2017

FINANCIAL STATEMENTS

GRUPPO BANCA CARIGE

2017

REPORTS AND FINANCIAL STATEMENTS

BANCA CARIGE GROUP
2017 REPORT ON OPERATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

NOTE

The following conventional signs are used in the tables of the Report and the Financial Statements:
- when data is null
. when data is not significant

INTRODUCTION

The Consolidated Financial Statements of the Banca Carige Group as at 31 December 2017 were prepared in accordance with the international accounting standards (IAS/IFRS) and related interpretations (SIC/IFRIC) officially approved by the European Union, and in line with guidance provided by the Bank of Italy in its Circular no. 262 of 22 December 2005 and subsequent updates (Banks' Financial Statements: Layout and Preparation).
These comprise the financial statements for the year ended 31 December 2017, the explanatory notes and annexes, and are accompanied by the Directors' Report on operations.
Included in the financial statements are:

- Balance sheet;
- Income Statement;
- Statement of Comprehensive Income;
- Statement of Changes in Shareholders' Equity;
- Statement of Cash Flows.

The Report on Operations provides the required information concerning business performance as a whole and for the various segments of the Group's business, as well as main risks and uncertainties encountered.
The Consolidated Financial Statements of the Banca Carige Group were audited by EY S.p.A., according to the auditing engagement conferred on this auditing firm by resolution of the Shareholders' Meeting of 29 April 2011 for the nine-year period 2012-2020.
The engagement was conferred pursuant to Art. 159 of Italian Legislative Decree no. 58/1998 and subsequent amendments, as well as the integrations pursuant to in Art. 18 of Italian Law no. 262/2005 and of Italian Legislative Decree no. 39/2010.
The Board of Directors of the Parent Company authorised the publication on 7 March 2018 of the separate financial statements, consolidated financial statements, report on operations and certification by the delegated governing bodies and Manager responsible for preparing the company's financial reports, along with the Independent Auditors' and Statutory Auditors' Reports, under the terms and within the deadlines set forth by regulations in force (by making it available to the public at the Bank's registered office and at the stock market management company - Borsa Italiana S.p.A., as well as on the corporate website www.gruppocarige.it).

NOTICE OF ORDINARY SHAREHOLDERS' MEETING

BANCA CARIGE S.p.A. - Cassa di Risparmio di Genova e Imperia

Registered office in Genoa, Via Cassa di Risparmio 15
Share capital Euro 2,845,857,461.21. fully paid-in
Genoa Companies' Register - Tax Code - VAT no. 03285880104
Parent Company of the Banca Carige Group included in the Bank of Italy's Banking Groups Register

NOTICE OF ORDINARY SHAREHOLDERS' MEETING

The parties entitled to vote in the Shareholders' Meeting of BANCA CARIGE S.p.A. - Cassa di Risparmio of Genoa and Imperia are called to attend the Ordinary Shareholders' Meeting, which will be held in one call at the Magazzini del Cotone Congress Centre, Area Porto Antico, Sala Maestrale, Via ai Magazzini del Cotone 59, Genoa, on Tuesday 29 March 2018 at 10:30 a.m., to resolve upon the following

AGENDA

1) Approval of the 2017 financial statements

2) Integration of the Board of Statutory Auditors: appointment of one Standing Auditor and one Alternate Auditor

3) Remuneration policies of the Banca CARIGE Group

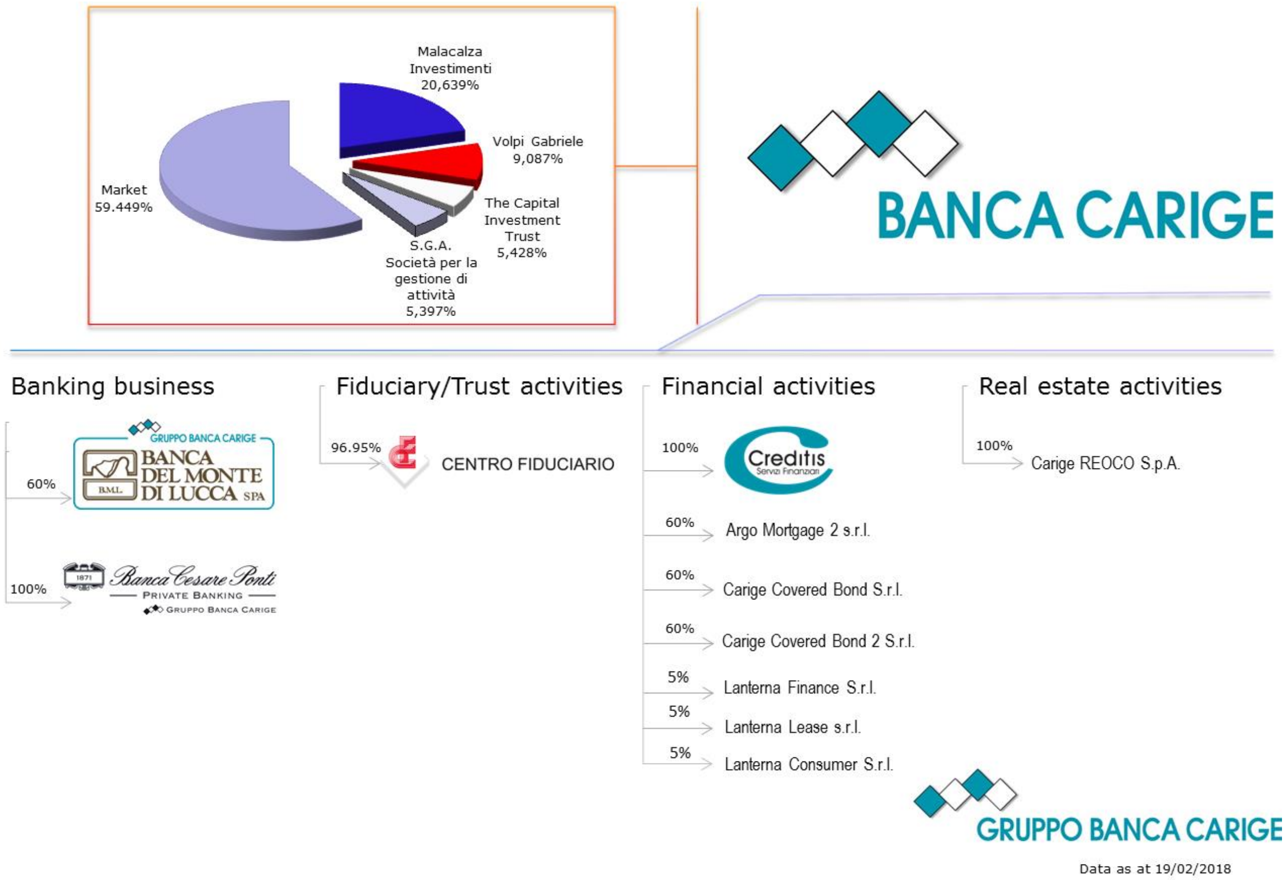
4) Proposal to adjust the compensation of the Independent Auditors - subsequent resolutions

Full information is available on the corporate website www.gruppocarige.it under Governance / Shareholders' Meetings.

Genoa, 27 February 2018

for the Board of Directors
The Chairman
Giuseppe Tesauro

STRUCTURE OF THE BANCA CARIGE GROUP



PARENT COMPANY'S BOARD OF DIRECTORS, BOARD OF STATUTORY AUDITORS AND INDEPENDENT AUDITORS AS AT THE DATE OF PUBLICATION

BOARD OF DIRECTORS

CHAIRMAN
Giuseppe Tesauro

DEPUTY CHAIRMAN
Vittorio Malacalza

CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR
Paolo Fiorentino*

DIRECTORS
Sara Armella**
Francesca Balzani
Remo Angelo Checconi*
Giacomo Fenoglio
Giulio Gallazzi
Stefano Lunardi
Luisa Marina Pasotti
Luciano Pasquale*
Giuseppe Pericu
Massimo Pezzolo
Ilaria Queirolo
Lucia Venuti

*** Chairman of the Executive Committee*
** Member of the Executive Committee*

BOARD OF STATUTORY AUDITORS

CHAIRMAN
Carlo Lazzarini

STANDING AUDITORS
Francesca De Gregori
Giancarlo Strada

ALTERNATE AUDITORS
Stefano Chisoli

INDIPENDENT AUDITORS
EY S.p.A.

MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS
Mauro Mangani

The Board of Directors was appointed by the Ordinary Shareholders 'Meeting of 31/3/2016 for the 2016-2017-2018 financial years, hence with term of office until the date of the Shareholders' Meeting called to approve the financial statements on 31/12/2018.
Further to the resignation of Beniamino Anselmi, Director and Chairman of the Executive Committee, on 01/08/2016, the Board of Directors, in its meeting of 11/10/2016, co-opted Giuseppe Pericu to serve as a Member of the Bank's Board of Directors pursuant to Article 2386 of the Italian Civil Code, with term of office expiring on the date of the next Shareholders' Meeting. Director Pericu was concurrently appointed to serve on the Appointment Committee, with recommendation for Chairmanship, which he subsequently accepted on 07/02/2017.
Further to the resignation of Giampaolo Provaggi, Director and Member of the Executive Committee, on 21/10/2016, the Board of Directors, in its meeting of 10/02/2017, co-opted Massimo Pezzolo to serve as a Member of the Bank's Board of Directors pursuant to Article 2386 of the Italian Civil Code, with term of office expiring on the date of the next Shareholders' Meeting.
Therefore, the Ordinary Shareholders' Meeting of 28/3/2017 appointed Giuseppe Pericu and Massimo Pezzolo to serve as members of the Board of Directors for the same term of office as for the other Directors, expiring on the date of the Shareholders' Meeting called to approve the financial statements for the year ending 31/12/2018.
Thereafter, further to the resignations of Directors Elisabetta Rubini (on 17/05/2017), Paola Girdinio (on 07/06/2017), Claudio Calabi (who also served as Chairman of the Executive Committee), Alberto Mocchi and Maurizia Squinzi (on 12/06/2017), the Board of Directors, in its meeting of 21/06/2017, co-opted Paolo Fiorentino, Francesca Balzani, Stefano Lunardi and Ilaria Queirolo to serve as Members of the Bank's Board of Directors pursuant to Article 2386 of the Italian Civil Code, with term of office expiring on the date of the next Shareholders' Meeting. At its meeting of 11/07/2017, the Board of Directors also co-opted Luisa Marina Pasotti to serve as a Member of the Bank's Board of Directors pursuant to Article 2386 of the Italian Civil Code, with term of office expiring on the date of the next Shareholders' Meeting.
Following revocation, on 09/06/2017, of the powers delegated to Mr. Bastianini in his capacity as Chief Executive Officer and General Manager and further to termination of his office as General Manager on 13/06/2017, the foregoing Board of Directors' Meeting of 21/06/2017 appointed Director Paolo Fiorentino to serve as the Bank's Chief Executive Officer and General Manager as of the same date.
Further to the resignation of Director Guido Bastianini on 08/09/2017, the Board of Directors, at its meeting of 13/09/2017, co-opted Giacomo Fenoglio to serve as a Member of the Bank's Board of Directors pursuant to Article 2386 of the Italian Civil Code, with term of office expiring on the date of the next Shareholders' Meeting.
In its ordinary session, the Shareholders' Meeting of 28/09/2017 thus appointed Paolo Fiorentino, Francesca Balzani, Stefano Lunardi, Ilaria Queirolo, Luisa Marina Pasotti and Giacomo Fenoglio to serve on the Board of Directors, with their terms of office expiring on the same date as applies to the other members of the Board of Directors, at the end of their 2016-2018 three-year term.
On 28 September, in light of the Shareholders' Meeting confirmation of the appointment of Paolo Fiorentino to serve as Director of the Bank, the Board of Directors resolved to confirm Fiorentino as the Chief Executive Officer, along with the responsibilities and powers he was vested with at the meeting of 21/06/2017.
With regard to the foregoing resignations and subsequent co-optations, the Board of Directors also redefined the composition of the Board-internal Committees, which is today as follows:

- Risk Committee: Giulio Gallazzi (Chair), Francesca Balzani and Stefano Lunardi;
- Appointments Committee: Giuseppe Pericu (Chair), Massimo Pezzolo and Lucia Venuti;
- Remuneration Committee: Giulio Gallazzi (Chair), Luisa Marina Pasotti and Ilaria Queirolo.

The Executive Committee was appointed by the foregoing Board of Directors' Meeting of 04/04/2016, with term of office for its elected members (in addition to the Chief Executive Officer who is a Member by right) expiring on the date of the Shareholders' Meeting called to approve the financial statements for the year ending 31/12/2018, except for Director Luciano Pasquale, who was appointed to serve as a Member of the Executive Committee in the BoD meeting of 13/06/2017. As stated, further to the resignation tendered by Director Calabi on 16/06/2017, Director Sara Armella, on a recommendation from the Board of Directors, assumed the role of Chair of the Executive Committee, the composition of which is thus as follows: Sara Armella (Chair), Paolo Fiorentino, Remo Angelo Checconi and Luciano Pasquale.

Finally, again at the Meeting of 4/4/2016, Director Luciano Pasquale was appointed as a Member of the Credit Committee by the Board of Directors.

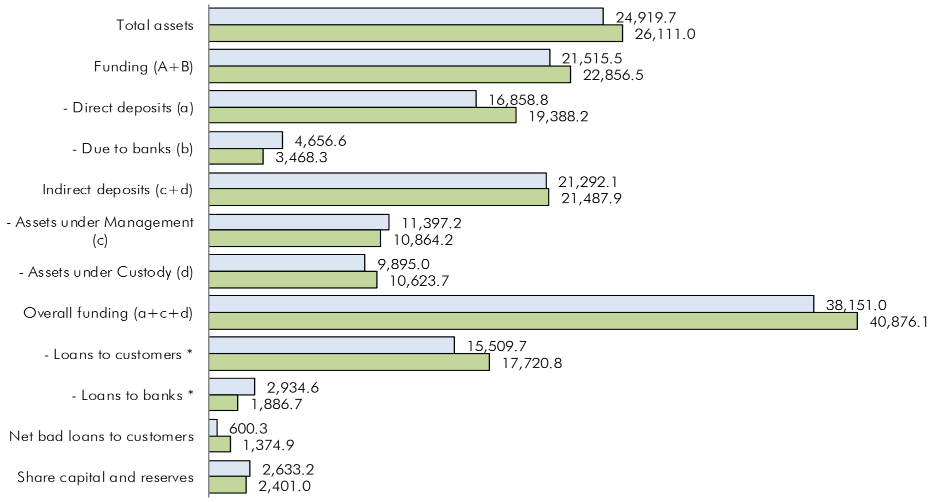
The Board of Statutory Auditors currently in office was appointed by the Ordinary Shareholders' meeting of 28/03/2017, with term of office expiring on the date of the Shareholders' Meeting called to approve the financial statements for the year ending 31 December 2019. Further to the resignation of Auditor Maddalena Costa with effect from 25 January 2018, the Alternate Auditor Francesca De Gregori took office on the same date as Standing Auditor, with term of office until the following Shareholders' Meeting.

POWERS AND DELEGATED AUTHORITIES OF THE GOVERNING BODIES

For information regarding the powers and delegated authorities of Directors and Management, please refer to the separate document: "Corporate Governance and Ownership Structure Report for 2017", approved and published in conjunction with these financial statements and available in the "Governance" section of the Bank's website at www.gruppocarige.it.

FINANCIAL HIGHLIGHTS FOR THE GROUP

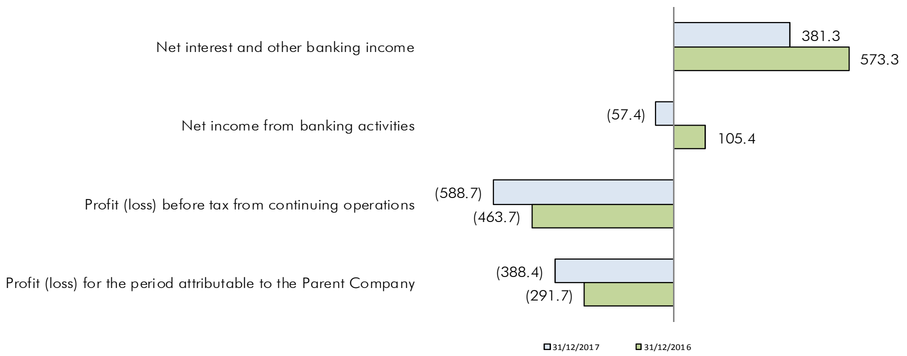
Balance sheet figures *(EUR mln)*



	Change absolute	%
Total assets	(1,191.3)	(4.6)
Funding (A+B)	(1,341.0)	(5.9)
- Direct deposits (a)	(2,529.4)	(13.0)
- Due to banks (b)	1,188.3	34.3
Indirect deposits (c+d)	(195.7)	(0.9)
- Assets under Management (c)	533.0	4.9
- Assets under Custody (d)	(728.7)	(6.9)
Overall funding (a+c+d)	(2,725.1)	(6.7)
- Loans to customers *	(2,211.1)	(12.5)
- Loans to banks *	1,047.9	55.5
Net bad loans to customers	(774.6)	(56.3)
Share capital and reserves	232.2	9.7

* Net of value adjustments and debt securities classified as L&R.

Income statement figures *(EUR mln)*

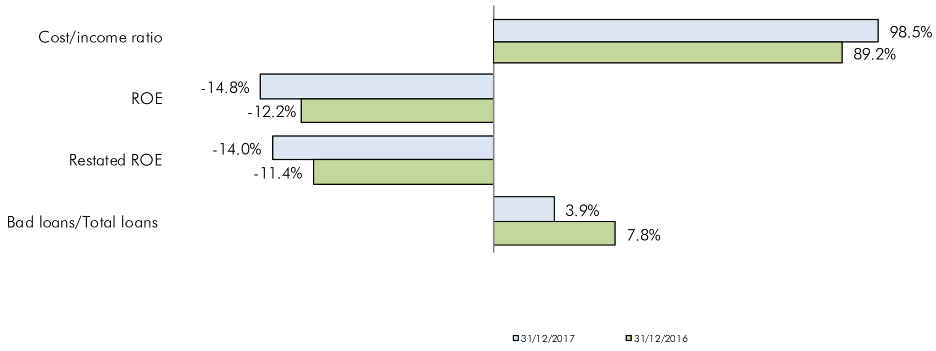


	Change absolute	%
Net interest and other banking income	(192.0)	(33.5)
Net income from banking activities	(162.8)	...
Profit (loss) before tax from continuing operations	(125.0)	27.0
Profit (loss) for the period attributable to the Parent Company	(96.7)	33.1

With respect to published accounts, 2016 balances are reflective of the effects resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations" with regard to the income statement and the restatements of the balance sheet, against the same assets being discontinued, carried out for a better comparison of balance sheet data (as further described in the paragraph "Balance sheet items, funding and lending" of this report).

	Situation as at 31/12/2017	Situation as at 31/12/2016	Change absolute	Change %
RESOURCES (end of period)				
Number of branches	529	587	(58)	(9.9)
Headcount	4,642	4,873	(231)	(4.7)

KPIs (%) (1)



(1) In order to facilitate the understanding of the Group's economic and financial performance, some Alternative Performance Measures ("IAMs") have been identified. These indicators also represent the tools that aid the directors themselves in identifying operational trends and making decisions about investments, allocation of resources and other operational decisions.
For a correct interpretation of these IAMs, taking into account the guidelines issued by the ESMA on 5 October 2015 and in force since 3 July 2016, the following is highlighted:

i. these indicators are constructed exclusively based on historical data of the Group and are not indicative of the future performance of the Group itself;
ii. IAMs are not required by international accounting standards ("IFRS") and, although they are derived from the Group's consolidated financial statements, they are not subject to audit;
iii. IAMs must not be considered as substitutes for the indicators provided by the reference accounting standards (IFRS);
iv. said IAMs shall be referenced when reading the Group's financial information drawn from the Group's consolidated financial statements;
v. the definitions of the indicators used by the Group, as they do not derive from the reference accounting standards, may not be homogeneous with those adopted by other companies / groups and therefore comparable with them.

