IMPAIRED	FORBEARANCE EXPOSURES: PERFORMING
A. GROSS EXPOSURE - OPENING BALANCE	13	1,262
- OF WHICH: ASSIGNED BUT NOT YET ELIMINATED	-	-
B. INCREASES	809	-
B.1 TRANSFERRED FROM PERFORMING EXPOSURES WITHOUT FORBEARANCE	198	-
B.2 TRANSFERRED FROM PERFORMING FORBEARANCE EXPOSURES	-	X
B.3 TRANSFERRED FROM IMPAIRED FORBEARANCE EXPOSURES	X	-
B.4 OTHER INCREASES	611	-
- OF WHICH: BUSINESS COMBINATIONS	-	-
C. DECREASES	96	1,262
C.1 TRANSFERRED TO PERFORMING EXPOSURES WITHOUT FORBEARANCE	X	1,262
C.2 TRANSFERRED TO PERFORMING FORBEARANCE EXPOSURES	-	X
C.3 TRANSFERRED TO IMPAIRED FORBEARANCE EXPOSURES	X	-
C.4 WRITE-OFFS	-	-
C.5 COLLECTIONS	96	-
C.6 GAINS REALISED ON DISPOSALS	-	-
C.7 LOSSES FROM DISPOSAL	-	-
C.8 OTHER DECREASES	-	-
D. GROSS EXPOSURE - CLOSING BALANCE	726	-
- OF WHICH: ASSIGNED BUT NOT YET ELIMINATED	-	-

**A.1.8 CREDIT EXPOSURES ON A CASH BASIS TO CUSTOMERS:
CHANGES IN TOTAL VALUE ADJUSTMENTS**

REASONS/CATEGORIES	NON-PERFORMING		UNLIKELY TO PAY		IMPAIRED PAST DUE	
	TOTAL	OF WHICH: FORBEARANCE EXPOSURES	TOTAL	OF WHICH: FORBEARANCE EXPOSURES	TOTAL	OF WHICH: FORBEARANCE EXPOSURES
A. TOTAL ADJUSTMENTS - OPENING BALANCE	762	-	46	2	8	-
- OF WHICH: ASSIGNED BUT NOT YET ELIMINATED	-	-	-	-	-	-
B. INCREASES	277	-	328	44	8	-
B.1 VALUE ADJUSTMENTS	277	-	328	44	8	-
B.2 LOSSES FROM DISPOSAL	-	-	-	-	-	-
B.3 TRANSFERS FROM OTHER	-	-	-	-	-	-
IMPAIRED LOAN CATEGORIES	-	-	-	-	-	-
B.4 OTHER INCREASES	-	-	-	-	-	-
C. DECREASES	85	-	20	2	9	-
C.1 REVERSALS FOLLOWING MEASUREMENT	26	-	5	2	7	-
C.2 REVERSALS DUE TO COLLECTIONS	-	-	15	-	2	-
C.3 GAINS FROM DISPOSAL	-	-	-	-	-	-
C.4 WRITE-OFFS	59	-	-	-	-	-
C.5 TRANSFERS TO OTHER	-	-	-	-	-	-
IMPAIRED LOAN CATEGORIES	-	-	-	-	-	-
C.6 OTHER DECREASES	-	-	-	-	-	-
D. TOTAL ADJUSTMENTS - CLOSING BALANCE	954	-	354	44	7	-
- OF WHICH: ASSIGNED BUT NOT YET ELIMINATED	-	-	-	-	-	-

A.2 CLASSIFICATION OF EXPOSURES BASED ON EXTERNAL AND INTERNAL RATINGS

The table below illustrates exposures by external rating classes assigned by Fitch to Banca Patrimoni Sella & C. customers.

A.2.1 BREAKDOWN OF CREDIT EXPOSURES ON A CASH BASIS AND OFF-BALANCE SHEET BY EXTERNAL RATING CLASSES

EXPOSURES	EXTERNAL RATING CLASSES						UNRATED	TOTAL
	CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6		
A. CREDIT EXPOSURES ON A CASH BASIS	22,833	35,475	98,405	20,531	3,942	-	1,202,408	1,383,594
B. DERIVATIVES	-	-	-	-	-	-	768	768
B.1 FINANCIAL DERIVATIVES	-	-	-	-	-	-	768	768
B.2 CREDIT DERIVATIVES	-	-	-	-	-	-	-	-
C. GUARANTEES GIVEN	-	-	-	-	-	-	7,707	7,707
D. COMMITMENTS TO DISBURSE FUNDS	-	-	-	-	-	-	23,806	23,806
E. OTHER	-	-	-	-	-	-	2	2
TOTAL	22,833	35,475	98,405	20,531	3,942	-	1,234,691	1,415,877

The external rating classes are shown in accordance with ECAI rating mapping recognised by the Bank of Italy.

The mapping illustrated in the table refers to long-term ratings assigned by Fitch Ratings:

- credit rating class 1 includes Fitch ratings from AAA to AA-;
- credit rating class 2 includes Fitch ratings from A+ to A-;
- credit rating class 3 includes Fitch ratings from BBB+ to BBB-;
- credit rating class 4 includes Fitch ratings from BB+ to BB-;
- credit rating class 5 includes Fitch ratings from B+ to B-;
- credit rating class 6 includes Fitch ratings CCC+ and lower.

It should be emphasised that more than 60% of unrated exposures of Banca Patrimoni Sella & C. refer to companies included in the scope of consolidation of the Banca Sella Group.

A.2.2 BREAKDOWN OF CASH AND OFF-BALANCE SHEET EXPOSURES BY INTERNAL RATING CLASSES

This table is omitted as the coverage is minimal and less than 2%. With regard to internal ratings, note that all banks in the Group have an internal model for the assignment of credit ratings to Corporate and Large Corporate companies and a model also for Small Businesses and SMEs.

The internal ratings are not currently used to calculate capital requirements.

The rating assignment and calculation for Banca Patrimoni Sella & C. customers, as a result of the higher concentration of counterparties in the consumer household sector, has not reached significant coverage levels with respect to the overall portfolio size.

A.3 BREAKDOWN OF GUARANTEED EXPOSURES BY GUARANTEE TYPE**A.3.2 CREDIT EXPOSURES TO CUSTOMERS - WITH GUARANTEES**

	NET EXPOSURE	COLLATERAL (1)				CLNS
		PROPERTIES, MORTGAGES	PROPERTIES, FINANCE LEASES	SECURITIES	OTHER COLLATERAL	
1. CREDIT EXPOSURES						
ON A CASH BASIS -	328,435	122,350	-	169,673	24,086	-
1.1. FULLY GUARANTEED	305,273	122,350	-	156,487	22,511	-
- OF WHICH: IMPAIRED	1,184	854	-	284	6	-
1.2. PART-GUARANTEED	23,162	-	-	13,186	1,575	-
- OF WHICH: IMPAIRED	-	-	-	-	-	-
2. OFF-BALANCE SHEET CREDIT	6,125	-	-	5,056	951	-
2.1. FULLY GUARANTEED	4,898	-	-	3,979	919	-
- OF WHICH: IMPAIRED	-	-	-	-	-	-
2.2. PART-GUARANTEED	1,227	-	-	1,077	32	-
- OF WHICH: IMPAIRED	-	-	-	-	-	-

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES**B.1 BREAKDOWN BY SECTOR OF CREDIT EXPOSURES ON A CASH BASIS AND OFF-BALANCE SHEET TO CUSTOMERS (BOOK VALUE) - P.1**

EXPOSURES/COUNTERPARTIES	GOVERNMENT AUTHORITIES		
	NET EXPOSURE	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS
A. CASH EXPOSURES			
A.1 NON-PERFORMING	-	-	X
- OF WHICH: FORBEARANCE EXPOSURES	-	-	X
A.2 UNLIKELY TO PAY	-	-	X
- OF WHICH: FORBEARANCE EXPOSURES	-	-	X
A.3 IMPAIRED PAST DUE	-	-	X
- OF WHICH: FORBEARANCE EXPOSURES	-	-	X
A.4 PERFORMING	94,925	X	-
- OF WHICH: FORBEARANCE EXPOSURES	-	X	-
TOTAL A	94,925	-	-
B. OFF-BALANCE-SHEET EXPOSURES			
B.1 NON-PERFORMING	-	-	X
B.2 UNLIKELY TO PAY	-	-	X
B.3 OTHER IMPAIRED ASSETS	-	-	X
B.4 PERFORMING	-	X	-
TOTAL B	-	-	-
TOTAL (A+B) 31/12/2017	94,925	-	-
TOTAL (A+B) 31/12/2016	30,957	-	-

PERSONAL GUARANTEES (2)								
CREDIT DERIVATIVES				UNSECURED				
OTHER DERIVATIVES								
GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER ENTITIES	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER ENTITIES	TOTAL (1)+(2)
-	-	-	-	-	-	-	2,696	318,805
-	-	-	-	-	-	-	2,696	304,044
-	-	-	-	-	-	-	40	1,184
-	-	-	-	-	-	-	-	14,761
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	6,007
-	-	-	-	-	-	-	-	4,898
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	1,109
-	-	-	-	-	-	-	-	-

OTHER PUBLIC ENTITIES			FINANCIAL COMPANIES		
NET EXPOSURE	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS	NET EXPOSURE	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS
-	-	X	-	-	X
-	-	X	-	-	X
-	-	X	-	-	X
-	-	X	-	-	X
-	-	X	1	-	X
-	-	X	-	-	X
-	X	-	187,175	X	(2)
-	X	-	-	X	-
-	-	-	187,176	-	(2)
-	-	X	-	-	X
-	-	X	-	-	X
-	-	X	-	-	-
692	X	-	1,828	X	-
692	-	-	1,828	-	-
692	-	-	189,004	-	(2)
1,953	-	-	82,403	-	(3)

**B.1 BREAKDOWN BY SECTOR OF CREDIT EXPOSURES ON A CASH BASIS
AND OFF-BALANCE SHEET TO CUSTOMERS (BOOK VALUE) - P.2**

EXPOSURES/COUNTERPARTIES	INSURANCE COMPANIES		
	NET EXPOSURE	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS
A. CASH EXPOSURES			
A.1 NON-PERFORMING	-	-	X
- OF WHICH: FORBEARANCE EXPOSURES	-	-	X
A.2 UNLIKELY TO PAY	-	-	X
- OF WHICH: FORBEARANCE EXPOSURES	-	-	X
A.3 IMPAIRED PAST DUE	-	-	X
- OF WHICH: FORBEARANCE EXPOSURES	-	-	X
A.4 PERFORMING	11,043	X	-
- OF WHICH: FORBEARANCE EXPOSURES	-	X	-
TOTAL A	11,043	-	-
B. OFF-BALANCE-SHEET EXPOSURES			
B.1 NON-PERFORMING	-	-	X
B.2 UNLIKELY TO PAY	-	-	X
B.3 OTHER IMPAIRED ASSETS	-	-	X
B.4 PERFORMING	143	X	-
TOTAL B	143	-	-
TOTAL (A+B) 31/12/2017	11,186	-	-
TOTAL (A+B) 31/12/2016	5,243	-	-

**B.2 BREAKDOWN BY GEOGRAPHIC AREA OF CREDIT EXPOSURES ON A CASH BASIS
AND OFF-BALANCE SHEET TO CUSTOMERS (BOOK VALUE)**

EXPOSURES/GEOGRAPHIC AREA	ITALY		OTHER EU COUNTRIES	
	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
A. CASH EXPOSURES				
A.1 NON-PERFORMING	371	(954)	-	-
A.2 UNLIKELY TO PAY	1,425	(354)	-	-
A.3 IMPAIRED PAST DUE	25	(7)	-	-
A.4 PERFORMING	577,131	(234)	70,404	(2)
TOTAL A	578,952	(1,549)	70,404	(2)
B. OFF-BALANCE-SHEET EXPOSURES				
B.1 NON-PERFORMING	-	-	-	-
B.2 UNLIKELY TO PAY	-	-	-	-
B.3 OTHER IMPAIRED ASSETS	-	-	-	-
B.4 PERFORMING	17,426	(5)	2,536	-
TOTAL B	17,426	(5)	2,536	-
TOTAL (A+B) 31/12/2017	596,378	(1,554)	72,940	(2)
TOTAL (A+B) 31/12/2016	422,545	(1,095)	34,212	(1)

NON-FINANCIAL COMPANIES			OTHER ENTITIES		
NET EXPOSURE	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS	NET EXPOSURE	SPECIFIC VALUE ADJUSTMENTS	PORTFOLIO VALUE ADJUSTMENTS
225	(400)	X	146	(554)	X
-	-	X	-	-	X
751	(293)	X	674	(61)	X
150	(4)	X	532	(40)	X
2	(1)	X	23	(7)	X
-	-	X	-	-	X
130,144	X	(71)	247,674	X	(163)
-	X	-	-	X	-
131,122	(694)	(71)	248,517	(622)	(163)
-	-	X	-	-	X
-	-	X	-	-	X
-	-	X	-	-	X
9,643	X	(3)	9,686	X	(2)
9,643	-	(3)	9,686	-	(2)
140,765	(694)	(74)	258,203	(622)	(165)
124,054	(229)	(98)	222,965	(586)	(181)

AMERICA		ASIA		REST OF THE WORLD	
NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
23,071	-	157	-	200	-
23,071	-	157	-	200	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,030	-	-	-	-	-
2,030	-	-	-	-	-
25,101	-	157	-	200	-
4,705	-	-	-	6,115	-

B.2 BREAKDOWN BY GEOGRAPHIC AREA OF CREDIT EXPOSURES ON A CASH BASIS AND OFF-BALANCE SHEET TO CUSTOMERS (BOOK VALUE)

EXPOSURES/GEOGRAPHIC AREA	NORTH-WEST ITALY		NORTH-EAST ITALY	
	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
A. CASH EXPOSURES				
A.1 NON-PERFORMING	229	842	10	1
A.2 UNLIKELY TO PAY	671	23	281	7
A.3 IMPAIRED PAST DUE	15	4	1	-
A.4 PERFORMING	298,279	103	78,847	47
TOTAL A	299,194	972	79,139	55
B. OFF-BALANCE-SHEET EXPOSURES				
B.1 NON-PERFORMING	-	-	-	-
B.2 UNLIKELY TO PAY	-	-	-	-
B.3 OTHER IMPAIRED ASSETS	-	-	-	-
B.4 PERFORMING	5,271	2	425	-
TOTAL B	5,271	2	425	-
TOTAL (A+B) 31/12/2017	304,465	974	79,564	55
TOTAL (A+B) 31/12/2016	230,514	803	66,224	93

B.3 BREAKDOWN BY GEOGRAPHIC AREA OF CREDIT EXPOSURES ON A CASH BASIS AND OFF-BALANCE SHEET TO BANKS (BOOK VALUE)

EXPOSURES/GEOGRAPHIC AREA	ITALY		OTHER EU COUNTRIES	
	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
A. CASH EXPOSURES				
A.1 NON-PERFORMING	-	-	-	-
A.2 UNLIKELY TO PAY	-	-	-	-
A.3 IMPAIRED PAST DUE	-	-	-	-
A.4 PERFORMING	671,162	1	6,677	-
TOTAL A	671,162	1	6,677	-
B. OFF-BALANCE-SHEET EXPOSURES				
B.1 NON-PERFORMING	-	-	-	-
B.2 UNLIKELY TO PAY	-	-	-	-
B.3 OTHER IMPAIRED ASSETS	-	-	-	-
B.4 PERFORMING	6,605	-	3,686	-
TOTAL B	6,605	-	3,686	-
TOTAL (A+B) 31/12/2017	677,767	1	10,363	-
TOTAL (A+B) 31/12/2016	913,997	(1)	5,724	-

CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS	
NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
39	50	93	61
7	206	466	118
2	1	7	2
120,443	31	79,562	53
120,491	288	80,128	234
-	-	-	-
-	-	-	-
-	-	-	-
3,512	2	8,218	1
3,512	2	8,218	1
124,003	290	88,346	235
76,763	91	49,044	109

AMERICA		ASIA		REST OF THE WORLD	
NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,147	-	-	-	215	-
3,147	-	-	-	215	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,147	-	-	-	215	-
1,730	-	-	-	1,480	-

**B.3 BREAKDOWN BY GEOGRAPHIC AREA OF CREDIT EXPOSURES
ON A CASH BASIS AND OFF-BALANCE SHEET TO BANKS (BOOK VALUE)**

EXPOSURES/GEOGRAPHIC AREA	NORTH-WEST ITALY		NORTH-EAST ITALY	
	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
A. CASH EXPOSURES				
A.1 NON-PERFORMING	-	-	-	-
A.2 UNLIKELY TO PAY	-	-	-	-
A.3 IMPAIRED PAST DUE	-	-	-	-
A.4 PERFORMING	637,119	1	3,025	-
TOTAL A	637,119	1	3,025	-
B. OFF-BALANCE-SHEET EXPOSURES				
B.1 NON-PERFORMING	-	-	-	-
B.2 UNLIKELY TO PAY	-	-	-	-
B.3 OTHER IMPAIRED ASSETS	-	-	-	-
B.4 PERFORMING	6,605	-	-	-
TOTAL B	6,605	-	-	-
TOTAL (A+B) 31/12/2017	643,724	1	3,025	-
TOTAL (A+B) 31/12/2016	885,512	1	9,406	-

B.4 LARGE EXPOSURES

	31/12/2017
A) TOTAL (BOOK VALUE)	1,039,176
B) TOTAL (WEIGHTED VALUE)	133,792
C) NUMBER	18

C. SECURITISATIONS

The Bank did not perform any securitisations during the year.

**D. INFORMATION ON UNCONSOLIDATED STRUCTURED ENTITIES
(OTHER THAN SECURITISATION VEHICLES)**
QUALITATIVE INFORMATION

The Bank has exposures to unconsolidated structured entities due to the effect of investments in units of UCITS qualifying as structured entities in accordance with IFRS 12.

CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS	
NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
-	-	-	-
-	-	-	-
-	-	-	-
31,018	-	-	-
31,018	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
31,018	-	-	-
19,079	-	-	-

QUANTITATIVE INFORMATION**INFORMATION ON UNCONSOLIDATED STRUCTURED ENTITIES (OTHER THAN SECURITISATION VEHICLES)**

ITEM/STRUCTURED ENTITY TYPE	ASSET PORTFOLIOS	TOTAL ASSETS (A)	LIABILITY PORTFOLIOS
UCITS	AFS	29,609	-

E. DISPOSALS**A. FINANCIAL ASSETS SOLD BUT NOT FULLY ELIMINATED**

The Bank had none of this type of financial asset at 31 December 2017.

**B. FINANCIAL ASSETS SOLD AND FULLY ELIMINATED
WITH RECOGNITION OF CONTINUOUS INVOLVEMENT**

The Bank had no assets of this nature during the year.

F. CREDIT RISK MEASUREMENT MODELS

The Bank does not use internal portfolio models to measure credit risk exposure.

The capital requirement for credit risk is currently calculated by applying the standardised approach.

SECTION 2 - MARKET RISKS

Market risk refers to unexpected changes in market factors such as interest rates, exchange rates and price changes dependent on the fluctuations of market variables and specific issuer or counterparty factors that can result in an increase or decrease in the market values of positions in financial instruments and/or foreign currencies held by a financial intermediary.

**2.1 INTEREST RATE RISK AND PRICE RISK -
REGULATORY TRADING PORTFOLIO**

For the purpose of completing this section, only financial instruments (assets and liabilities) in the "regulatory trading portfolio" are included, as defined in the instructions relating to regulatory reporting on market risks (see Circular no. 286 of 17 December 2013 issued by the Bank of Italy).

TOTAL LIABILITIES (B)	NET BOOK VALUE (C=A-B)	MAXIMUM EXPOSURE RISK OF LOSS (D)	DIFFERENCE BETWEEN EXPOSURE TO RISK OF LOSS AND BOOK VALUE (E=D-C)
-	29,609	29,609	0

QUALITATIVE INFORMATION

A. GENERAL ASPECTS

The Bank's trading book mainly comprises bonds, shares, UCITS units and listed hedging derivatives of positions. The bond component of the portfolio is largely made up of medium-term bonds. The main portion of the risk portfolio refers to issuer risk and interest rate risk.

The underlying objectives and strategies of trading activities carried out on the portfolio of own securities aim to limit risks and maximise profitability of the portfolio within the sphere of action established by Group regulations on such matters.

B. MANAGEMENT PROCESSES AND MEASUREMENT APPROACHES FOR INTEREST RATE RISK AND PRICE RISK

The market risk management process for the trading book is governed by specific company regulations, approved by the Board of Directors and subject to periodic review. These regulations formalise the Risk Management Department's activities as regards market risk, defines the duties and responsibilities assigned to the different organisational units concerned and, amongst other things, specifies the measurement approaches, exposure limits, information flows and any mitigation measures. Investment and trading activities are therefore performed in compliance with the aforementioned regulations and is carried out as part of a system of operating powers and within the framework of a regulation that envisages operating limits defined in terms of instruments, amounts, investment markets, issue and issuer types, sectors and ratings.

The Risk Management Department monitors market risk exposure and verifies that it matches the risk appetite defined by the corporate bodies in the Risk Appetite Framework and its compliance with the limits system. In line with the Risk Appetite Framework adopted by the Banca Sella Group, market risk exposure is monitored in reference to the current portfolio (comprising the financial instruments classified as held for trading and available for sale).

Suitable information flows are provided regularly and promptly to the corporate bodies and management departments.

For prudential purposes, in measuring interest rate risk and price risk intrinsic to the regulatory trading portfolio, the Banca Sella Group applies the standardised approach defined in Bank of Italy Circular no. 285/2013, as amended. It follows that the capital absorption as regards market risk is rep-

resented by the sum of capital requirements for each risk qualifying as market risk based on the “building block approach”.

When drafting the ICAAP Report (capital adequacy assessment in accordance with Basel 3 Pillar 2), and therefore at least on an annual basis, the Parent Company carries out stress tests on the current portfolio. Stress testing consists in the analysis of economic results as specific negative events - extreme but plausible - occur (for example, downgrading of the credit rating of issuers of securities in portfolio).

QUANTITATIVE INFORMATION

1. REGULATORY TRADING PORTFOLIO: BREAKDOWN BY RESIDUAL LIFE (REPRICING DATE) OF CASH FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL DERIVATIVES

As permitted by Circular 262/2005, as amended, this table is not prepared as the explanatory notes provide details of interest rate risk sensitivity analysis based on internal models and other approaches.

2. REGULATORY TRADING PORTFOLIO: BREAKDOWN OF EXPOSURES IN EQUITIES AND SHARE INDICES BY THE MAIN LISTING MARKET COUNTRIES

As permitted by Circular 262/2005, as amended, this table is not prepared as the explanatory notes provide details of price risk sensitivity analysis based on internal models and other approaches.

3. REGULATORY TRADING PORTFOLIO: INTERNAL MODELS AND OTHER METHODS FOR SENSITIVITY ANALYSIS

For management purposes, the trading portfolio market risk is measured and monitored based on VaR (value at risk) analysis calculated mainly using the time-series simulation approach. The VaR measures the maximum potential loss which, with a given confidence interval, can occur if the portfolio is kept unchanged for a certain period of time. Time-series simulation envisages the daily remeasurement of positions based on market price trends over a suitable observation period. The empiric breakdown of resulting gains/losses is analysed to determine the effect of extreme market changes on the portfolios. The distribution value at the percentile corresponding to the established confidence interval represents the VaR measurement.

Risk Management performs checks on VaR performance (time horizon: 3 months and confidence interval: 99%) of the owned portfolios and analyses the sensitivity factors such as portfolio duration and the effects of instant rate shock. Lastly, continuous verification of the operating limits for investments in securities is guaranteed.