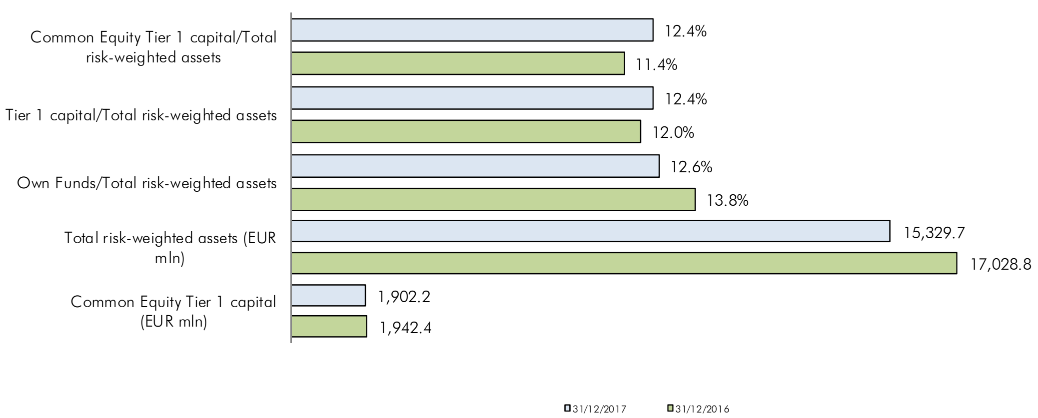
With reference to profitability indicators, the above mentioned IAP indicators have been selected and represented as the Group believes that:

- The Cost / Income ratio, calculated as the ratio between operating expenses and net operating income, is one of the main indicators of the Bank's and the Group's management efficiency; the lower the value expressed by this indicator, the greater the efficiency.
- Return on Equity (ROE) obtained by dividing the result for the period by the net equity of the Group net of the result for the period, and the Return on Equity Adjusted (ROE Adjusted), obtained by dividing the result for the period by the Group's shareholders' equity net of the result for the period and of the valuation reserves, are economic indicators on the profitability of equity. These indicators are used to verify the rate of return on risk capital, or what makes the capital transferred to the company by the shareholders. They can be considered as a synthesis of the overall economy, considering how the management managed to manage its own resources to increase business results.
- The Net doubtful loans / Deposits from customers indicator is representative of the incidence of non-performing loans on total deposits from customers.

Reported below are the reference values for the calculation method of selected APMs:

– Cost income ratio: ratio between operating expenses (items 180, 200 and 210 of the Income Statement net of tax recovery as recognised in item 220, contributions to the National Resolution Fund and FITD of EUR 18.3 mln (EUR 35.6 mln in 2016), expenses related to the extraordinary transactions carried out to implement the Group's Business Plans for EUR 10.4 mln (EUR 1.6 mln in 2016), DTA fees for EUR 13.9 mln (similar to 2016), as well as charges attributable to the union agreement reached in December for EUR 61.5 mln (net positive non-current components for approximately EUR 19.3 mln in 2016) and software write-downs for EUR 14.9 mln) and net operating income (items 30, 60, 70, 80, 90, 100b-c-d, 110 and 220 of the Income Statement, net of tax recoveries, as well as non-recurring positive components relating to the LME for EUR 221.5 mln and losses on disposal of the equity investment in the three banks held by the FITD voluntary Scheme for EUR 9.9 mln (in 2016 EUR 12.1 mln in positive non-recurring positive items). The significant non-recurring components recognised in 2017 led the Group to deem that a Cost/Income calculated by excluding non-core business components from operating costs could be more representative of the Group's profitability/operating efficiency. Given the above, and the impact on 2016 figures from application of IFRS 5 as at 31 December 2017, the cost income ratio as at 31 December 2016 (89.2%) differs from the 81% disclosed in the publication of both the 2016 results and the 2017-2020 Business Plan.
– ROE: the ratio of Parent Company's share of net profit/loss (item 340 of the income statement) to Group's net tangible equity and reserves (items 140, 170, 180, 190, and 200 of the Balance Sheet Liabilities).
– Adjusted ROE: ratio calculated as Net Profit (Loss) attributable to the Parent Company (item 340 of the Income Statement) divided by the Group's net tangible equity net of valuation reserves (items 170, 180, 190, 200 of the Balance Sheet Liabilities);.
– Bad loans to total loans: ratio calculated as Net balance-sheet bad loans to customers divided by Net loans to customers (item 70 of the Balance Sheet net of debt securities classified as L&R).

Capital ratios (%)



REPORT ON OPERATIONS

REAL ECONOMY AND MONEY MARKET

In 2017 global economy showed a positive trend, marked by a strengthening of the growth trend observed already in the first months of the year. Global GDP is increasing at a rate of 3.5%, while the average annual growth of international trade stands at 4.9%, with the important contribution of China, which in the last months of the year revealed a stronger economic situation and political leadership, with forecasts of growth slowing its pace in 2018. In the United States the tax reform is being approved, which will be applied from 2019, with effects estimated to be expansive but limited. Russia and Brazil, after years of deep recessions, are experiencing a stabilisation of their domestic economies. From a political point of view, the greatest tensions are observed in relations between North Korea and the United States and tensions are re-emerging in Israeli-Palestinian relations.

The consolidation in the Eurozone is underlined by the consolidation of the recovery, driven above all by the positive trend of international trade, by low inflation rates and by a low political risk situation, despite the Catalan independence pressures and political uncertainties in Germany and Italy. The ECB continued its intervention policy to support member countries' economies, in particular through the quantitative easing tool (QE), which will continue at least until September 2018 with monthly purchases of EUR 30 bn. Germany's economy, after years of restraining its growth rate, has found new vigour, acting as a driving force for all the countries in the area. In 2017, Italy achieved better results than expected, with growth that, starting from the industrial sector, has expanded to the voluntary sector, driven by the good results of tourism. Inflation is still low, however, it is a sign that the economic cycle is still in a more meager phase than what some indicators would suggest.

At the European level, the employment market shows a modest reduction in the unemployment rate, with the exception of Germany, where it stands at 3.7% and is continuously improving. Despite this not particularly brilliant context, the Italian employment market remains among the best in terms of employment growth; the rate of unemployment in Italy, in November 2017, was 11%. Available data, referring to the third quarter, show that, compared to a 1.7% GDP growth on an annual basis, the total hours worked in Italy have risen by 2.4%, with an increase in the number of employees equal to 303 thousand units (+ 1.3%); from 2013 there are about 800 thousand more employees, with a substantial contraction of the inactive and the unemployed. However, it must be noted that these positive effects are largely attributable to older workers, to the detriment of younger workers, so that the 25-34 age group is the only one for whom the employment rate is, albeit slightly, down (-0.4% on 2013); moreover, most of the new hires are fixed-term contracts.

A favourable trend in foreign trade is observed in Europe’s key economies, where exports grew by 5.4% in Italy, 5.1% in Germany, 4.8% in Spain and 3.2% in France during the first three quarters of 2017, compared to the same period in 2016. The percentage growth for Italy is driven by the good performance of exports to both EU and non-EU countries, in particular the US, Russia, Turkey, North Africa, India and Brazil; a very positive result was also seen in exports to China, particularly in the automotive sector. An average 7.4% growth in Italian exports by volume is estimated for 2017.

The BTP-Bund spread is expected to show modest growth in conjunction with the forthcoming Italian spring election, in particular due to the structure of the current electoral law, which does not provide certainty about the effective possibility of guaranteeing a strong and stable majority. The spread is thus predicted to reach a level of around 190 bps, a value that should then go down again during the year to settle at around 160 bps and which could further rise towards the end of 2018, concurrently with the possible end of the QE plan by the ECB.

With regard to the Italian banking sector, reduction in gross bad loans (-10.4% compared to December 2016) continued, driven by the active NPL management by intermediaries and major disposals, which took place during the year. The ongoing economic recovery also contributes to reducing the risks of insolvency, with positive effects on the trend of bad loans.

The expansionary policy, implemented by the ECB in order to maintain high levels of liquidity in the banking system and low benchmark rates, is estimated to contribute to improving the demand and supply conditions of bank credit, consolidating the ongoing recovery. Lending to the private sector in Italy is expected to grow by 1% annually, albeit below the annual 2.9% forecast for the Euro area. Data for October shows that new loans to companies are granted at 15 bps lower rates than at the end of 2016, while loans to households are substantially stable. Interest expense rates are estimated to be slightly lower

in 2017 than they were in 2016, by 11 bps on bonds and 6 bps on deposits; however, interest income is expected to grow during 2018, due to credit dynamics and the still favourable funding conditions.
Total deposits (deposits from resident customers and bonds) proved substantially stable Y/Y as at the end of 2017; in particular, current account deposits, certificates of deposit, repurchase agreements, were up by over EUR 50.5 bn as at the end of 2017 compared to the previous year (+ 3.6% Y/Y), while medium and long-term deposits, i.e. via bonds, was confirmed to have declined by around EUR 50.7 bn over the last 12 months (-15.2%). Finally, cash deposits and asset management instruments held by households and non-financial corporations are growing. A reduction of uncertainty and a potential increase in rates are estimated to lead to savings being reallocated to medium-long term investments only as of the end of 2018.

STRATEGY AND BUSINESS PERFORMANCE

On 13 September 2017, Banca Carige's Board of Directors approved the 2017-2020 Business Plan called "2017-2020 Carige Transformation Programme", whereby the Bank seeks to give effect to the vision of Carige going back to "doing the job of the Retail Bank well" for its core business having regard to asset quality, commercial relaunch and rationalisation of the cost base.

The Bank's strategic vision revolves around four key pillars:

- capital strengthening;
- asset quality;
- operational efficiency;
- commercial relaunch.