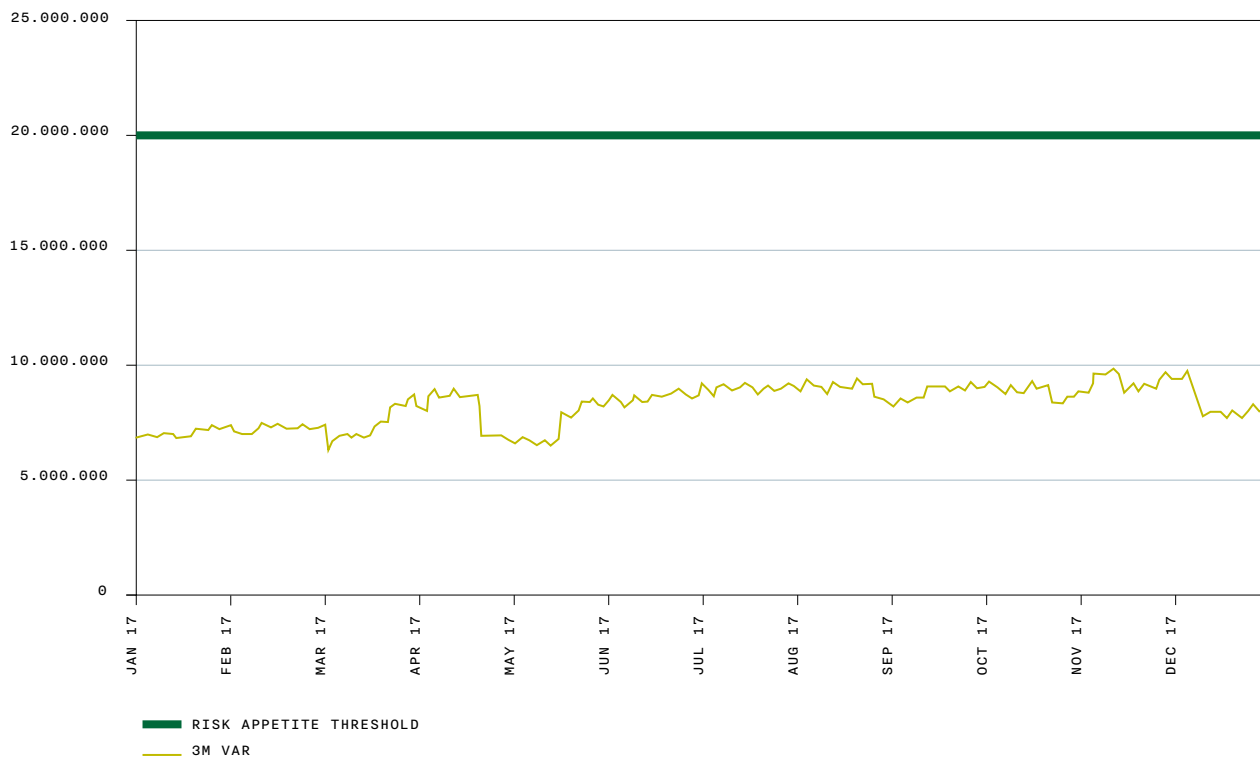
The average duration of the current portfolio of Banca Patrimoni Sella & C. at 31 December 2017 was 3.21 years whilst its sensitivity, estimated on a parallel shift of +100 basis points in the interest rate curve, was around EUR 7.291 million (equal to approximately 3.21% of the portfolio).

The VaR performance of Banca Patrimoni Sella & C. (99% confidence interval, 3-month time horizon) is indicated in the chart below.

No prudential limits decided by the Bank were exceeded during the year.

BANCA PATRIMONI SELLA & C. - CURRENT PORTFOLIO

MARKET RISK VAR (3-MONTH TIME HORIZON - 99% CONFIDENCE INTERVAL)



2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

The banking book comprises all the financial instruments (assets and liabilities) not included in the trading portfolio referred to in section 2.1, mainly amount due from and to banks and customers and securities not included in the regulatory trading portfolio.

QUALITATIVE INFORMATION**A. GENERAL ASPECTS, MANAGEMENT PROCESSES AND MEASUREMENT APPROACHES FOR INTEREST RATE RISK AND PRICE RISK**

The main sources of interest rate risk generated in the banking book can be attributed to:

- timing mismatches in due dates (risk associated with the exposure of positions to changes in the inclination and form of the yield curve);
- mismatches deriving from imperfect correlation of changes in rates receivable and payable on the different instruments (indexing risk)

Interest rate risk is primarily generated by funding and lending with customers, fixed and floating rate securities in the banking book and interbank deposits (receivable and payable), in addition to derivatives arranged to mitigate exposure to interest rate risk. The Group's policy is that of strong hedging of items and the strategic and management decisions aim to minimise volatility of the overall economic value as the rates structure changes.

Internal interest rate risk management processes are founded on an organisational structure based on which the information is examined at operating level and critically measured by the Group ALM Committee on a monthly basis. This Committee also provides suitable operating guidelines.

On a monthly basis, the Risk Management Department monitors interest rate risk exposure and verifies that it matches the risk appetite defined by the corporate bodies in the Risk Appetite Framework and its compliance with the limits system. Suitable information flows are provided regularly and promptly to the corporate bodies and management departments.

The measurement of interest rate risk in the banking book is performed by quantifying the interest rate risk ratio, i.e. the ratio between the change in economic value of the banking book after an interest rate shock and the regulatory capital.

The risk ratio is calculated using different approaches, according to the purpose:

- **compliance testing**: measurement using the standard approach indicated by the Bank of Italy in Annex C to its Circular no. 285/2013. Through measurement adopting the standard approach, the impact of a hypothetical change in interest rates of +/-200 ¹⁵ basis points on the interest rate risk exposure is assessed. The risk rate ratio calculated in this manner should not exceed 20%¹⁶, the limit beyond which the Bank of Italy investigates the results with the bank and reserves the right to take suitable measures.
- **RAF and ICAAP measurement**: through an internal approach that envisages the use of demand items modelling and adjustment of the positions to take into account the prepayment effect. Internal measurement uses the standard approach referred to in the previous point, except as regards representation of the risk profile generated by demand items and the prepayment effect.

The demand items model, developed internally by the Risk Management Department of the Parent Company envisages the use of an econometric model that reflects the behavioural characteristics of demand deposits in terms of persistence (stability over time) and stickiness (reactivity to the cost of de-

¹⁵ In compliance with the restriction on non-negativity of rates envisaged in Annex C to Title III, Chapter 1 of Circular no. 285/2013.

¹⁶ Art. 97, paragraph 5, CRD IV;

mand deposit funding as market rates change).

To measure the prepayment effect, the Constant Prepayment Rate (CPR) model is adopted, which measures the annual prepayment percentage of the items analysed by applying the prepayment rate to the repayment profiles for fixed-rate mortgages.

For management purposes, internal limits were envisaged - in addition to the stickiness indicator for compliance testing - of a more prudential nature, exceeding which triggers operating strategy assessments to mitigate such risk.

At consolidated level, the Banca Sella Group performs stress tests to measure and control interest rate risk on the banking book at least annually, at the time of preparation of the ICAAP Report. The stress testing variables can be deduced from external measurements (e.g. ABI forecasts) or processed internally with support from the Group Financial Analysis Department. The stress tests can contemplate situations of parallel and immediate shock on the rate curve, also with impacts other than 200 basis points.

B. FAIR VALUE HEDGING

Hedging transaction strategies largely aim to mitigate exposure to the interest rate risk implicit in the financial instruments, which mainly derive from forms of credit disbursement (macro hedges, such as those on mortgages).

The exposure to interest rate risk implicit in credit disbursement forms is hedged through amortizing interest rate swaps and cap options, based on the total mortgages portfolio and on the average maturities of the portfolio. Additional hedging is arranged for the purpose of mitigating interest rate risk generated by the types of funding. Hedges are also arranged to mitigate interest rate risk or exchange rate risk through simple derivatives such as domestic currency swaps, currency options and overnight interest swaps negotiated with customers of the Group banks.

The measurement methods and approaches generally adopted are based on the Black-Scholes, Monte Carlo and Net Present Value models, using a number of benchmarks that vary depending on the financial instrument to be measured. These benchmarks, validated by the Risk Management Department of Banca Sella Holding, are selected and applied to the calculation application at the time of the request to measure a new instrument. For every fair value calculation frequency for the financial instrument, first and second level controls are performed on the above benchmarks.

C. CASH FLOW HEDGING

Given the essential balance in the asset and liability structures, hedges against interest rate risk from cash flows generated by floating-rate items are not arranged.

D. FOREIGN INVESTMENT HEDGING

Given the marginal volumes of foreign investments, no hedging is arranged on the interest rate risk they generate.

QUANTITATIVE INFORMATION**1. BANKING BOOK: BREAKDOWN BY RESIDUAL LIFE (REPRICING DATE)
OF FINANCIAL ASSETS AND LIABILITIES**

As permitted by Circular 262/2005, as amended, this table is not prepared as the explanatory notes provide details of price risk sensitivity analysis based on internal models and other approaches, as described below.

**2. BANKING BOOK: INTERNAL MODELS AND OTHER METHODS
FOR SENSITIVITY ANALYSIS**

As indicated in the section on "Qualitative information", interest rate risk is measured using proprietary models for liability items with an undefined contractual due date (demand items) and to measure the phenomenon of early repayment (prepayment effect). For all other asset and liability items, the rules defined in Bank of Italy Circular no. 285/2013, as amended, are used. The control is performed by taking into consideration all positions adopted in the financial statements and off-balance sheet, limited to profit-generating assets and costly liabilities.

For the calculation of internal capital, parallel shifts in the rate curve are assumed of +200 basis points (upturn scenario) and -40 basis points (downturn scenario, compatible with the restriction of non-negativity of rates), respectively.

The sensitivity analysis results at 31 December 2017 show limited risk on the banking book of Banca Patrimoni Sella & C. (see the table below on total and percentage impact on economic value).

SHIFT	TOTAL SENSITIVITY	REGULATORY CAPITAL	% SENSITIVITY
+200 bps / -40bps	1.85	74.52	2.48%

Amounts in EUR millions

The price risk of the portfolio is mainly attributable to investments held as permanent interests. These are positions adopted directly in accordance with measures authorised by the Board of Directors and managed in operational terms by the Bank's Treasury Department. The price risk monitoring for these financial instruments is by means of the investment management approach.

2.3 EXCHANGE RATE RISK

The scope of application of this risk profile includes all assets and liabilities (in the financial statements and off-balance sheet) in foreign currencies, including transactions in euro indexed to exchange rate trends of other currencies. Gold transactions are similar to those in foreign currency.

Exchange rate risk is monitored in reference to the entire financial statements.

QUALITATIVE INFORMATION**A. GENERAL ASPECTS, MANAGEMENT PROCESSES
AND MEASUREMENT APPROACHES FOR EXCHANGE RATE RISK**

Exchange rate risk is monitored by applying the standardised rate defined in Bank of Italy Circular no. 285/2013. At 31 December 2017, the Bank's net open position in exchange rates was higher than the regulatory limit of 2% of own funds, and therefore a capital requirement for exchange rate risk is generated for EUR 300,493. This exposure is generated mainly from securities in foreign currency included in the Bank's portfolio.

The Risk Management Department monitors the values for exchange rate risk exposure and reports these to the Group ALM Committee. This Committee, with support from the Treasury Department of the Parent Company, assesses any hedging action to be taken in the event of significant exposures to certain currencies.

B. FOREIGN CURRENCY HEDGING

Hedging of Banca Patrimoni Sella & C. operations in foreign currency is managed on a daily basis. The Bank assets exposed to this risk are typically lending, customer deposits and own securities denominated in foreign currency.

QUANTITATIVE INFORMATION**1. BREAKDOWN BY DENOMINATION CURRENCY OF ASSETS, LIABILITIES AND DERIVATIVES**

ITEMS	CURRENCY					
	USD	CHF	GBP	AUD	CAD	OTHER CURRENCIES
A. FINANCIAL ASSETS	40,166	3,510	1,857	897	68	573
A.1 DEBT SECURITIES	13,668			596		215
A.2 EQUITIES	704					
A.3 LOANS TO BANKS	25,794	3,510	1,857	301	68	358
A.4 LOANS TO CUSTOMERS	-	-	-	-	-	-
A.5 OTHER FINANCIAL ASSETS						
B. OTHER ASSETS	28	2	8	-	-	1
C. FINANCIAL LIABILITIES	29,196	3,537	1,794	265	63	128
C.1 DUE TO BANKS						27
C.2 DUE TO CUSTOMERS	29,196	3,537	1,794	265	63	101
C.3 DEBT SECURITIES						
C.4 OTHER FINANCIAL LIABILITIES						
D. OTHER LIABILITIES	371		2		-	1
E. FINANCIAL DERIVATIVES	(7,448)	4	(61)	(2)	(5)	(61)
- OPTIONS						
+ LONG POSITIONS	293					711
+ SHORT POSITIONS	293					706
- OTHER DERIVATIVES						
+ LONG POSITIONS	22,977	3,223	81		166	536
+ SHORT POSITIONS	30,425	3,219	142	2	171	602
TOTAL ASSETS	63,464	6,735	1,946	897	234	1,821
TOTAL LIABILITIES	60,285	6,756	1,938	267	234	1,437
IMBALANCE (+/-)	3,179	(21)	8	630	-	384

2.4 DERIVATIVES

A. FINANCIAL DERIVATIVES

A.1 REGULATORY TRADING PORTFOLIO: NOTIONAL VALUES AT YEAR END

UNDERLYING ASSETS/DERIVATIVE TYPE	TOTAL 31/12/2017		TOTAL 31/12/2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
1. DEBT SECURITIES AND INTEREST RATES	19,123	-	1,930	-
A) OPTIONS	12,123	-	1,930	-
B) SWAPS	7,000	-	-	-
C) FORWARDS	-	-	-	-
D) FUTURES	-	-	-	-
E) OTHER	-	-	-	-
2. EQUITIES AND SHARE INDICES	96	1	218	-
A) OPTIONS	96	-	218	-
B) SWAPS	-	-	-	-
C) FORWARDS	-	-	-	-
D) FUTURES	-	-	-	-
E) OTHER	-	1	-	-
3. FOREIGN CURRENCY AND GOLD	62,175	-	65,369	-
A) OPTIONS	12,293	-	-	-
B) SWAPS	22,867	-	32,273	-
C) FORWARDS	27,015	-	33,096	-
D) FUTURES	-	-	-	-
E) OTHER	-	-	-	-
4. MERCHANDISE	-	-	-	-
5. OTHER UNDERLYING ASSETS	-	-	-	-
TOTAL	81,394	1	67,517	-

A.2 BANKING BOOK: NOTIONAL VALUES AT YEAR END

A.2.1 HEDGING

UNDERLYING ASSETS/DERIVATIVE TYPE	TOTAL 31/12/2017		TOTAL 31/12/2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
1. DEBT SECURITIES AND INTEREST RATES	6,700	-	7,506	-
A) OPTIONS	-	-	-	-
B) SWAPS	6,700	-	7,506	-
C) FORWARDS	-	-	-	-
D) FUTURES	-	-	-	-
E) OTHER	-	-	-	-
2. EQUITIES AND SHARE INDICES	-	-	-	-
A) OPTIONS	-	-	-	-
B) SWAPS	-	-	-	-
C) FORWARDS	-	-	-	-
D) FUTURES	-	-	-	-
E) OTHER	-	-	-	-
3. FOREIGN CURRENCY AND GOLD	-	-	-	-
A) OPTIONS	-	-	-	-
B) SWAPS	-	-	-	-
C) FORWARDS	-	-	-	-
D) FUTURES	-	-	-	-
E) OTHER	-	-	-	-
4. MERCHANDISE	-	-	-	-
5. OTHER UNDERLYING ASSETS	-	-	-	-
TOTAL	6,700	-	7,506	-

A.2.2 OTHER DERIVATIVES

UNDERLYING ASSETS/DERIVATIVE TYPE	TOTAL 31/12/2017		TOTAL 31/12/2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
1. DEBT SECURITIES AND INTEREST RATES	35,643	-	43,973	-
A) OPTIONS	35,643	-	43,973	-
B) SWAPS	-	-	-	-
C) FORWARDS	-	-	-	-
D) FUTURES	-	-	-	-
E) OTHER	-	-	-	-
2. EQUITIES AND SHARE INDICES	-	-	-	-
A) OPTIONS	-	-	-	-
B) SWAPS	-	-	-	-
C) FORWARDS	-	-	-	-
D) FUTURES	-	-	-	-
E) OTHER	-	-	-	-
3. FOREIGN CURRENCY AND GOLD	-	-	-	-
A) OPTIONS	-	-	-	-
B) SWAPS	-	-	-	-
C) FORWARDS	-	-	-	-
D) FUTURES	-	-	-	-
E) OTHER	-	-	-	-
4. MERCHANDISE	-	-	-	-
5. OTHER UNDERLYING ASSETS	-	-	-	-
TOTAL	35,643	-	43,973	-

A.3 FINANCIAL DERIVATIVES: GROSS POSITIVE FAIR VALUE - BREAKDOWN BY PRODUCT

PORTFOLIO/DERIVATIVE TYPE	POSITIVE FAIR VALUE			
	TOTAL 31/12/2017		TOTAL 31/12/2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
A. REGULATORY TRADING PORTFOLIO	662	75	1,524	-
A) OPTIONS	198	-	219	-
B) INTEREST RATE SWAPS	68	-	-	-
C) CROSS CURRENCY SWAPS	-	-	-	-
D) EQUITY SWAPS	-	-	-	-
E) FORWARDS	138	-	505	-
F) FUTURES	-	-	-	-
G) OTHER	258	75	800	-
B. BANKING BOOK - HEDGING	-	-	-	-
A) OPTIONS	-	-	-	-
B) INTEREST RATE SWAPS	-	-	-	-
C) CROSS CURRENCY SWAPS	-	-	-	-
D) EQUITY SWAPS	-	-	-	-
E) FORWARDS	-	-	-	-
F) FUTURES	-	-	-	-
G) OTHER	-	-	-	-
C. BANKING BOOK - OTHER DERIVATIVES	31	-	50	-
A) OPTIONS	31	-	50	-
B) INTEREST RATE SWAPS	-	-	-	-
C) CROSS CURRENCY SWAPS	-	-	-	-
D) EQUITY SWAPS	-	-	-	-
E) FORWARDS	-	-	-	-
F) FUTURES	-	-	-	-
G) OTHER	-	-	-	-
TOTAL	693	75	1,574	-

A.4 FINANCIAL DERIVATIVES: GROSS NEGATIVE FAIR VALUE - BREAKDOWN BY PRODUCT

PORTFOLIO/DERIVATIVE TYPE	NEGATIVE FAIR VALUE			
	TOTAL 31/12/2017		TOTAL 31/12/2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
A. REGULATORY TRADING PORTFOLIO	645	-	1,364	-
A) OPTIONS	99	-	1	-
B) INTEREST RATE SWAPS	75	-	-	-
C) CROSS CURRENCY SWAPS	-	-	-	-
D) EQUITY SWAPS	-	-	-	-
E) FORWARDS	319	-	845	-
F) FUTURES	-	-	-	-
G) OTHER	152	-	518	-
B. BANKING BOOK - HEDGING	1,118	-	1,436	-
A) OPTIONS	-	-	-	-
B) INTEREST RATE SWAPS	1,118	-	1,436	-
C) CROSS CURRENCY SWAPS	-	-	-	-
D) EQUITY SWAPS	-	-	-	-
E) FORWARDS	-	-	-	-
F) FUTURES	-	-	-	-
G) OTHER	-	-	-	-
C. BANKING BOOK - OTHER DERIVATIVES	24	-	41	-
A) OPTIONS	24	-	41	-
B) INTEREST RATE SWAPS	-	-	-	-
C) CROSS CURRENCY SWAPS	-	-	-	-
D) EQUITY SWAPS	-	-	-	-
E) FORWARDS	-	-	-	-
F) FUTURES	-	-	-	-
G) OTHER	-	-	-	-
TOTAL	1,787	-	2,841	-

A.5 OTC FINANCIAL DERIVATIVES - REGULATORY TRADING PORTFOLIO: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS NOT QUALIFYING AS OFFSETTING ARRANGEMENTS

CONTRACTS NOT QUALIFYING AS OFFSETTING ARRANGEMENTS	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
1. DEBT SECURITIES AND INTEREST RATES							
- NOTIONAL VALUE	-	-	-	-	-	9,375	186
- POSITIVE FAIR VALUE	-	-	-	-	-	68	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	59	-
- FUTURE EXPOSURE	-	-	-	-	-	48	-
2. EQUITIES AND SHARE INDICES							
- NOTIONAL VALUE	-	-	-	49	-	47	-
- POSITIVE FAIR VALUE	-	-	-	50	-	47	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	-
- FUTURE EXPOSURE	-	-	-	20	-	60	-
3. FOREIGN CURRENCY AND GOLD							
- NOTIONAL VALUE	-	-	-	-	-	17,733	13,355
- POSITIVE FAIR VALUE	-	-	-	-	-	9	286
- NEGATIVE FAIR VALUE	-	-	-	-	-	127	59
- FUTURE EXPOSURE	-	-	-	-	-	177	105
4. OTHER VALUES							
- NOTIONAL VALUE	-	-	-	-	-	-	-
- POSITIVE FAIR VALUE	-	-	-	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	-
- FUTURE EXPOSURE	-	-	-	-	-	-	-

A.6 OTC FINANCIAL DERIVATIVES - REGULATORY TRADING PORTFOLIO: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS QUALIFYING AS OFFSETTING ARRANGEMENTS

CONTRACTS QUALIFYING AS OFFSETTING ARRANGEMENTS	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
1. DEBT SECURITIES AND INTEREST RATES							
- NOTIONAL VALUE	-	-	9,562	-	-	-	-
- POSITIVE FAIR VALUE	-	-	62	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	75	-	-	-	-
2. EQUITIES AND SHARE INDICES							
- NOTIONAL VALUE	-	-	-	-	-	-	-
- POSITIVE FAIR VALUE	-	-	-	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	-
3. FOREIGN CURRENCY AND GOLD							
- NOTIONAL VALUE	-	-	31,087	-	-	-	-
- POSITIVE FAIR VALUE	-	-	140	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	325	-	-	-	-
4. OTHER VALUES							
- NOTIONAL VALUE	-	-	-	-	-	-	-
- POSITIVE FAIR VALUE	-	-	-	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	-

A.7 OTC FINANCIAL DERIVATIVES - BANKING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS NOT QUALIFYING AS OFFSETTING ARRANGEMENTS

CONTRACTS NOT QUALIFYING AS OFFSETTING ARRANGEMENTS	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
1. DEBT SECURITIES AND INTEREST RATES							
- NOTIONAL VALUE	-	-	-	22	-	5,848	25,974
- POSITIVE FAIR VALUE	-	-	-	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	24
- FUTURE EXPOSURE	-	-	-	-	-	-	-
2. EQUITIES AND SHARE INDICES							
- NOTIONAL VALUE	-	-	-	-	-	-	-
- POSITIVE FAIR VALUE	-	-	-	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	-
- FUTURE EXPOSURE	-	-	-	-	-	-	-
3. FOREIGN CURRENCY AND GOLD							
- NOTIONAL VALUE	-	-	-	-	-	-	-
- POSITIVE FAIR VALUE	-	-	-	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	-
- FUTURE EXPOSURE	-	-	-	-	-	-	-
4. OTHER VALUES							
- NOTIONAL VALUE	-	-	-	-	-	-	-
- POSITIVE FAIR VALUE	-	-	-	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	-
- FUTURE EXPOSURE	-	-	-	-	-	-	-

A.8 OTC FINANCIAL DERIVATIVES - BANKING BOOK: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUES BY COUNTERPARTY - CONTRACTS QUALIFYING AS OFFSETTING ARRANGEMENTS

CONTRACTS QUALIFYING AS OFFSETTING ARRANGEMENTS	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
1. DEBT SECURITIES AND INTEREST RATES							
- NOTIONAL VALUE	-	-	10,499	-	-	-	-
- POSITIVE FAIR VALUE	-	-	31	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	1,118	-	-	-	-
2. EQUITIES AND SHARE INDICES							
- NOTIONAL VALUE	-	-	-	-	-	-	-
- POSITIVE FAIR VALUE	-	-	-	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	-
3. FOREIGN CURRENCY AND GOLD							
- NOTIONAL VALUE	-	-	-	-	-	-	-
- POSITIVE FAIR VALUE	-	-	-	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	-
4. OTHER VALUES							
- NOTIONAL VALUE	-	-	-	-	-	-	-
- POSITIVE FAIR VALUE	-	-	-	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	-

A.9 RESIDUAL LIFE OF OTC FINANCIAL DERIVATIVES: NOTIONAL VALUES

UNDERLYING ASSETS/RESIDUAL LIFE	UP TO 1 YEAR	MORE THAN 1 YEAR AND UP TO 5 YEARS	OVER 5 YEARS	TOTAL
A. REGULATORY TRADING PORTFOLIO	62,222	989	18,183	81,394
A.1 FINANCIAL DERIVATIVES ON DEBT SECURITIES AND INTEREST RATES	-	940	18,183	19,123
A.2 FINANCIAL DERIVATIVES ON EQUITIES AND SHARE INDICES	47	49	-	96
A.3 FINANCIAL DERIVATIVES ON FOREIGN EXCHANGE AND GOLD RATES	62,175	-	-	62,175
A.4 FINANCIAL DERIVATIVES ON OTHER SECURITIES	-	-	-	-
B. BANKING BOOK	1,129	7,868	33,346	42,343
B.1 FINANCIAL DERIVATIVES ON DEBT SECURITIES AND INTEREST RATES	1,129	7,868	33,346	42,343
B.2 FINANCIAL DERIVATIVES ON EQUITIES AND SHARE INDICES	-	-	-	-
B.3 FINANCIAL DERIVATIVES ON FOREIGN EXCHANGE AND GOLD RATES	-	-	-	-
B.4 FINANCIAL DERIVATIVES ON OTHER SECURITIES	-	-	-	-
TOTAL 31/12/2017	63,351	8,857	51,528	123,736
TOTAL 31/12/2016	66,262	9,237	43,497	118,996

B. CREDIT DERIVATIVES

At 31 December 2017 and during the year, the Bank did not carry out this type of transaction.