The first pillar of the Plan, namely the strengthening of the Group's capital structure, has made it possible to restore higher capital ratios than the ECB's current targets as early as by the end of 2017. The actions planned to achieve the objective of this first pillar have already been identified, have partially been or are currently being implemented. They include:

1. capital increase, completed successfully on 22 December 2017 for a total amount of EUR 544.4 mln, of which EUR 46.4 mln are subscribed by the holders of securities subject to the optimisation of liabilities (Liability Management Exercise - LME);
2. optimisation of liabilities through the aforementioned LME transaction which involved the substitution of subordinated securities for a total amount of EUR 510 mln of a nominal value with a new senior security with a nominal value of EUR 188.8 mln and the realisation of a gross profit equal to EUR 221.5 mln;
3. disposal of assets, including a group of 8 readily marketable assets, including the building located in Via Vittorio Emanuele in Milan, sold on 16 November 2017 for a total of EUR 107.5 mln, Creditis Servizi Finanziari S.p.A. (for which, on 6 December 2017, a binding agreement was signed for the assignment of 80.1% of the investment for a total of EUR 80.1 mln), the POS business transaction and credit card distribution (the so-called merchant book), the sale of the platform for the management of impaired loans (for which, on 6 December 2017, a binding agreement for the sale of the corresponding business unit was signed with Credito Fondiario S.p.A.).

The strengthening of asset quality, which is in the objective of the second pillar of the Business Plan, will be achieved through a major NPE de-risking and de-leveraging effort, which will see the overall stock of NPEs decline from EUR 7.3 bn as at the end of 2016 to EUR 3.1 bn as at the end of 2020 (a much lower value than the target required by the ECB). On 6 December 2017 a binding agreement was entered into with Credito Fondiario S.p.A. for the non-recourse disposal of a portfolio of mortgage and signature bad loans, for a gross nominal value of approximately EUR 1.2 bn as at 30 March 2017, at a price of EUR 265.5 mln, corresponding to about 22.1% of the gross nominal value, higher than

anticipated in the Business Plan; this transaction was finalised with legal effect on 28 December 2017. The Plan also provides for a specific action for Unlikely-to-pay exposures (UTPs), with a special focus on large tickets, also through the new company Carige Reoco S.p.A. which, by stepping in for individual transactions traceable to loans classified as bad loans and UTPs and relying on the contribution of key staff already working in the organisational unit, will have the objective of maximising recovery from mortgage loan collaterals.
The combined actions for capital strengthening and asset quality improvement will enable the Bank to obtain a more balanced financial structure with benefits in terms of both cost of funding and funding mix, which will reverberate positively on the Group's liquidity control.

With reference to the third pillar, i.e. greater operating efficiency, the Business Plan will allow for a comprehensive overhaul of the Group's operating and management model, aimed at filling the operating efficiency gaps with respect to market benchmarks. A number of actions for the rationalisation and simplification of the Head Office structure and Branch Network are therefore planned to be implemented, in the aim to reduce both personnel expenses (through headcount optimisation) and other administrative expenses. In this context, the signing on 18 December 2017 of a specific agreement with the trade unions for the voluntary access to the "Solidarity Fund" by the Group's employees is highlighted.
Again with a view to improving operational efficiency, the ICT will be managed strategically, including the definition of partnerships with leading industrial operators to guarantee quality, efficiency and support digital development. The operating efficiency improvement objective will also be pursued through investments aimed at developing a new branch/service model, digitalising the Bank's processes and upgrading the infrastructure in use.

Once the capital strengthening, asset quality optimisation and operating efficiency improvement actions are implemented, the Group will be in a position to focus on the last pillar of its Business Plan, i.e. the commercial relaunch.
This objective will be pursued by enhancing the strengths of the Carige Group: market coverage and a focus on small-medium customers (retail, the small business and SMEs).
Over the next few years, the Business Plan will pursue the objective of filling the gap of productivity between the Bank and the market benchmark; to do so, it will be necessary for the Bank to grow in the areas of asset management, loans to the small business segment and mortgage loans to households. In this respect, for an expansion of funding and lending volumes, Branch Managers will be called to play a key role acting as "businessmen in their local market areas" with the primary objective of reinforcing the advisory service for households and the Small Business. For the purpose of product development, the offering for customers will be reviewed by adopting an Open Architecture model aimed at taking advantage of best market offers for highly advanced, sophisticated products, with Core Commercial Banking products continuing to be developed in-house.

The 2017-2020 Carige Transformation Programme provides a summary of the return to profit as of 2018 and full compliance with regulatory limits relating to the capital endowment and the maintenance of adequate liquidity facilities. The implementation of the Plan will also allow constant compliance with the limits imposed by the ECB in its supervision of the levels of capitalisation, the stock of impaired loans in the financial statements and their coverage ratio.

Net profit (loss) for the 2017 was a negative EUR 388.4 mln, including includes losses of approximately EUR 308 mln relating to the sale or securitisation of non-performing loan portfolios set up during the year (for further details, see paragraph "Securitisations completed by the Banca Carige Group" in the section "Accounting Policies").
Compared to the same period of the previous year, the result shows a negative trend in net interest income, linked to the trend in market interest rates still decreasing and a drop in intermediated volumes, against a substantial stability in net commissions; operating costs increased compared to the previous year and included non-recurring items mainly related to personnel expenses of around EUR 61.5 mln (of which EUR 50 mln are allocated to the Solidarity Fund provision) due to the union agreement reached in December, as well as to the expenses strictly connected to extraordinary transactions of the Group's Business Plans for approximately EUR 10.4 mln and to the write-down of intangible assets for about EUR 15 mln.

Direct funding from retail and corporate customers amounted to EUR 14 bn as at the end of 2017, down compared to the figure at the end of 2016 (EUR 15.7 bn). The trend that drove the performance of this aggregate was the decrease in bond deposits, as well as the contraction in current accounts and free deposits, recorded especially in the last quarter of the year due to the tensions that occurred at the time the capital increase transaction was launched. The institutional / wholesale component falls to EUR 2.9 bn driven primarily by LME transactions concluded at the end of December. As a combined result of the above factors, total direct funding amounted to EUR 16.9 bn (EUR 19.4 bn at the end of 2016).
Indirect funding decreased to EUR 21.3 bn, with the decline in Assets under Custody (-6,9%) not being sufficiently compensated for by the positive performance in Asset under Management (+ 4.9%), which was driven by mutual funds and by bancassurance products.
2017 was also characterised by the derisking of loans to customers, which were down 16.6% to EUR 17.2 bn, in both the short and medium / long-term portfolios, whereas the institutional component stood at EUR 0.6 bn, down 3.3% compared to December 2016.
Despite the aforementioned tensions recorded on the collection market and the significant repayment obligations, the Group's liquidity profile shows a level of Liquidity Coverage Ratio (LCR) equal to 156%, a value consistent with the Business Plan and the Funding Plan and widely above the minimum threshold required by the European Central Bank for 2017 (90%).

KEY EVENTS IN 2017

THE PARENT COMPANY: BANCA CARIGE

Approval and development of Strategic and Business Plans

At its meeting of 28 February 2017, the Board of Directors unanimously approved the Update of the 2016-2020 Strategic Plan.
In relation to the actions and initiatives planned for the commercial model and branch network layout, the Board of Directors, at its meeting of 28 March 2017, approved the re-configuration of the organisational set-up of the Chief Commercial Officer Area and the geographical extent of the regional Market Areas, as well as changes to the credit decision-making powers assigned to the commercial units.
On 28 April 2017, for the purpose of implementing the strategic initiatives expected to strengthen balance sheet and asset quality control as provided for in the 2016-2020 Strategic Plan Update, the Board of Directors approved the transfer of a portfolio of bad loan exposures approximately amounting to EUR 940 mln to a securitisation vehicle at a value at least in line with Plan forecasts, using the Italian Government Guarantee Scheme (GACS) for the senior tranche.
Later, on 30 May 2017, the Board of Directors authorised the disposal and approved the authorisation process required by law to obtain the Italian Government guarantee (GACS) on the senior tranche and sell the mezzanine and junior notes of the securitisation.
On 16 June 2017, the Group transferred a bad loan portfolio for a gross amount of EUR 938.3 mln as at the cut-off date of 31 August 2016, to a special purpose securitisation vehicle which issued three different classes of securities (senior, mezzanine and junior) on 5 July 2017. The securitisation transaction was structured with the transferors (Banca Carige, Banca Cesare Ponti and Banca del Monte di Lucca) initially underwriting all of the senior, mezzanine and junior securities at their nominal value of approximately EUR 309.7 mln and the mezzanine and junior tranches being subsequently placed on the institutional market, with settlement on 8 August 2017. The disposal entailed the derecognition of the loan book with the effect being recognised under loan losses in the profit or loss of the year for an aggregate amount of approximately EUR 98 mln. The senior tranche, for which a Guarantee from the Italian Government was obtained (a.k.a. "GACS", pursuant to Legislative Decree no. 18 of 14 February 2016, as amended and converted into Law no. 49 of 8 April 2016) was instead retained in the transferors' portfolio.
Giving effect to the Strategic Plan, the Executive Committee, on 28 April 2017, resolved to close down 55 branches and one remote point of sale of Banca Carige and expressed the Parent Company's favourable opinion about closing 4 branches of Banca del Monte di Lucca.

On 3 July 2017, the Board of Directors of Banca Carige approved new strategic guidelines for managing Non-Performing Exposures (NPEs, including Bad Loans and Unlikely-To-Pay Exposures) and capital strengthening actions designed to complete the Group's de-risking process.
Subsequently, on 11 July 2017, the Board of Directors -giving effect to the aforesaid NPE management strategy- initiated the process for identifying a second bad loan portfolio to be uploaded into a virtual data room by the end of July (after completion of first tranche disposal under the GACS government-backed securitisation scheme), an operating step towards the additional deconsolidation of approximately gross EUR 1.2 bn worth of credit exposures by the end of 2017 (the amount was later modified by the BoD resolution approving the New Business Plan of 13 September 2017, which considered increasing it to EUR 1.4 bn).
On 3 August 2017, the Board of Directors, subject to the prior release of the necessary authorisations, approved a proposal -to be submitted to the Shareholders' Meeting- to delegate to the Board pursuant to art. 2443 of the Italian Civil Code, the power -to be exercised by no later than 31 December 2017- to increase the share capital for consideration, including possibly in indivisible form, with inclusion and/or exclusion of the rights of option under art 2441, para. 5 of the Italian Civil Code, in one or more issues and in one or more tranches, by issuing new ordinary shares for an overall amount of up to EUR 560 mln, of which one tranche of up to EUR 60 mln may possibly be reserved for one or more categories of subordinated bondholders taking part in a potential liability management transaction.
Subject to the necessary authorisations being obtained, the same Board of Directors also approved a liability management transaction aimed at further strengthening the Bank's capital position which may entail the swap of certain subordinated financial instruments issued by the Bank on the wholesale market with the same amount of Senior notes issued by the Bank.