C. FINANCIAL AND CREDIT DERIVATIVES**C.1 OTC FINANCIAL AND CREDIT DERIVATIVES: NET FAIR VALUE AND FUTURE EXPOSURE BY COUNTERPARTY**

	GOVERNMENTS AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER ENTITIES
1) BILATERAL AGREEMENTS -							
FINANCIAL DERIVATIVES	-	-	2,803	-	-	-	-
- POSITIVE FAIR VALUE	-	-	233	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	1,518	-	-	-	-
- FUTURE EXPOSURE	-	-	486	-	-	-	-
- NET COUNTERPARTY RISK	-	-	566	-	-	-	-
2) BILATERAL AGREEMENTS -							
CREDIT DERIVATIVES	-	-	-	-	-	-	-
- POSITIVE FAIR VALUE	-	-	-	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	-
- FUTURE EXPOSURE	-	-	-	-	-	-	-
- NET COUNTERPARTY RISK	-	-	-	-	-	-	-
3) CROSS-PRODUCT ARRANGEMENTS	-	-	-	-	-	-	-
- POSITIVE FAIR VALUE	-	-	-	-	-	-	-
- NEGATIVE FAIR VALUE	-	-	-	-	-	-	-
- FUTURE EXPOSURE	-	-	-	-	-	-	-
- NET COUNTERPARTY RISK	-	-	-	-	-	-	-

SECTION 3 - LIQUIDITY RISK**QUALITATIVE INFORMATION****A. GENERAL ASPECTS, MANAGEMENT PROCESSES
AND MEASUREMENT APPROACHES FOR LIQUIDITY RISK**

Liquidity risk is the risk deriving from an incapacity to meet own payment commitments, which can be caused by an inability to generate funds (funding liquidity risk) or by the presence of limited asset disinvestment options (market liquidity risk).

The Banca Sella Group's management of liquidity risk ensures that the economic and financial balance conditions are maintained and guarantees that the objectives of sound and prudent management are pursued. The governance model defined to manage Banca Sella Group liquidity risk is based on the following principles:

- prudent management of liquidity risk in order to guarantee solvency even in stress conditions;
- compliance with the processes and methods used for liquidity risk management and monitoring with indications of the prudential supervision;
- sharing of decisions and transparency on the responsibilities of management, control and operating bodies.

Liquidity level management is assigned to the Finance Department of the Parent Company, Banca Sella Holding. The Finance Department has the task of guiding, coordinating and controlling the financial activities of the Banca Sella Group, pursuing careful risk management and a solid liquidity position. In particular, a central role in this is played by the ALM and Treasury Department of Banca Sella Holding, which performs strict liquidity management of the Group and contributing, in compliance with the risk parameters set in the Risk Appetite Framework, to increasing the value of the company over time. The ALM and Treasury Department also contributes to the measurement of liquidity reserves. The Treasury Departments of the Bank is responsible for liquidity management in line with the principles and strategic guidelines valid for the Group.

The Risk Management Department of Banca Sella Holding is responsible for liquidity risk measurement, determining the liquidity position at consolidated level under normal operating and stress conditions, defining the risk objectives in terms of the Risk Appetite Framework, their monitoring and the related reporting and warning activities. The BSH Risk Management Department activities also include the measurement of liquidity reserves. The Risk Management Department of the Bank monitors liquidity risk, verifies compliance with the limits agreed in line with group levels, and adequate reports to its corporate bodies.

In addition, the liquidity position is examined and measured critically by the Group ALM Committee on a monthly basis. This Committee also provides suitable operating guidelines.

For liquidity risk management in stress conditions, the Banca Sella Group has adopted a Contingency Funding Plan (CFP). The CFP is a plan for managing any liquidity contingency situations to overcome adverse conditions for obtaining funding and for guaranteeing prompt economic and financial stability of the Banca Sella Group.

Liquidity risk management uses different time horizons: Intraday, Short-term and Structural. The Group also performs independent assessment of the liquidity level of financial instruments held as liquidity reserves.

For the measurement, an extensive set of indicators is envisaged, focusing on the performance of the systemic and specific liquidity situations, including for example the regulatory ratios LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio).

To supplement the information provided by the liquidity ratios, the Risk Management Department of Banca Sella Holding and the Finance Department of the Banca Sella Group have the task of performing stress testing on the Group's liquidity reserves.

The approach underlying the stress tests consists in using the Maturity Ladder¹⁷ to measure the resilience to a liquidity crisis (measured in days) of the entire Banca Sella Group when a systemic-specific crisis situation occurs. The resilience is calculated on the assumption that the business structure and equity profile of the Group do not change.

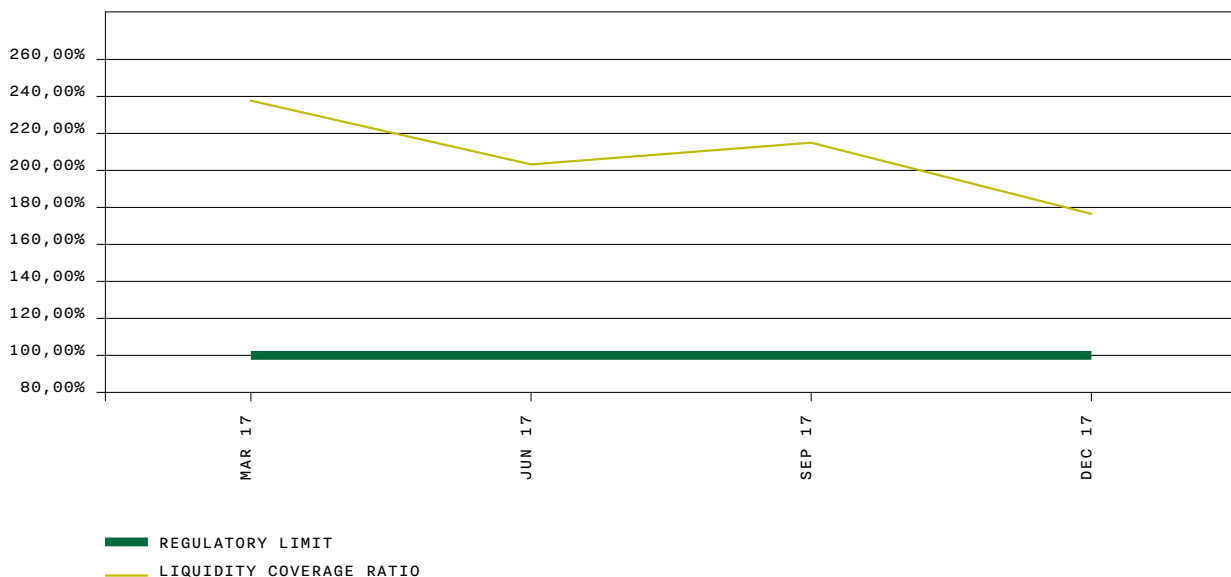
¹⁷ The Maturity Ladder is the projection of the net financial position over time.

The Maturity Ladder is constructed by time horizon mapping (horizon of up to 3 months) of cash flows, certain and assumed, together with items considered to be “potential reserves” of liquidity. This tool offers an overview of the liquidity net financial position in different time buckets applying different operating scenarios (business as usual and stress scenario).

Stress testing has always shown that the Group’s liquid funds, or readily-liquidated funds, are adequate to overcoming any crisis of a systemic or specific origin.

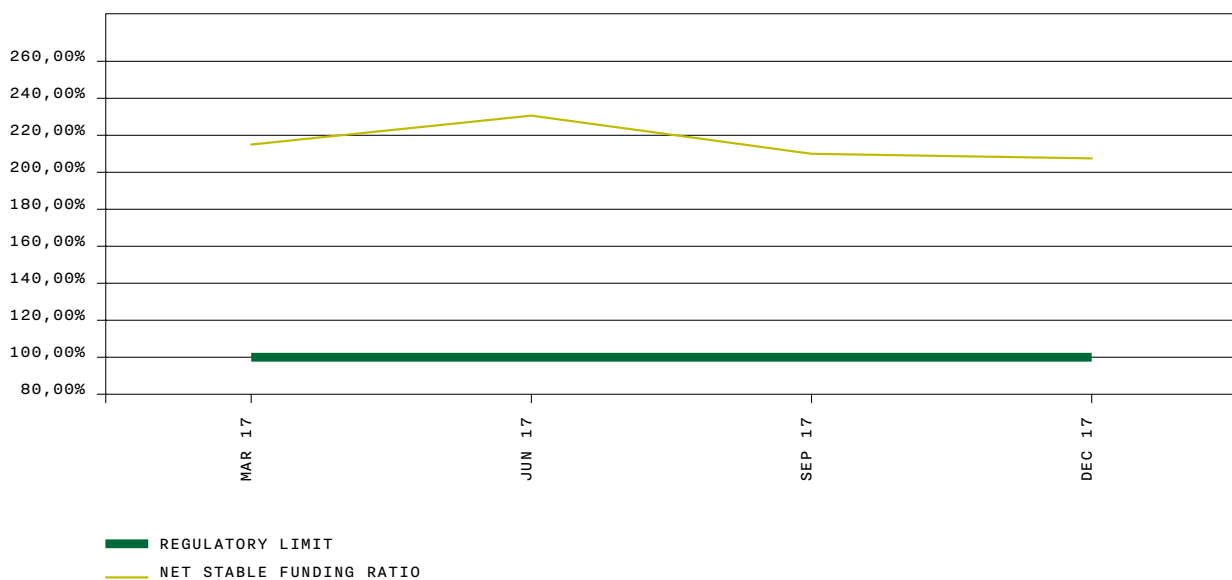
The chart below illustrates the performance of the liquidity coverage ratio (LCR) of Banca Patrimoni Sella & C., which gives an indication of the Bank’s capacity to overcome net cash outflows over a 30-day horizon with a stock of high quality liquid assets. The minimum regulatory limit for this indicator is 100%.

LIQUIDITY COVERAGE RATIO



The chart below illustrates the net stable funding ratio (NSFR) of Banca Patrimoni Sella & C., calculated at management level, which gives an indication of the Bank's capacity to have an adequate level of stable funding to finance medium/long-term commitments. The minimum regulatory limit for this indicator is 100%.

NET STABLE FUNDING RATIO



QUANTITATIVE INFORMATION

1. DISTRIBUTION OVER TIME BY CONTRACTUAL RESIDUAL LIFE OF FINANCIAL ASSETS AND LIABILITIES
DENOMINATION CURRENCY: EUR

ITEM/TIME BRACKETS	ON DEMAND	MORE THAN 1 DAY TO 7 DAYS	MORE THAN 7 DAYS TO 15 DAYS	FROM 15 DAYS TO 1 MONTH
CASH ASSETS	881,970	221	386	1,581
A.1 GOVERNMENT SECURITIES	-	-	-	-
A.2 OTHER DEBT SECURITIES	540	1	1	765
A.3 UCITS UNITS	29,609	-	-	-
A.4 LOANS	851,821	220	385	816
- BANKS	566,886	-	-	-
- CUSTOMERS	284,935	220	385	816
CASH LIABILITIES	1,289,658	-	-	336
B.1 DEPOSITS AND CURRENT ACCOUNTS	1,285,069	-	-	336
- BANKS	66,287	-	-	-
- CUSTOMERS	1,218,782	-	-	336
B.2 DEBT SECURITIES	-	-	-	-
B.3 OTHER LIABILITIES	4,589	-	-	-
OFF-BALANCE SHEET TRANSACTIONS				
C.1 FINANCIAL DERIVATIVES WITH EQUITY SWAP				
- LONG POSITIONS	373	21,554	289	-
- SHORT POSITIONS	373	13,938	289	1,667
C.2 FINANCIAL DERIVATIVES WITHOUT EQUITY SWAP				
- LONG POSITIONS	205	-	-	-
- SHORT POSITIONS	134	27	-	-
C.3 DEPOSITS AND LOANS TO BE RECEIVED				
- LONG POSITIONS	-	-	-	-
- SHORT POSITIONS	-	-	-	-
C.4 IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS				
- LONG POSITIONS	4,938	-	-	-
- SHORT POSITIONS	13,112	-	-	-
C.5 FINANCIAL GUARANTEES GIVEN	-	-	-	-
C.6 FINANCIAL GUARANTEES RECEIVED	-	-	-	-
C.7 CREDIT DERIVATIVES WITH EQUITY SWAP				
- LONG POSITIONS	-	-	-	-
- SHORT POSITIONS	-	-	-	-
C.8 CREDIT DERIVATIVES WITHOUT EQUITY SWAP				
- LONG POSITIONS	-	-	-	-
- SHORT POSITIONS	-	-	-	-

MORE THAN 1 MONTH AND UP TO 3 MONTHS	MORE THAN 3 MONTHS AND UP TO 6 MONTHS	MORE THAN 6 MONTHS AND UP TO 1 YEAR	MORE THAN 1 YEAR AND UP TO 5 YEARS	OVER 5 YEARS	INDEFINITE LIFE
7,006	16,312	25,151	198,503	187,656	18,291
450	11,061	10,766	9,100	62,341	-
817	342	2,611	80,716	42,404	951
-	-	-	-	-	-
5,739	4,909	11,774	108,687	82,911	17,340
-	-	-	-	-	17,340
5,739	4,909	11,774	108,687	82,911	-
486	724	67	40,524	-	-
486	724	67	40,524	-	-
-	-	-	40,000	-	-
486	724	67	524	-	-
-	-	-	-	-	-
-	-	-	-	-	-
16,582	2,595	-	423	10,517	-
500	7,415	47	472	10,517	-
-	-	-	-	-	-
32	86	131	633	220	-
-	-	-	-	-	-
-	-	-	-	-	-
-	150	-	4,143	3,881	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