At its meeting of 13 September 2017, the Board of Directors of Banca Carige approved the 2017-2020 Business Plan ("2017-2020 Carige Transformation Programme"), the guidelines of which are reported in the above section "Strategy and Business Performance".
A fundamental element of the Plan is the comprehensive effort to strengthen the Group's capital structure which will make it possible to restore higher capital ratios than the ECB's current targets as early as by the end of 2017. On 27 September, the Bank received the authorisation of the European Central Bank to implement the comprehensive effort to strengthen the Group's capital structure.
On 28 September 2017, the Extraordinary Shareholders' Meeting, having acknowledged the authorisation received from the European Central Bank, resolved to vest the Board of Directors, pursuant to art. 2443 of the Italian Civil Code, with the power to increase the share capital by an aggregate amount of up to EUR 560 mln (inclusive of share premium) in divisible form, of which up to EUR 500 mln with inclusion of the rights of option and up to EUR 60 mln with exclusion or limitation of the rights of option possibly to be reserved for one or more categories of holders of subordinated financial instruments included in the scope of the Liability Management Exercise, vesting the Board of Directors with the authority to determine the procedures, terms and conditions for the Capital Increase.
On the same date, after the afore-mentioned Shareholders Meeting was held, the Board of Directors resolved upon the terms and conditions of the LME, consisting in an Exchange Offer and a consent solicitation for the substitution of subordinated securities – for an aggregate nominal amount of EUR 510 mln – with new senior securities issued under the Bank's EMTN programme, with 100% issue price, 5-year maturity, 5% fixed rate annual coupon.
On 14 November 2017, the Board of Directors resolved to exercise the aforementioned powers pursuant to Art. 2443 of the Italian Civil Code to increase the share capital.
On 15 November 2017, the Board of Directors, in the context of the Capital Increase transaction, resolved, with reference to the capital increase under option:
- to issue up to 49,810,870,500 new ordinary shares with no indication of par value and having regular dividend entitlement, to be offered on option to the holders of the Bank's ordinary and/or savings shares;
- to set the allotment ratio at 60 new shares for every ordinary and/or savings share held;
- to set the issue price for each new ordinary share at EUR 0.01

with the total subscription amount of the rights issue therefore being a maximum of EUR 498,108,705.

In relation to reserved tranche, the Board also resolved to issue up to 6,000,000,000 new ordinary shares, with no indication of par value and having regular dividend entitlement, to be offered as a

priority to the holders of "Perpetual Tier I Junior Subordinated Notes due 2018", "Lower Tier II Subordinated Notes due 2018" and "Lower Tier II Subordinated Notes due 2020" subordinated securities at the issue price of EUR 0.01 for each new ordinary share, for a total subscription price of the reserved tranche of EUR 60,000,000.
On 17 November, the Bank announced the setup of the Underwriting Syndicate relating to the EUR 500 mln rights issue, comprising Credit Suisse Securities Limited, Deutsche Bank AG London Branch as global coordinators and joint bookrunners and Barclays Bank PLC as co-global coordinator and joint bookrunner. Equita SIM S.p.A. has supported the Underwriting Syndicate acting as a co-guarantor, in turn, supported by four "first allocation" or "*pari passu*" agreements with the Underwriting Syndicate, signed by leading institutional investors.
The capital increase ended on 22 December 2017 with the subscription of a total amount of EUR 544,356,998.40 (of which EUR 54,435,699.84 as share capital and EUR 489,921,298.56 as share premium) and the issue of 54,435,699,840 new Banca Carige ordinary shares.
On the same date, as part of the LME transaction, the 4,638,000,000 new ordinary shares arising from the Reserved Tranche were settled for a total amount of EUR 46,380,000 and the new senior notes with an overall par value of EUR 188,807,000 were delivered.
Banca Carige's new share capital therefore amounts to EUR 2,845,857,461.21, divided into 55,265,855,473 ordinary shares and 25,542 savings shares, with no indication of par value.

On 21 November 2017, the Board of Directors resolved to vest the Chief Executive Officer and the Chief Financial Officer with the power to severally examine in detail the binding offers received for the purchase of the subsidiary Creditis Servizi Finanziari S.p.A., reserving the right for final resolutions.
On 28 November the Board of Directors reviewed the various bids received as part of the competitive bidding process and shortlisted two bidders to continue negotiations with.
At its meeting of 4 December 2017, the Board of Directors vested the CEO with the powers to select the bidder for the disposal of Creditis Servizi Finanziari S.p.A. and sign the related agreements. In light of the resolutions taken, the Bank entered into exclusive negotiations with Chenavari Investment Managers, whose bid was considered as the most competitive to add leverage to the Group’s consumer credit company, and signed, on 6 December 2017, a binding agreement for the disposal of an 80,1% of the shareholding in Creditis Servizi Finanziari S.p.A., along with a distribution agreement and other transaction ancillary agreements. The consideration for the transaction was EUR 80.1 mln; the closing of the deal is expected by the end of the first half of 2018 and is subject to approval by the Regulatory Authorities.

On 4 December 2017, after the Bank announced on 17 November 2017 the start of an exclusive negotiation with Credito Fondiario S.p.A., an operator specialised in the investment and servicing of non-performing loan portfolios, the Board of Directors resolved upon the sale of a bad loan portfolio amounting to a gross EUR 1.2 bn, along with the relating servicing platform, under improved financial terms with respect to those anticipated in the Business Plan,, vesting the CEO with any and all powers required for the signing of the related agreements.
On 6 December 2017 the Bank signed a binding agreement with Credito Fondiario S.p.A. for the non-recourse disposal of a portfolio of mortgage and signature bad loans for a gross nominal value of approximately EUR 1.2 bn as at 30 March 2017 equal to. The consideration for the transaction is EUR 265.5 mln. The Bank has also announced that it has signed a binding agreement with Credito Fondiario S.p.A. for the disposal of the branch of business consisting in the bad loan management platform in addition to a multi-year servicing agreement.

Dialogue with the European Central Bank

As part of the usual ECB inspection activity, the on-site inspection took place between 27 February and 19 July 2017 on the " Accuracy of methods used to calculate the Group's capital position ". As part of the dialogue with inspectors, preliminary points for attention emerged, which were promptly submitted to the Board of Directors for review and on which the competent corporate units initiated in-depth analysis and prepared remediation plans that in some cases have already led to identifying the effects on the supervisory reports on 30 June 2017.

In particular, from a quantitative point of view the findings of the final inspection report (received on 24 November 2017), releaved that the prudential supervisory reports as at 31 December 2016 should be adjusted upward by EUR 962 mln in terms of Risk Exposure Amounts and downward by EUR 58 mln in terms of Own Funds . Changes to Risk Exposure Amounts are mainly attributable to credit risk (EUR 860 mln) and, to a lesser extent (EUR103 mln) to operational risk.
As was mentioned above, the Bank implemented certain remedial actions to address the shortcomings identified by the ECB's inspection team, mainly in relation to the eligibility of collaterals for the purpose of mitigating prudential credit risk requirements, by strengthening its internal processes and procedures and with capital impacts already recognised in the accounts as at 30 June 2017. On 2 February 2018 the ECB advanced the draft recommendations related to the findings in the inspection report, which will be discussed in a special meeting with the Joint Supervisory Team (JST).

On 6 March 2017, the Bank received the final results of the on-site inspection aimed at assessing "Collateral, provisions and securitisations", which was carried out from 7 March to 29 July 2016. On 5 April 2017, the Bank submitted to the ECB its action plan on how to address the identified findings, providing, as required by the ECB, that the actions be implemented in the second half of the year. As per the quarterly monitoring activity approved by the Board of Directors at the meeting of 30 January 2018, with reference to 31 December 2017, the business plan is in an advanced state of implementation.

On 10 April 2017, the Bank received the results of the Thematic Review on the strategy, governance, processes and methodologies for the management of the non-performing loan portfolio. On 9 May 2017, the Bank sent its action plan to the ECB on how to address the ECB's recommendations. The Bank decided to further strengthen the NPL management strategy both in terms of content and structure, launching a project involving the Bank's main units.

On 6 June 2017, the final results of the "Governance and Risk Management" inspection conducted in the period from 28 September to 14 October 2016 were received and followed up on 6 July 2017 by Carige's submission to the ECB of an action plan on how to address the identified findings. As part of the inspection, the progress status of the action plan is quarterly monitored by the ECB; on 23 October 2017, the progress status as at 30 September 2017 was submitted to the ECB, whereby the Bank declared that all recommendations had been fulfilled.

In relation to changes in the Bank's governance, on 8 June 2017 the ECB requested the Bank: clarifications on governance, confirmation of the commitments undertaken to execute -according to the expected time schedule- the NPL reduction plan and reassessment of capital needs. With regard to the first two points, the Bank provided the information on 23 June 2017, while on 4 July 2017 it provided information about the reassessment of the capital needs necessary to implement planned actions in compliance with SREP requirements.

On 27 September 2017, the ECB authorised Carige to execute the capital increase and LME set out in the new 2017–2020 Business Plan approved by the Board of Directors on 13 September 2017.