1. DISTRIBUTION OVER TIME BY CONTRACTUAL RESIDUAL LIFE OF FINANCIAL ASSETS AND LIABILITIES
DENOMINATION CURRENCY: OTHER CURRENCIES

ITEM/TIME BRACKETS	ON DEMAND	MORE THAN 1 DAY TO 7 DAYS	MORE THAN 7 DAY TO 15 DAYS	MORE THAN 15 DAY TO 1 DAYS
CASH ASSETS	33,400	-	29	219
A.1 GOVERNMENT SECURITIES	-	-	-	-
A.2 OTHER DEBT SECURITIES	1,459	-	29	219
A.3 UCITS UNITS	-	-	-	-
A.4 LOANS	31,941	-	-	-
- BANKS	31,941	-	-	-
- CUSTOMERS	-	-	-	-
CASH LIABILITIES	34,989	-	-	-
B.1 DEPOSITS AND CURRENT ACCOUNTS	34,977	-	-	-
- BANKS	27	-	-	-
- CUSTOMERS	34,950	-	-	-
B.2 DEBT SECURITIES	-	-	-	-
B.3 OTHER LIABILITIES	12	-	-	-
OFF-BALANCE SHEET TRANSACTIONS				
C.1 FINANCIAL DERIVATIVES WITH EQUITY SWAP				
- LONG POSITIONS	41	4,619	293	1,668
- SHORT POSITIONS	41	12,196	293	-
C.2 FINANCIAL DERIVATIVES WITHOUT EQUITY SWAP				
- LONG POSITIONS	258	-	-	-
- SHORT POSITIONS	152	-	-	-
C.3 DEPOSITS AND LOANS TO BE RECEIVED				
- LONG POSITIONS	-	-	-	-
- SHORT POSITIONS	-	-	-	-
C.4 IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS				
- LONG POSITIONS	-	-	-	-
- SHORT POSITIONS	-	-	-	-
C.5 FINANCIAL GUARANTEES GIVEN	-	-	-	-
C.6 FINANCIAL GUARANTEES RECEIVED	-	-	-	-
C.7 CREDIT DERIVATIVES WITH EQUITY SWAP				
- LONG POSITIONS	-	-	-	-
- SHORT POSITIONS	-	-	-	-
C.8 CREDIT DERIVATIVES WITHOUT EQUITY SWAP				
- LONG POSITIONS	-	-	-	-
- SHORT POSITIONS	-	-	-	-

SECTION 4 - OPERATIONAL RISKS

QUALITATIVE INFORMATION

**A. GENERAL ASPECTS, MANAGEMENT PROCESSES
AND MEASUREMENT APPROACHES FOR OPERATIONAL RISK**

Operational risk is the risk of losses deriving from the inadequacy or malfunction of procedures, human resources and internal systems, or from external events. Amongst others, this type includes losses deriving from internal/external fraud, human error, operations stoppages, system crashes, contractual default and natural catastrophes. Operational risk includes legal risk, whilst strategic risk and reputational risk are excluded.

The Parent Company Banca Sella Holding carries out the management and coordination function by controlling the exposure to risks assumed by Banca Patrimoni Sella & C. during normal and extraordinary activities, delegating operational aspects to the Risk Management Department.

The operational risk measurement, management and control systems adopted by the Bank, in alignment with the Banca Sella Group, can be summarised by the operational risk management framework comprising:

- operating loss and income statement data collection;
- organisational monitoring of mitigation and control;
- measurement of operational risk exposure;
- output and support tools for operational risk management.

The data collection activity gathers the data necessary to perform the measurement of operational risk exposure of the Group as a whole and of individual companies, including Banca Patrimoni Sella & C. In addition, data collection allows the Risk Management Department to be promptly informed of any operational risk-related events that occur and the related operating losses, in order to implement any action necessary. The operational risk measurement tools include:

- the IT applications used to collect data on operating losses (Anomaly Reporting procedure in support of the “Control Cycle”);
- the factors in the operational context and the internal control system, i.e. specific KPI (Key Performance Indicators) or KRI (Key Risk Indicators) that reflect the improvement or deterioration of the bank/group’s risk profile following action undertaken or the strengthening of controls (e.g. service level indicators, anomalies and internal audits, and process ratings).

The Control Cycle is an internal process, adopted efficiently for the entire Group some years ago, which governs the treatment of anomalies, and the removal of effects and causes that generated them. This process, through the use of a special IT application, monitors the recording, monitoring and management of all anomalous events occurring in each Group company, in order to facilitate resulting follow-up activities.

Risk monitoring also translates into reporting targeting all levels of the company organisation, in compliance with regulations that envisage prompt reporting of operational risks. The Control Cycle provides the information base which, when a reported anomalous event occurs and according to a precise escalation, generates reporting flows to the parties concerned.

The ex ante and ex post organisational monitoring, arranged to mitigate and control operational risk, allow the monitoring and limiting of operational risk events and the related losses. In fact, effective organisational monitoring allows the prompt identification of any inefficiencies and the preparation of suitable mitigation strategies.

Among the main organisational controls adopted by the Banca Sella Group to mitigate and control operational risk, in addition to the Control Cycle already mentioned, are the mapping and validation of company processes, the certification and final calculation of service levels and line controls.

As part of the validation of company processes an operational risk rating is assigned to the process (which assesses the risk factors on the process without taking in account the mitigating effect of existing controls) and a residual operational risk rating of the process (obtained by assessing the mitigating effect of the controls on implicit risks). The risk ratings are measured on a discreet scale ranging from 1 (minimum risk) to 5 (maximum risk).

The introduction of new processes or changes to existing processes with a residual operational risk rating equal to or greater than 4 is examined and assessed in advance by the Operational Risk Acceptance Committee.

With a view to early interception of symptoms of vulnerability in the processes and having an immediate perception of the areas most exposed to risks, the end-to-end mapping of company processes is arranged¹⁸. This activity involves grouping of the processes into macro-processes and the latter into macro-classes, with the assignment of an operational risk rating not only to individual processes but also at higher grouping levels, with the aim of providing an overview of the areas of action along the entire process chain and of planning action to reduce the overall exposure to operational risk.

With regard to legal disputes pending, note that most of the legal proceedings involving the Bank originated with the various companies merged into it over time, if arising after the merger, where based on their past normal business activities. Though the final outcome cannot be predicted with certainty, it is considered that any adverse outcome of such proceedings, either individually or as a whole, would not have a significant negative effect on the Bank's financial and economic position.

For calculation of the capital requirement with regard to operational risk exposure, the Basic Indicator Approach (BIA) was adopted. In the basic approach, the capital requirement is calculated by applying a fixed capital ratio of 15% to the three-year average of the relevant indicator¹⁹.

QUANTITATIVE INFORMATION

From analysis of the information contained in the Group Loss Data Collection, the operating loss data for the period 1 January 2017-31 December 2017 is in line with the previous year's performance and there are no events with a significant impact on the Bank's financial and economic position to report.

¹⁸ The process is defined end-to-end as it is implemented in such a way as to be a total logic "value flow" to satisfy the internal or external client user function, starting from a request and up to provision of the service.

¹⁹ Art. 316, Title III, Part Three of Regulation (EU) 575/2013 of the European Parliament and Council of 26 June 2013 itemises the elements to be added together to calculate the relevant indicator. Table 1 in this article refers to: 1) Interest income and similar income; 2) Interest expense and similar expense; 3) Income from shares, units and other securities with a floating/fixed rate of return; 4) Fee and commission income; 5) Fee and commission expense; 6) Profit (loss) from financial transactions; 7) Other operating income.

Part F – Information on equity

SECTION 1 - COMPANY ASSETS

A. QUALITATIVE INFORMATION

The new harmonised regulations for banks and investment companies contained in Regulation 575/2013 (CRR) and Directive 2013/36/EU (CRD IV) entered into force from 1 January 2014, transposing the standards defined by the Basel Committee on Banking Supervision (Basel 3) into EU law.

In order to implement and facilitate application of the new EU regulations, and to conduct a complete review and simplification of the banking supervision regulations, on 17 December 2013 the Bank of Italy issued Circular no. 285 "Supervisory instructions for banks" which:

- i) includes the CRD IV rules, the implementation of which, pursuant to the Consolidated Banking Act, is the responsibility of the Bank of Italy;
- ii) indicates the methods for exercising national discretion attributed to national authorities by the EU regulations;
- iii) outlines a complete, systematic, rational and integrated regulatory framework with directly applicable EU provisions to facilitate use by the operators.

In Banca Patrimoni Sella & C. the monitoring of capital adequacy is ensured by the Capital Management activities.

The Capital Management Plan is defined concurrently with the strategic plan and Risk Appetite Framework (RAF) and consists in assessing the impact of ordinary activities and defining any extraordinary transactions required to pursue the capitalisation goals (represented by the Common Equity Tier 1 ratio) as deemed necessary and appropriate to place the Bank in a position of current and future soundness and sustainability.

The Capital Management Plan is systematically monitored by the Risk Management Department of the Parent Company as regards the extent of capitalisation and absorption which envisage:

- i) final monthly calculation based on the operating results gradually achieved;
- ii) quarterly simulation of future developments with a view to preventing any situations of failure to achieve the defined levels.

The Bank's solvency ratios form part of the monthly reporting prepared by the Board of Directors and for the Group Performance Alignment and Verification Meeting.

B. QUANTITATIVE INFORMATION**B.1 COMPANY ASSETS: BREAKDOWN**

ITEM/VALUE	AMOUNT 31/12/2017	AMOUNT 31/12/2016
1. CAPITAL	28,000	28,000
2. SHARE PREMIUM RESERVE	4,483	4,483
3. RESERVES	40,833	36,530
- PROFIT RESERVES:	40,833	36,368
A) LEGAL	8,529	8,170
D) OTHER	32,304	28,197
6. VALUATION RESERVES	(1,076)	(706)
- AVAILABLE-FOR-SALE FINANCIAL ASSETS	(829)	(455)
- ACTUARIAL GAINS (LOSSES) RELATING TO DEFINED BENEFIT PLANS	(248)	(251)
7. PROFIT (LOSS) FOR THE YEAR	8,060	7,172
TOTAL	80,300	75,479

B.2 VALUATION RESERVES OF AVAILABLE-FOR-SALE FINANCIAL ASSETS: BREAKDOWN

ASSET/VALUE	TOTAL 31/12/2017		TOTAL 31/12/2016	
	POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1. DEBT SECURITIES	-	(497)	-	(855)
2. EQUITIES	-	(212)	-	(102)
3. UCITS UNITS	-	(148)	339	-
4. LOANS	28	-	163	-
TOTAL	28	(857)	502	(957)

B.3 VALUATION RESERVES OF AVAILABLE-FOR-SALE FINANCIAL ASSETS: CHANGES IN THE YEAR

	DEBT SECURITIES	EQUITIES	UCITS UNITS	LOANS
1. OPENING BALANCE	(855)	(102)	338	163
2. POSITIVE CHANGES	1,553	159	206	28
2.1 INCREASES IN FAIR VALUE	952	133	191	28
2.2 REVERSAL TO THE INCOME STATEMENT OF NEGATIVE RESERVES	601	26	15	-
- IMPAIRMENT	16	-	-	-
- REALISED	585	26	15	-
2.3 OTHER CHANGES	-	-	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-	-	-
3. NEGATIVE CHANGES	1,195	269	693	163
3.1 DECREASES IN FAIR VALUE	902	233	355	163
3.2 IMPAIRMENT LOSSES	-	-	-	-
3.3 REVERSAL TO THE INCOME STATEMENT OF POSITIVE RESERVES: REALISED	293	36	338	-
3.4 OTHER CHANGES	-	-	-	-
- OF WHICH: BUSINESS COMBINATIONS	-	-	-	-
4. CLOSING BALANCE	(497)	(212)	(149)	28

B.4 VALUATION RESERVES RELATING TO DEFINED BENEFIT PLANS: CHANGES IN THE YEAR

	31/12/2017
1. OPENING BALANCE	(251)
2. POSITIVE CHANGES	
2.1 POSITIVE MEASUREMENT COMPONENT	3
2.2 NEW ENTRIES	
3. NEGATIVE CHANGES	
3.1 NEGATIVE MEASUREMENT COMPONENT	-
3.2 NEW EXITS	
4. CLOSING BALANCE	(248)

SECTION 2 - OWN FUNDS AND CAPITAL ADEQUACY RATIOS**2.1 OWN FUNDS****A. QUALITATIVE INFORMATION****1. COMMON EQUITY TIER 1 (CET1)**

As required by Circular 262/05, as amended, detailed below are the key characteristics of shares included in Common Equity Tier 1 (CET 1) of Banca Patrimoni Sella & C. at 31 December 2017:

— 28,000,000 ordinary shares with a nominal value of EUR 1 each.