On the same date, the Bank received a draft decision from the ECB (the contents of which are essentially confirmed in the final decision of 27 December 2017) which, on the basis of the annual Supervisory Review and Evaluation Process (SREP) as at 31 December 2016, sets the Bank's prudential requirements for 2018.In its draft decision, the European Supervisory Authority requires the Bank to maintain, on a consolidated basis, a Total SREP Capital Requirement (TSCR) of 11.25%, which is inclusive of the minimum Own Funds requirement of 8% and an additional Own Funds requirement of 3.25%.
The Bank is also subject to the Overall Capital Requirement (OCR) which, in addition to the TSCR, includes the combined buffer requirement set at 1.875% for 2018 by the Bank of Italy. The ECB expects the Bank to comply, likewise on a consolidated basis, with a Pillar 2 capital guidance of 1.55%, entirely consisting of Common Equity Tier 1 capital, to be held in addition to the minimum CET1 ratio (made up of a minimum Common Equity Tier 1 ratio of 4.5%, an additional Own Funds requirement of 3.25% and a combined buffer requirement of 1.875%).
In addition, the ECB requested the Bank: to submit the revision of the ICAAP and ILAAP policies by 30 April 30 2018; to continue providing the ECB with additional consolidated information regarding its non-

performing loans; to report at least every six months the status of the implementation of the plan to address the high level of NPE and enforced collaterals and, as a result, to submit an updated operational and strategic plan by 30 March 2018. The ECB also requested that an updated framework for managing credit risk be sent by 31 March 2018, along with a plan for the strengthening the secretariat of the Board of Directors and a plan on how to address some of the shortcomings related to the inspection conducted in the 2015 that are still pending, concerning internal governance and risk management. The ECB has also clarified that the Bank will need to obtain the approval from the Supervisory Authority prior to any dividend payout to its shareholders, where failure to pay does not constitute an event of default. Starting from January 2018, the Bank launched a detailed remediation plan to promptly comply with the requirements of the Supervisory Authority.

On 16 October 2017 the Bank received the results of the thematic review on IFRS9 (common to the major European credit institutions) conducted by the ECB between December 2016 and March 2017. At the end of the review, the Joint Supervisory Team (JST), in light of the evidence and information gathered during the first quarter of 2017, concluded that Banca Carige's implementation of IFRS 9 was only partially in line with the Supervisory Authority's expectations. In particular, some recommendations were made with reference to governance, level of formalisation of internal procedures (definition of the business model, Solely Payments of Principal and Interests (SPPI) test and definition of default) and implementation of IT systems with expiry on 16 January 2018. The Bank, after accepting the recommendations of the JST, on 15 November 2017 sent the business plan to the ECB in order to address the shortcomings and on 16 February, 2018 sent the first quarterly report, which submitted to the Board of Directors in its meeting of 9 February 2018.

On 17 October 2017 the ECB provided the Bank with the outcome of the inspection on "Governance and Risk Management" conducted from 10 October 2016 to 13 January 2017, which illustrates the ECB's expectations and remedial actions which the Bank is expected to implement. On 15 November 2017, the Bank submitted to the ECB the plan of action on how to address the identified shortcomings and on 16 February 2018 it sent the first quarterly monitoring of the progress of actions, which was submitted to the Board of Directors in its meeting of 9 February 2018.

On 13 November 2017, the ECB requested Banca Carige to submit a new action plan relating to the inspection on "Liquidity Risk and IRRBB (interest rate risk in the banking book)", which was conducted between 22 September and 11 December 2015, as it assessed that not all the corrective measures required by 31 December 2016 had been completed in full. Therefore, the Bank was asked to submit an update of the action plan that envisaged the full implementation of all pending recommendations by 31 December 2017, for those with an initial term of 31 December 2016, and by 31 March 2018 for those with initial term of 30 June 2017. On January 16, 2018 the requested plan was sent.

FITD voluntary scheme

At its meeting on 31 August 2017, the Board of Directors expressed a positive opinion on the proposal put forward by the Council of the Voluntary Interbank Deposit Protection Fund requesting member banks to increase by EUR 95 mln the amount of resources usable within the framework of the proposed acquisition -by the Crédit Agricole Group via Cariparma- of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato, with a view to preventing the compulsory administrative liquidation of the latter two banks which would have entailed major costs for FITD member banks.
In order to allow the aforementioned banks to be rescued, the Voluntary Scheme has requested the Banca Carige Group to pay its share amounting to 9 million.
On 21 December 2017, the rescue of the three troubled banks was completed through, on the one hand, the purchase by Crédit Agricole Cariparma of the FITD Voluntary Scheme of the shareholdings in the latter, on the other, the subscription by the latter of mezzanine and junior securities issued as part of the securitisation of non-performing loans of the three banks.
For the Group, impacts recorded in the income statement amounted to EUR 9.9 mln relating to losses deriving from the sale of Voluntary Scheme shares and EUR 2.4 mln relating to value adjustments

deriving from the valuation of the aforementioned mezzanine and junior shares subscribed for by the Voluntary Scheme.

Approval of the 2016 financial statements and appointments of the Board of Directors

On 28 March 2017, the Shareholders' Meeting approved the 2016 Financial Statements of the Parent Company, Banca Carige S.p.A., authorised the action for liability against former directors, Piero Luigi Montani, Cesare Castelbarco Albani and Giovanni Alberto Berneschi, confirmed the appointment of Giuseppe Pericu and Massimo Pezzolo to serve on the Board of Directors (after they had been co-opted by the Board to serve as directors at its meetings of 11 October 2016 and 10 February 2017) with their terms of office expiring on the same date as applies to the other members of the Board of Directors, and appointed the Board of Statutory Auditors for the 2017-2019 three-year period.
On 6 April, the ordinary Savings Shareholders' Meeting appointed Michele Petrera as the common representative of savings shareholders, determining his remuneration pursuant to article 37 of the Articles of Association.
On 9 June 2017, the Board of Directors resolved by majority vote to revoke the powers theretofore delegated to Guido Bastianini in his capacity as Chief Executive Officer and General Manager. The Board thus decided to give effect, without delay, to all actions aimed at defining the new governance structure of the Bank.
On 12 June 2017, Claudio Calabi, Member of the Board of Directors and Chairman of the Executive Committee, Alberto Mocchi, Member of the Board of Directors and Member of the Risk Committee and Maurizia Squinzi, Member of the Board of Directors, Chair of the Risk Committee and Member of the Remuneration Committee tendered their resignation with immediate effect, motivating their decision with their dissent about the rationale and methods leading the Board of Directors to approve the no-confidence motion against the Chief Executive Officer.
On 21 June 2017, with a view to ensuring a new governance to the Group and attaining the objectives set in the 2016-2020 Strategic Plan Update approved on 28 February 2017 and shared with the Supervisory Authorities, the Board of Directors, on a proposal from the Appointment Committee - integrated, in its composition, with Deputy Chairman, Vittorio Malacalza, and Director, Giulio Gallazzi- resolved to co-opt and appoint Mr. Paolo Fiorentino to serve as the Bank's Chief Executive Officer and General Manager, having ascertained that his high-quality professional profile -and more specifically his expertise in restructuring Italian and foreign banks- is suited to the top management position he is called to fill.
Moreover, further to the resignation of some of the BoD's members, Francesca Balzani, Stefano Lunardi and Ilaria Queirolo were co-opted to serve as members of the Bank's Board of Directors.
At its meetings of 3 and 11 July 2017, the Board of Directors -continuing along the path of strengthening first line management- respectively approved the appointments of Andrea Soro as Chief Financial Officer, Paola Maria Di Leonardo as General Counsel and Marco Cavazzutti as Head of the Group's NPE Unit. At the foregoing meeting of 11 July 2017 the Board of Directors also co-opted Luisa Marina Pasotti to serve as a member of the Bank's Board of Directors.
On 8 September 2017, Guido Bastianini, Member of the Board of Directors, tendered his resignation with immediate effect due to the conditions for the assignment being no longer in place.
On a proposal from the Appointment Committee, the Board of Directors co-opted Giacomo Fenoglio on 13 September 2017 to serve as a Director for the Bank pursuant to art. 2386 of the Italian Civil Code, with tenure until the next Shareholders' Meeting.
In its ordinary session, the Shareholders' Meeting of 28 September 2017 confirmed the appointment of Paolo Fiorentino, Francesca Balzani, Stefano Lunardi, Ilaria Queirolo, Luisa Marina Pasotti and Giacomo Fenoglio to serve on the Board of Directors (after they had been co-opted by the Board to serve as directors at its meetings of 21 June 2017 -the date on which Paolo Fiorentino was also appointed to serve as the Bank's Chief Executive Officer and General Manager-, 11 July and 13 September 2017), whose term of office will expire on the same date as applies to the other members of the Board of Directors, namely on the date of the Shareholders' Meeting which will be convened to approve the accounts for the year ending 31 December 2018.

On the same date, following Paolo Fiorentino's directorship confirmation resolved upon by the Shareholders' Meeting, the Board of Directors resolved to confirm Fiorentino as the Chief Executive Officer along with the responsibilities and delegated powers he was vested with at the meeting of 21 June 2017.

Re-approval of the 2013 financial statements

On 3 August 2017, the Board of Directors passed a resolution to commence a process aimed at ending the challenge proceedings initiated by the Italian Securities and Exchange Commission (Consob) against the resolutions approving Banca Carige's Separate and Group Consolidated Financial Statements for 2013.
To this end, subject to prior revocation of the resolution approving Banca Carige's Draft Separate and Group Consolidated Financial Statements for the year ended 31 December 2013, which was adopted on 27 March 2014, the Board of Directors approved Banca Carige's Draft Separate and Group Consolidated Financial Statements as at 31 December 2013 and accordingly resolved that a Shareholders' Meeting be convened to approve the financial disclosure integration which, according to Consob, re-establishes a correct framework of information.
On 28 September 2017, subject to prior revocation of the resolution adopted on 30 April 2014, the Ordinary Shareholders' Meeting re-approved the 2013 Separate Financial Statements of the Parent Company, Banca Carige S.p.A., and acknowledged the Group Consolidated Financial Statements as at 31 December 2013, to an extent limited to the afore-mentioned financial disclosure integration in compliance with IAS 8, with all the remaining parts of the financial statements being unchanged.

Management of the liquidity position

On 24 January 2017, the Board of Directors approved the disposal of one or more portfolios of eligible residential and commercial mortgage loans - originated or renegotiated by Banca Carige S.p.A. and Banca del Monte di Lucca S.p.A. - for a maximum total nominal amount of EUR 600 mln - to the special-purpose vehicles, Carige Covered Bond S.r.l. and Carige Covered Bond 2 S.r.l., under the scope of the OBG1 and OBG2 issuing programmes, as well as the granting of subordinated debt, in one or more tranches, to the foregoing vehicles in connection with each portfolio sold, for a maximum amount equal to the value of the assets sold.
On 20 February 2017, as part of the OBG1 and OBG2 programmes, the disposal of a first loan book of 2,592 mortgage contracts, at a sale price equal to their book value (EUR 270.8 mln), was finalised.
With reference to the OBG2 Programme, on 12 June 2017 and on 16 October 2017, the disposal of two mortgage loan portfolios was completed, at a sale price of EUR 34.6 mln and EUR 18.8 mln, respectively.
Lastly, with reference to the OBG3 Programme, the disposal of two additional loan books mortgage loan contracts was finalised again on 12 June 2017 and 16 October 2017, at a sale price of EUR 203.6 mln and EUR 182.4 mln, respectively.

Other events

On 21 February 2017, Banca Carige's Board of Directors approved Banca Cesare Ponti's share capital increase for consideration, to be obtained through the issuance of 6 million ordinary shares via a rights issue for its sole shareholder at the price of EUR 2 each, for an overall amount of EUR 12 mln (of which EUR 6 mln nominal value and EUR 6 mln share premium). On 24 February 2017 the Board of Directors of Banca Cesare Ponti adopted the same resolution. The capital increase was later resolved by Banca Cesare Ponti Shareholders' Meeting on 26 July 2017.
On 24 March 2017, the Court of Genoa rejected as unfounded the appeal under article 700 of the Italian Code of Civil Procedure which was filed by Amissima Vita S.p.A. to request the disqualification of shareholders Malacalza Investimenti S.r.l. and Fondazione Carige from participating in and voting at the Shareholders' Meeting of 28 March 2017. Subsequently, on 21 June 2017 - following up on the

aforementioned appeal under Art. 700 of the Italian Code of Civil Procedure – Amissima Vita S.p.A. served a writ of summons on the Bank aimed at challenging -and requesting the annulment of- the Shareholders' Meeting resolution approving the initiation of a liability action against former Board members, Mr. Cesare Castelbarco Albani and Mr. Piero Luigi Montani.

On 11 July 2017, the Board of Directors approved the merger by absorption of Banca Cesare Ponti by and into Banca Carige to be completed before the end of the year. On 21 November, the Board of Directors, pending further investigation of the strategies for creating value from Banca Cesare Ponti SpA, resolved to suspend the merger by absorption, vesting the Chief Executive Officer and the Chief Financial Officer with the powers to inform the competent Supervisory Authorities. On 9 February 2018 the Board of Directors resolved to waive the project for merging by absorption Banca Cesare Ponti S.p.A. into Carige S.p.A. and in the subsequent session of 20 February 2018, it resolved to approve the restructuring of the organisational structure and the redefinition of the current private banking model of the Group with consequent implementation of efficiency and enucleation actions of the scope of private activities, authorising the Chief Executive Officer in coordination with the competent structures of the Parent Company to proceed in this direction.

As part of its activities to monitor risk and asset quality, Carige Reoco S.p.A. was established on 20 July 2017, with the primary purpose of achieving, enhancing and maximising financial recovery on real estate business projects funded by the Bank that are facing financial hardship, and it may extend the scope of its activity to selling Bank properties not used in the business while providing support to the management of properties used in the business (facility management). The Board of Directors of Banca Carige approved the guidelines for the 2017-2020 Strategic Plan of Carige REOCO S.p.A. on 21 March 2017, which were provided to the Bank of Italy to supplement the communication which was given about the incorporation of the new company.

On 24 October, Banca Carige's Board of Directors resolved upon the disposal of the head office building in Milan. Thereafter, on 31 October the Bank signed a preliminary sale and purchase agreement with "Fondo Immobiliare Antirion Global Comparto Core" which sets a sale price of EUR 107.5 mln, corresponding to a gross capital gain of approximately EUR 85 mln. The disposal was completed on 16 November 2017.

On 15 November, the Board resolved to grant the Bank's solicitors with a litem issuance to undertake the appropriate legal actions against the Bank's former Chairman, Giovanni Berneschi, in compliance with the authorisation given to that effect by the Ordinary Shareholders' Meeting of 28 March 2017 to the Board of Directors.

On 18 December 2017, the Bank announced that it had reached an agreement with the national and corporate representatives of the Trade Union organisations Fabi, First Cisl, Fisac, Cgil, Uilca and Unisin on the methods for addressing the impacts of the 2017-2020 Business Plan. The agreement signed envisages in the first place the use of the solidarity allowance mechanism for the banking sector (Fondo di Solidarietà) for 490 voluntary redundancies which, together with the confirmed retirement incentives, allow to manage the staff redundancies expected. Moreover, important labour cost curbing measures were agreed upon in order to achieve the objectives provided for by the Business Plan while minimizing social impact.

On 31 December 2017, Banca Carige was assigned the following ratings by international ratings agencies Moody's and Fitch::

- Moody's: 'Caa2' for the long term and 'Not Prime' for the short; in its latest rating action of 13 December the agency raised the Bank's inherent rating by three notches, to 'caa1' from 'ca', recognising that extraordinary transactions carried out by Carige will improve its creditworthiness in perspective. This upgrade was counterbalanced by the reduction in subordinated and senior unsecured debt, which translates into the agency's calculation models into a lower loss-absorbing capacity of these instruments and, therefore, into an increased loss-given-failure for deposits and *senior* unsecured bonds; in addition, the agency revised downward the probability of state support in the event of termination, thus compensating for the improvement of the intrinsic rating and leaving, in fact, the issuer rating unchanged, at 'Caa2', with a stable outlook (negative, compared to the previous one). The 'B3' rating on long-term deposits has also been confirmed, with a negative outlook (developing, compared to the previous one);
- Fitch Ratings: 'B-' for the long term and 'B' for the short; in the last rating action of 25 January 2018, the agency kept unchanged the long and short-term ratings previously assigned and resolved the

negative creditwatch (dating back to 10 April 2017), placing the ratings in negative outlook, due to of a prospective profitability still seen by the agency and due to the high level of non-performing loans, according to Fitch, even after the two sales of over 2 billion, carried out in 2017.

OTHER GROUP COMPANIES

At their meetings of 22 and 23 March 2017, the Boards of Directors of Banca del Monte di Lucca and Banca Cesare Ponti took note of the 2016-2020 Strategic Plan Update of the Banca Carige Group and respective balance sheets, income statements and financial highlights, which had been considered as part of the assumptions for the Group’s Plan.
During the second quarter, a new securitisation was put in place for an amount of EUR 147.7 mln, via the disposal of a portfolio of fifth-of-salary/pension-backed loans and personal loans originated by the subsidiary, Creditis, to the special purpose vehicle, Lanterna Consumer S.r.l.
At its meeting of 18 July 2017, the Board of Directors of Banca Cesare Ponti expressed itself favourably, subject to the prior authorisation by the relevant Supervisory Authorities, on the merger by absorption of Banca Cesare Ponti by and into Banca Carige, to be carried out under the simplified procedure envisaged by art. 2505 of the Italian Civil Code, thus approving the Plan for Merger drafted pursuant to articles 2501-ter and 2505 of the Civil Code. The resolution by the Board of Directors of Banca Cesare Ponti followed the resolution adopted by the Board of Directors of Banca Carige on 11 July 2017, as part of the direction and control activities it performs in its capacity as the Parent Company.
At their meetings of 4 and 6 September 2017, the Boards of Directors of Banca Cesare Ponti and Banca del Monte di Lucca expressed a positive opinion on the proposal put forward by the Council of the Voluntary Interbank Deposit Protection Fund requesting member banks to increase by EUR 95 mln the amount of resources usable within the framework of the proposed acquisition -by the Crédit Agricole Group via Cariparma- of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato, with a view to preventing the compulsory administrative liquidation of the latter two banks which would have entailed major cost for the FITD member banks. At the meeting held on 12 December 2017, the Board of Directors of Banca del Monte of Lucca approved the 2017-2020 Strategic Plan which confirms the maintenance of the Bank's legal and corporate autonomy, providing for a return to profit as from 2018.

OWNERSHIP STRUCTURE

As at 31 December 2017, Banca Carige's share capital amounted to EUR 2,845,857,461.21, represented by 55,265,881,015 shares with no indication of par value, of which 55,265,855,473 are ordinary and 25,542 are convertible savings shares.
Changes to the composition of the Share Capital, which took place during the 2017 financial year, are the result of the capital increase approved by the Board of Directors during the meetings of 14 and 15 November 2017 in implementation of the powers granted by the Extraordinary Shareholders' Meeting of 28 September 2017, ended on 22 December 2017, both for the Reserved tranche and for tranches with the exclusion of option rights, with the subscription and payment of a total of 54,435,699,840 new ordinary shares offered, with the same characteristics as ordinary shares outstanding, including regular dividend entitlement, for an overall amount of EUR 544,356,998.40, of which EUR 54,435,699.84 as Share Capital.
As at 31 December 2017, according to the shareholder register and based on notifications received in compliance with the applicable legislation and other information available to the Company, the shareholders directly or indirectly owning interests amounting to over 5% of the ordinary share capital, are as follows:

Declarant or party at the top of the investment chain	Direct Shareholder		Stake %	
	Company name	Type of possession	Stake %	o.w. without voting rights Stake %
MALACALZA INVESTIMENTI SRL	MALACALZA INVESTIMENTI SRL	Ownership	20.639	0,000
		Total	20.639	0,000
	Total		**20.639**	**0,000**
VOLPI GABRIELE	COMPANIA FINANCIERA LONESTAR	Ownership	9.087	0,000
		Total	9.087	0,000
	Total		**9.087**	**0,000**
AREO II Sarl	AREO II Sarl	Ownership	6.772	0,000
		Total	6.772	0,000
	Total		**6.772**	**0,000**
S.G.A. SPA - SOCIETA' PER LA GESTIONE DI ATTIVITA'	S.G.A. SPA - SOCIETA' PER LA GESTIONE DI ATTIVITA'	Ownership	5.397	0,000
		Total	5.397	0,000
	Total		**5.397**	**0,000**
TARANTELLI PANFILO	CREDITO FONDIARIO SPA	Ownership	5.397	0,000
		Total	5.397	0,000
	Total		**5.397**	**0,000**
OTHER SHAREHOLDERS	***Total***		**52.708**	**-**

As at 31 December 2017, the Bank does not hold – nor did it hold during the year – any shares or quotas in the aforementioned companies.