2. ADDITIONAL TIER 1 CAPITAL (AT1)

The Additional Tier 1 capital at 31 December 2017 did not include financial instruments.

3. TIER 2 CAPITAL (T2)

Tier 2 capital at 31 December 2017 did not include financial instruments as the Bank has no issues of subordinated instruments of its own.

B. QUANTITATIVE INFORMATION

REGULATORY CAPITAL - B. QUANTITATIVE INFORMATION	TOTAL 31/12/2017	TOTAL 31/12/2016
A. COMMON EQUITY TIER 1 (CET1) BEFORE APPLICATION OF PRUDENTIAL FILTERS	77,075	72,610
OF WHICH CET1 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS	-	-
B. CET1 PRUDENTIAL FILTERS (+/-)	(4)	(6)
C. CET1 GROSS OF DEDUCTIBLE ELEMENTS AND THE EFFECTS OF THE TRANSITIONAL REGIME (A +/- B)	77,071	72,604
D. ELEMENTS TO BE DEDUCTED FROM CET1	3,199	2,530
E. TRANSITIONAL REGIME - IMPACT ON CET1 (+/-)	651	741
F. TOTAL COMMON EQUITY TIER 1 (CET1) (C - D +/- E)	74,523	70,815
G. ADDITIONAL TIER 1 (AT1) GROSS OF DEDUCTIBLE ELEMENTS AND THE EFFECTS OF THE TRANSITIONAL REGIME	45	-
OF WHICH AT1 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS	-	-
H. ELEMENTS TO BE DEDUCTED FROM AT1	-	-
I. TRANSITIONAL REGIME - IMPACT ON AT1 (+/-)	(45)	-
L. TOTAL ADDITIONAL TIER 1 (AT1) (G - H +/- I)	-	-
M. TIER 2 (T2) GROSS OF ELEMENTS TO BE DEDUCTED AND EFFECTS OF THE TRANSITIONAL REGIME	-	-
OF WHICH T2 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS	-	-
N. ELEMENTS TO BE DEDUCTED FROM T2	-	-
O. TRANSITIONAL REGIME - IMPACT ON T2 (+/-)	-	95
P. TOTAL TIER 2 (T2) (M - N +/- O)	-	95
Q. TOTAL OWN FUNDS (F + L + P)	74,523	70,910

2.2 CAPITAL ADEQUACY**A. QUALITATIVE INFORMATION**

Based on the prudential supervisory instructions, the total requirement is equal to the sum of prescribed capital requirements for credit risk and counterparty risk, for the risk of credit valuation adjustment, and for settlement risk, market risk and operational risk.

The capital requirements calculation methods generally refer to the standardised approach with regard to credit and market risks, and to the basic indicator approach (BIA) for operational risk.

The capital management policies of Banca Patrimoni Sella & C. propose to guarantee that the Tier 1 capital is consistent with the level of risk assumed, regulatory restrictions and the corporate development plans.

At 31 December 2017, the capital ratios were higher than the minimum requirements envisaged in reference regulations in force at that date:

- Common Equity Tier 1 ratio: stands at 14.00% compared to the minimum level of 5.750%;
- Tier 1 ratio: stands at 14.00% compared to the minimum level of 7.250%;
- Total Capital Ratio: stands at 14.00% compared to the minimum level of 9.250%.

B. QUANTITATIVE INFORMATION**2.2 CAPITAL ADEQUACY - B. QUANTITATIVE INFORMATION**

CATEGORIES/VALUES	UNWEIGHTED		WEIGHTED / REQUIREMENTS	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
A. RISK ASSETS				
A.1 CREDIT RISK AND COUNTERPARTY RISK	1,397,675	1,388,502	425,639	334,409
1. STANDARDISED APPROACH	1,397,675	1,388,502	425,639	334,409
2. INTERNAL RATINGS BASED APPROACH	-	-	-	-
2.1 BASIC	-	-	-	-
2.2 ADVANCED	-	-	-	-
3. SECURITISATIONS	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 CREDIT RISK AND COUNTERPARTY RISK			34,051	26,753
B.2 RISK OF CREDIT VALUATION ADJUSTMENT			8	2
B.3 SETTLEMENT RISK			62	95
B.4 MARKET RISK			813	400
1. STANDARDISED APPROACH			813	400
2. INTERNAL MODELS			-	-
3. CONCENTRATION RISK			-	-
B.5 OPERATIONAL RISK			7,636	6,943
1. BASIC INDICATOR APPROACH			7,636	6,943
2. STANDARDISED APPROACH			-	-
3. ADVANCED APPROACH			-	-
B.6 OTHER CALCULATION ELEMENTS			-	-
B.7 TOTAL PRUDENTIAL CAPITAL REQUIREMENTS			42,570	34,193
C. RISK ASSETS AND CAPITAL ADEQUACY RATIOS				
C.1 RISK-WEIGHTED ASSETS			532,125	427,413
C.2 COMMON EQUITY TIER 1/RWA (CET1 CAPITAL RATIO)			14,00%	16,57%
C.3 TIER 1 CAPITAL/RWA (TIER 1 CAPITAL RATIO)			14,00%	16,57%
C.4 TOTAL OWN FUNDS/RWA (TOTAL CAPITAL RATIO)			14,00%	16,59%

Part G – Business combinations involving companies or business units

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE YEAR

There were no business combinations in 2017.

SECTION 2 - TRANSACTIONS CARRIED OUT AFTER YEAR END

In the third quarter of 2017, the Bank signed the Framework Agreement relating to a corporate transaction to acquire a business unit. This transaction, signed with Schrodgers Italy SIM SpA (hereinafter also “Schrodgers”) was finalised on 5 February 2018 and involved the latter’s transfer to Banca Patrimoni Sella & C. of the Wealth Management business unit against a reserved share capital increase.

As regards the general characteristics of the transaction, please see paragraph 2.2.2 “Schrodgers Italy SIM SpA” in the Management Report.

The disclosure is provided below pursuant to IFRS 3, paragraphs 59b, 60 and 63, in line with Bank of Italy Circular no. 262/2005, as amended.

- a) Description: Wealth Management business unit of Schrodgers Italy SIM SpA. Schrodgers’ Wealth Management business unit offers the following investment services to customers:
 - order execution on behalf of customers;
 - placement without firm commitment or sureties to the issuer;
 - portfolio management;
 - order acceptance and transmission;
 - investment advisory services.
- b) Date of acquisition: 5 February 2018
- c) Percentage interest with voting rights acquired: new shares were issued in favour of Schrodgers (transferor) against the transfer to BPA (transferee) of Assets Under Management totalling around EUR 617 million. The post-transaction percentage of share capital pertaining to Schrodgers is 7.94%. Following exercise of the put & call system agreed with the majority shareholder, Banca Sella Holding SpA, within 90 days of closing this could settle at 3.63%.
- d) Main reasons for the business combination: the transaction is in line with the strategic plan of Banca Patrimoni, which envisages the option of expanding externally through corporate transactions that are economically sustainable and consistent with the business model. Through this acquisition, Banca Patrimoni will be able to increase its assets under management and under administration, in particular extending its product mix in the wealth management sector and further improving its positioning in the main reference market, with an increase in volumes and an improved image. The transaction described can prove to be the fulcrum for a future partnership in the sector, which will allow Schrodgers to remain present on the Italian market, albeit indirectly, despite its decision to cease operations

in the wealth management sector in Italy. At the same time, Banca Patrimoni will be able to enhance its brand through the partnership launched with Schroders and a specific co-branding arrangement.

- e) Qualitative description of the factors involved in the recognition of goodwill: new shares were issued in favour of Schroders (transferor) against the transfer to BPA (transferee) of Assets Under Management totalling around EUR 617 million. This resulted in the following changes in shareholders' equity of the Bank:
- the share capital increased by EUR 2.4 million, reaching a total of EUR 30.4 million;
 - at the same time, a share premium reserve was recognised for EUR 12.8 million;
 - the total value of the transaction was recognised as goodwill for EUR 15.2 million.

From a qualitative point of view, the factors making up the goodwill are described in paragraph d) of this section.

- f) As regards the fair value of the total transferred at the date of acquisition, please refer to paragraph e) relating to the figures of the share capital increase, with same-time recognition of the share premium reserve. In particular, as the transfer price of the business unit, Banca Patrimoni Sella & C. increased its own share capital by EUR 28,000,000 to EUR 30,415,006 through the issue of 2,415,006 special class A shares with a nominal value of EUR 1 each, allocating the sum of EUR 12,765,002 to the share premium reserve, equal to the difference between the total subscription price and the share capital increase.

With regard to the fair value at the date of acquisition of each main category of assets acquired and liabilities assumed, please see the breakdown in paragraph i) below.

- g) Potential price agreements: the transaction envisaged a Downward Post-Closing Adjustment and an Upward Post-Closing Adjustment to settle the consideration 90 days after finalisation of the transaction if in the meantime there are significant increases or decreases in the AUM transferred. Aligned with the potential consideration for the purpose of assessing the goodwill recognised, the price adjustment clause envisages an absolute excess of 5%. Consequently, changes in AUM within this range will not result in changes to the price of the transaction. In this respect, the fair value of the transaction at the date of the transaction is estimated to match the potential consideration as part of the price adjustment to be applied 90 days after the transaction closing.
- h) Receivables acquired: see the breakdown in paragraph f)
- i) With regard to the fair value at the date of acquisition of each main category of assets acquired and liabilities assumed, the transaction led to the assumption of payables and receivables on contracts underlying the transfer, the imbalance between which was settled in cash in favour of Banca Patrimoni Sella & C. as follows:
- Receivables acquired EUR 321.5 thousand

- Liabilities assumed EUR 354.9 thousand
- Imbalance settled in cash: EUR 33.4 thousand paid to Banca Patrimoni Sella & C. S.p.A. by Schroders Italy SIM S.p.A.

To this end, note that:

- The receivables acquired refer to the accruals for the period of collectible fee and commission income by customers transferred to BPA;
- The liabilities assumed refer mainly to the accruals for the period relating to disputes pending involving employees and private bankers acquired as part of the business unit transfer.

As regards amounts recognised at the date of acquisition, for each main class of assets acquired and liabilities assumed, in addition to those already indicated in paragraph f) and in this paragraph, the breakdown is provided below of the total liquidity of customers involved in the migration which, for the financial statements of Banca Patrimoni Sella & C., qualifies as direct funding (Due to customers) with the interbank correspondence accounts as balancing entry (Due from banks).

LIQUIDITY OF CUSTOMERS INVOLVED IN THE MIGRATION

EUR	50,775,475.65
US DOLLARS	2,594,056.90
SWISS FRANCS	1,156.25

Part H – Related party transactions

1. INFORMATION ON REMUNERATION OF KEY MANAGERS

The types of related party, based on indications provided in IAS 24, in relation to the specific organisational and governance structure mentioned below, include:

- a) Banca Sella Holding S.p.A. as the parent company of Banca Patrimoni Sella & C.;
- b) Directors, Statutory Auditors and Senior Management of Banca Patrimoni Sella & C. (Key managers);
- c) Subsidiaries or associates of one of the parties in point b);
- d) close relatives of one or more of the parties in point b);
- e) Directors, Statutory Auditors and Senior Management of the parent company Banca Sella Holding (Key managers);
- f) the Group companies and Banca Patrimoni Sella & C. to the extent they are subject to management and coordination by Banca Sella Holding S.p.A.

With the 9th update of 12 December 2011, the Bank of Italy introduced the following to Circular 263: “New regulations for the prudential supervision of banks”, the new Title V - Chapter 5 (Section 4), “Risk assets and conflict of interest regarding associates”, in application of ICCS Resolution no. 277 of 29 July 2008 and art. 53, paragraphs 4, 4-ter and 4-quater, Italian Legislative Decree no. 385 of 1 September 1993.

The Bank of Italy introduced the aforementioned measures, specifying that “The regulations for related party transactions aim to monitor the risk that the proximity of certain parties to the decision-making bodies of the bank might compromise the objectiveness and impartiality of decisions related to lending and to other transactions with those parties, with potential distortion of the resource allocation process, exposure of the bank to risks not adequately measured or monitored, and potential damage to depositors and shareholders”.

As Parent Company, Banca Sella Holding S.p.A. prepared suitable group procedures to comply with the above measures, the general regulation of which is dictated by two internal regulations: the “Group regulation for the management of related party transactions” and “Internal Control Policies”.

Both documents were approved by the Board of Directors of the Parent Company and later adopted by the Bank.

The following table illustrates the remuneration due to key managers. The key managers also include the directors and members of the Board of Statutory Auditors.

REMUNERATION PAID TO KEY MANAGERS (FIGURES IN THOUSANDS OF EUR)

ITEMS	TOTAL 31/12/2017
A) SHORT-TERM BENEFITS FOR EMPLOYEES	628
B) POST-EMPLOYMENT BENEFITS	
C) OTHER LONG-TERM BENEFITS	30
D) EMPLOYEE SEVERANCE INDEMNITIES	
E) SHARE-BASED PAYMENTS	
TOTAL	658

REMUNERATION PAID TO DIRECTORS AND STATUTORY AUDITORS (FIGURES IN THOUSANDS OF EUR)

ITEMS	TOTAL 31/12/2017
DIRECTORS	803
STATUTORY AUDITORS	108
TOTAL	911

2. INFORMATION ON RELATED PARTY TRANSACTIONS

Related party transactions are normally carried out at conditions equivalent to those applied in transactions performed with independent third parties. The transactions are illustrated below on the basis of the Finrep reporting format, with a rationale that envisages preparation criteria different to those used to prepare the table of relations with Group companies contained in the Management Report. Consequently, there could be a number of differences, e.g. in the column "Parent company and entities with joint control or exercising significant influence", in alignment with the regulatory requirement of IAS 24 and that submitted with the Finrep report, relations with the parent company "Maurizio Sella Sapa" are taken into account.

Relations with Banca Sella Holding S.p.A. are instead included in the section relating to subsidiaries and other group entities. In this respect, note the difference relating to amounts due to banks for the guarantee deposit paid as a guarantee for derivative transactions, held with the parent company, Banca Sella Holding S.p.A., but not recognised as a related party as it is recorded under other receivables in the Explanatory Notes and is not covered under "Loans and advances" in the breakdown for related parties.

BALANCES AT 31/12/2017				
PARENT COMPANY AND ENTITIES WITH JOINT CONTROL OR EXERCISING SIGNIFICANT INFLUENCE	SUBSIDIARIES AND OTHER GROUP ENTITIES	ASSOCIATES AND JOINT VENTURES	KEY MANAGERS OF THE ENTITY OR ITS PARENT COMPANY	OTHER RELATED PARTIES
SELECTED FINANCIAL ASSETS	0	-722	0	0
EQUITY INSTRUMENTS		-469		
DEBT SECURITIES				
LOANS AND ADVANCES	0	-721,439	-302	0
OF WHICH: IMPAIRED FINANCIAL ASSETS				
SELECTED FINANCIAL LIABILITIES	0	40	0	3
DEPOSITS	0	39,898	3,210	14,727
DEBT SECURITIES ISSUED				
NOMINAL AMOUNT OF COMMITMENTS TO DISBURSE LOANS, FINANCIAL GUARANTEES AND OTHER KNOWN COMMITMENTS	0	4,618	298	
OF WHICH: DEFAULT STATUS				
COMMITMENTS TO DISBURSE LOANS, FINANCIAL GUARANTEES AND OTHER COMMITMENTS RECEIVED	0	392		
NOTIONAL AMOUNT OF DERIVATIVES	0	51,147	486	
RELATED PARTIES: ACCRUED IMPAIRMENT LOSSES, ACCRUED CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS FOR IMPAIRED LOANS				
INTEREST INCOME	0	1,806	0	1
INTEREST EXPENSE	0	1,728	0	2
DIVIDEND INCOME	0	16	0	0
COMMISSION INCOME AND REMUNERATION	0	18,076	0	0
COMMISSION EXPENSE AND REMUNERATION	0	1,898	0	15

**CONTRACTS RELATING TO OUTSOURCED ACTIVITIES
AND SUNDRY LEASE INSTALMENTS**

Banca Patrimoni Sella & C. has outsourced activities to a number of Group companies. Likewise, the Bank acts as outsourcer for certain services for the Group company Family Advisory SIM S.p.A. and provides IT services to Banca Sella S.p.A. These activities, governed by specific contracts, are carried out after assessment of their mutual convenience and at arm's length with the aim of creating value within the Group.

The fees paid by Banca Patrimoni Sella & C. for services received are summarised below:

**OUTSOURCING FEES PAID BY BANCA PATRIMONI SELLA & C. TO GROUP COMPANIES
(FIGURES IN THOUSANDS OF EUR)**

COMPANY	31/12/2017
BANCA SELLA HOLDING S.P.A.	369
BANCA SELLA S.P.A.	3,157
SELIR SRL	191

**SUNDRY FEES PAID BY BANCA PATRIMONI SELLA & C. TO GROUP COMPANIES
(FIGURES IN THOUSANDS OF EUR)**

COMPANY	AMOUNT AT 31/12/2017
FAMILY ADVISORY SIM S.P.A. - SELLA & PARTNERS	201
BANCA SELLA HOLDING S.P.A.	5

The fees collected by Banca Patrimoni Sella & C. in payment for outsourcing and IT services are summarised below:

COMPANY	AMOUNT AT 31/12/2017
FAMILY ADVISORY SIM S.P.A. - SELLA & PARTNERS	22
BANCA SELLA S.P.A.	200

Part I – Share-based payment arrangements

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The Bank does not make use of this type of arrangement.

Part L – Segment reporting

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As permitted by the 3rd update to Circular 262/05, segment reporting for Banca Patrimoni Sella & C. is optional and prepared at Group level. Reference should therefore be made to the consolidated financial statements of the Banca Sella Group.

Other Information

Note that the information required by art. 2427, paragraph 1, point 16-bis) of the Italian Civil code on amounts due to the independent auditors are contained in the Explanatory Notes to the consolidated financial statements, as Banca Patrimoni Sella & C. is included in a scope of consolidation.

Parent Company or European controlling bank

NAME

Banca Sella Holding S.p.A.

REGISTERED OFFICE

Piazza Gaudenzio Sella n.1 - BIELLA
Biella Register of Companies - Tax Code 01709430027
Register of Banking Groups no. 03311

Financial statements of the company exercising management and coordination

Attached are the Balance Sheet and Income Statement of Banca Sella Holding S.p.A. for the years 2016 and 2015, as the company which at 31 December 2017 exercised management and coordination.

BALANCE SHEET - ASSETS

ASSETS	31/12/2016	31/12/2015	% CHANGE
10. CASH AND CASH EQUIVALENTS	1,414,984,278	-	100.00%
20. FINANCIAL ASSETS HELD FOR TRADING	549,884,355	509,884,023	7.84%
40. AVAILABLE-FOR-SALE FINANCIAL ASSETS	556,810,722	668,233,278	-16.67%
60. DUE FROM BANKS	631,700,124	681,701,800	-7.33%
70. DUE FROM CUSTOMERS	300,193,728	488,312,388	-38.52%
100. INVESTMENTS	817,002,760	792,063,779	3.15%
110. PROPERTY, PLANT AND EQUIPMENT	35,778,880	36,494,338	-1.96%
120. INTANGIBLE ASSETS	2,645,607	2,218,404	19.26%
130. TAX ASSETS	26,710,114	22,744,648	17.43%
A) CURRENT	12,191,815	9,296,268	31.15%
B) DEFERRED	14,518,299	13,448,380	7.96%
OF WHICH LAW 214/2011	9,588,096	9,682,401	-0.97%
140. NON-CURRENT ASSETS AND DISCONTINUED OPERATIONS	-	52,748,147	-100.00%
150. OTHER ASSETS	10,002,259	17,777,212	-43.74%
TOTAL ASSETS	4,345,712,827	3,272,178,017	32.81%

BALANCE SHEET - LIABILITIES

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2016	31/12/2015	% CHANGE
10. DUE TO BANKS	3,194,989,103	1,988,411,893	60.68%
20. DUE TO CUSTOMERS	82,155,840	51,267,881	60.25%
30. OUTSTANDING SECURITIES	90,955,167	270,391,385	-66.36%
40. FINANCIAL LIABILITIES HELD FOR TRADING	256,504,739	176,729,421	45.14%
80. TAX LIABILITIES	2,346,002	4,736,725	-50.47%
A) CURRENT	63,341	1,978,416	-96.80%
B) DEFERRED	2,282,661	2,758,309	-17.24%
100. OTHER LIABILITIES	41,880,398	111,218,904	-62.34%
110. EMPLOYEE SEVERANCE INDEMNITY	2,956,644	2,286,245	29.32%
120. PROVISIONS FOR RISKS AND CHARGES:	20,611,732	20,107,390	2.51%
B) OTHER PROVISIONS	20,611,732	20,107,390	2.51%
130. VALUATION RESERVES	11,890,163	7,648,895	55.45%
160. RESERVES	422,147,647	402,010,934	5.01%
170. SHARE PREMIUM RESERVE	105,550,912	105,550,912	0.00%
180. CAPITAL	107,113,603	107,013,670	0.09%
200. PROFIT (LOSS) FOR THE YEAR (+/-)	6,610,877	24,803,762	-73.35%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,345,712,827	3,272,178,017	32.81%

INCOME STATEMENT

ITEMS	31/12/2016	31/12/2015	% CHANGE
10. INTEREST INCOME AND SIMILAR INCOME	27,876,889	23,974,724	16.28%
20. INTEREST EXPENSE AND SIMILAR CHARGES	(10,884,848)	(10,936,954)	-0.48%
30. INTEREST MARGIN	16,992,041	13,037,770	30.33%
40. FEE AND COMMISSION INCOME	13,656,167	15,325,664	-10.89%
50. FEE AND COMMISSION EXPENSE	(8,285,051)	(8,050,240)	2.92%
60. NET FEES AND COMMISSIONS	5,371,116	7,275,424	-26.17%
70. DIVIDENDS AND SIMILAR INCOME	10,065,780	12,636,855	-20.35%
80. NET GAINS (LOSSES) FROM TRADING	5,735,208	12,749,194	-55.02%
90. NET HEDGING GAINS	-	(9,036)	-100.00%
100. GAINS (LOSSES) FROM DISPOSAL OR REPURCHASE OF:	4,712,555	25,098,384	-81.22%
A) RECEIVABLES	822	(4,091)	-120.09%
B) AVAILABLE-FOR-SALE FINANCIAL ASSETS	4,711,938	25,121,645	-81.24%
D) FINANCIAL LIABILITIES	(205)	(19,170)	-98.93%
120. NET INTEREST AND OTHER BANKING INCOME	42,876,700	70,788,591	-39.43%
130. NET VALUE ADJUSTMENTS/REVERSALS FOR IMPAIRMENT LOSSES ON:	(5,627,010)	(4,837,637)	16.32%
A) RECEIVABLES	24,990	(31,755)	-178.70%
B) AVAILABLE-FOR-SALE FINANCIAL ASSETS	(4,909,850)	(4,855,141)	1.13%
D) OTHER FINANCIAL TRANSACTIONS	(742,150)	49,259	-1,606.63%
140. NET PROFIT (LOSS) FROM FINANCIAL MANAGEMENT	37,249,690	65,950,954	-43.52%
150. ADMINISTRATIVE EXPENSE:	(44,083,813)	(40,988,333)	7.55%
A) PERSONNEL EXPENSE	(21,635,578)	(19,171,048)	12.86%
B) OTHER ADMINISTRATIVE EXPENSE	(22,448,235)	(21,817,285)	2.89%
160. NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES	(1,089,113)	(631,491)	72.47%
170. NET VALUE ADJUSTMENTS/REVERSALS TO PROPERTY, PLANT AND EQUIPMENT	(2,172,844)	(1,884,747)	15.29%
180. NET VALUE ADJUSTMENTS/REVERSALS TO INTANGIBLE ASSETS	(955,535)	(661,680)	44.41%
190. OTHER OPERATING EXPENSE/INCOME	2,188,890	3,176,035	-31.08%
200. OPERATING COSTS	(46,112,415)	(40,990,216)	12.50%
210. GAINS (LOSSES) ON INVESTMENTS	10,518,933	(1,581,516)	-765.12%
240. GAINS (LOSSES) FROM DISPOSAL OF INVESTMENTS	9,279	3,279	182.98%
250. PROFIT (LOSS) FROM CURRENT OPERATIONS BEFORE TAX	1,665,487	23,382,501	-92.88%
260. INCOME TAXES FOR THE YEAR FROM CURRENT OPERATIONS	4,945,390	(60,660)	-8,252.64%
270. PROFIT (LOSS) FROM CURRENT OPERATIONS AFTER TAX	6,610,877	23,321,841	-71.65%
280. GAINS (LOSSES) ON GROUPS OF ASSETS HELD FOR SALE AFTER TAX	-	1,481,921	-100.00%
290. PROFIT (LOSS) FOR THE YEAR	6,610,877	24,803,762	-73.35%

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Detail of the vault - Sala FIAT (Fiat Room)
Detail of the vault - Sala Aulica (Aulic Room)

Palazzo Bricherasio, Turin
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