Further information concerning shareholders and shareholders' agreements is available in the "Governance" section of the Bank's website at www.gruppocarige.it.

CORPORATE GOVERNANCE

Full adhesion to the Corporate Governance Code for Listed Companies was resolved upon for the first time by Carige's Board of Directors in February 2001. Since then, the Bank's *Governance* has been constantly adapted to meet the criteria set out in the Code, including its latest edition approved in July 2016.
For information pursuant to article 123 bis of the Consolidated Law on Finance (TUF) regarding Carige's corporate governance and ownership structure, please refer to the separate document “Corporate Governance and Ownership Structure Report for 2017”, approved and published in conjunction with these financial statements and available in the “Governance” section of the Bank’s website at www.gruppocarige.it.
In accordance with article 2391 bis of the Italian Civil Code, the Corporate Governance and Ownership Structure Report may also be referred to for a description of the rules adopted by the Bank, in line with Consob principles and Supervisory regulations, to ensure the transparency as well as the substantial and procedural correctness of transactions with related parties and connected persons, as set forth in the "Regulation on the process with related parties and connected persons", available under the “Governance” section of the Bank’s website. For further details on existing relationships with related parties, which are part of normal operations and are regulated by market conditions, please refer also to Part H of the Notes to the Financial Statements.

NON-FINANCIAL REPORT

For information regarding the Non-financial Disclosure pursuant to Italian Legislative Decree no. 254 of 30 December, 2016, please refer to the separate file “2017 Non-financial disclosure", approved and published jointly with these financial statements and available for consultation at the "Corporate Liability" section of the Bank's website at www.gruppocarige.it.

CARIGE SHARE PRICE

In 2017, the shares of Banca Carige recorded a negative performance (-70.4%), in contrast to the benchmark index of the Italian banking sector.
The average weighted share price was of EUR 0.0208, with a low of EUR 0.0079 on 20 November.
The average daily volume traded on the market was of 181.5 million units, with the peak of trade (4.15 billion units) recorded on 7 December, the day following the closing of the offer on the stock exchange of the rights related to the Capital increase transaction ended on 22 December 2017.

CARIGE SHARE PRICES

	Situation as at 31/12/2017	Situation as at 31/12/2016	Change % Year 2017
CARIGE	0.0081	0.0274 (1)	-70.4
CARIGE savings shares	78.75	53.91 (1)	+46.08
FTSE Italia all share index	24,192	20,936	+15.55
FTSE All-Share banks index	10,928	9,511	+14.90

(1) Figures restated with respect to those published in the corresponding section of the Report on Operations of the Financial Statements as at 31 December 2016 to take into account the effects on share prices from the application of the 'K Factor' of Borsa Italiana relating to the Capital Increase completed on 22 December 2017.

DISTRIBUTION CHANNELS

The Carige Group's distribution system is organised into traditional and remote channels.
As at 31 December 2017, the Carige Group's branch network consisted of 529 traditional branches, down from 587 at the end of 2016. The closure of 58 branches in June (54 for Carige and 4 for Banca del Monte di Lucca) is part of the 'physical network' rationalisation process set out in the Strategic Plan.
Traditional channels are founded on a customer service specialisation model in which relationship managers are dedicated to the various customer segments. More specifically, the model envisages private banking, affluent and mass market advisers dedicated to the relationship with -and expansion of the- for Retail customer base; corporate banking, small business and small market players' advisers are instead dedicated to the various categories of business customers.
The personal financial advisory service for higher-profile customers is based on a total of 94 *private banking* relationship managers and 505 affluent customer relationship managers.
In addition to the personal financial advisory service, comes the financial advisory service for businesses which relies on 184 corporate banking advisers, of whom 4 are classified as large corporate and 180 mid corporate, organised into 57 *teams* and 324 small business advisers.
Remote channels include the 'Bancomat' ATMs, Bancacontinua self-service branches and on line services (Internet banking, mobile banking and the contact centre). A total of 632 Bancomat ATMs were operating at the end of 2017 (706 in December 2016), while the number of Bancacontinua cash machines was down to 18. In order to reduce the work load for branches and speed up over-the-counter transactions for current account holders, the Group has introduced 167 *cash-in* machines for cash or cheque processing in 165 branches. In the branches involved, 35.2% of payments which could be migrated were transferred to the automatic cash-in process in 2017.
The number of Internet Banking contracts for consumer customers increased to 377,028, on-line services are constantly spreading out and Carige's Mobile App had 250 thousand downloads since it was launched. Corporate customers are increasingly active on remote channels and the Carige On Demand corporate banking service had around 90,000 contracts as at 31 December 2017.

DISTRIBUTION NETWORK

A) TRADITIONAL CHANNELS

	31/12/2017		31/12/2016	
	number	%	number	%
NORTH WEST	**296**	**56.0**	**325**	**55.4**
Liguria	197	37.2	218	37.1
- Genoa	109	20.6	119	20.3
- Savona	49	9.3	54	9.2
- Imperia	21	4.0	24	4.1
- La Spezia	18	3.4	21	3.6
Lombardy	58	11.0	62	10.6
Piedmont	40	7.6	44	7.5
Aosta Valley	1	0.2	1	0.2
NORTH EAST	**54**	**10.2**	**62**	**10.6**
Veneto	39	7.4	41	7.0
Emilia Romagna	15	2.8	21	3.6
CENTRE	**108**	**20.4**	**124**	**21.1**
Tuscany	69	13.0	82	14.0
Lazio	32	6.0	35	6.0
Marche	5	0.9	5	0.9
Umbria	2	0.4	2	0.3
SOUTH AND ISLANDS	**70**	**13.2**	**75**	**12.8**
Sicily	50	9.5	55	9.4
Sardinia	11	2.1	11	1.9
Apulia	9	1.7	9	1.5
ABROAD: Nice (France)	**1**	**0.2**	**1**	**0.2**
Total number of branches	**529**	**100.0**	**587**	**100.0**

	31/12/2017	31/12/2016
Private banking consultants	94	107
Corporate banking consultants	184	184
Affluent segment consultants	505	475
Small business consultants	324	334
Total consultants	**1,107**	**1,100**

B) REMOTE CHANNELS

Bancomat ATMs	632	706
Self-service "Bancacontinua" branches	18	19
Retail Internet Banking (1)	377,028	366,276

(1) Number of contracts.

HR MANAGEMENT

At the end of 2017, the Group's headcount totalled 4,642 employees (4,873 in December 2016), of whom 4,639 were on open-ended contracts. Executives and middle managers accounted respectively for 1.3% (59 units) and 26.3% (1,222 units) of the aggregate, with the rest of personnel accounting for 72.4% (3,361 units). Front-end staff make up 71.6% of total headcount (3,323 units).
Women account for 47.8% of the Group’s total workforce; 54.7% of female personnel are based in Liguria. The average age of Group employees is about 49 years, and the average length of service is 23 years. The breakdown of employees by level of education shows a share of graduates of nearly 37%.
The 2017 reporting period registered 254 employment relationship terminations (195 of which for attaining eligibility for retirement, including incentive-based retirement) and 24 new hires.

BREAKDOWN OF PERSONNEL

	31/12/2017		31/12/2016	
	number	%	number	%
Grade				
Executives	59	1.3	65	1.3
Middle managers	1,222	26.3	1,247	25.6
Other employees	3,361	72.4	3,561	73.1
Total	**4,642**	**100.0**	**4,873**	**100.0**
Activity				
Head office	*1,320*	*28.4*	*1,426*	*29.3*
Market	*3,322*	*71.6*	*3,447*	*70.7*

SALES AND INNOVATION

The inter-channel approach is the basis of the Carige service model, which aims to offer and reach the customer maintaining high quality standards in terms of message, "knowledge" and "experience" regardless of the channel chosen.
Therefore, also in 2017, the Banca Carige Group continued to focus on its 'Carige Solo Tuo' platform for retail customers offering a fully flexible multi-channel banking offering based on a freely modular solution to adapt to the needs of all customers.
During the year the offering dedicated to the younger customer target was strongly innovated. In particular, for the "younger" age target, i.e. customers under the age of 18, two new products have been introduced to promote a savings education and the development of a financial culture: 'Carige Già Grande' (savings account designed for children up to 13 years, characterised by being free of charge and particularly advantageous in terms of interest earned) and 'Conto Giovani' (current account for the 14-17 age group, which, in addition to paying interest on savings, is free of charge and transactionally functional to suit the needs of teen-agers, with the possibility for parents to authorise expenses above certain amounts).
In addition, dedicated initiatives and discounts were maintained such as:

- discounts and promotions linked to the 'Carige Solo Tuo' offer and to the 'RiCarige' prepaid card;
- membership of Group banks in the *Fondo di garanzia Prima casa* (Home Fund), which makes it possible for young couples to obtain collateral covering 50% of the principal for a mortgage loan for purchasing their first home;
- Membership in the Fund for Study, which supports talented young people without sufficient financial means, who wish to study or to complete their education through a government-backed loan, bears further witness to the Group's attention for the young people;
- the collaboration with the University of Genoa which, in addition to zero-interest, free-of-charge financing of "Erasmus" scholarships, provides students with the dedicated riUNIGE prepaid card with IBAN, which is not only flexible and handy but also offers favourable terms and conditions for payment of university fees. Collaborations are on-going with the Universities of Genoa, Turin, Milan, Padua, Pisa, Florence, Palermo, Eastern Piedmont (Novara, Vercelli, Alessandria), the Aosta Valley (Aosta), Perugia, Bologna, Parma, Verona, Modena, Reggio Emilia, Sassari and Cagliari which offer a dedicated current account 'Carige Stile Facoltà' to university students.

For foreign customers residing in Italy, the website customer-interface hosts a special section translated into English, French and Spanish which illustrates the major products offered by the Bank.
Besides the well-established service of money transfers for immigrants to send money to their countries of origin quickly and on particularly favourable terms, the offering for foreign customers is integrated with services ranging from current accounts, also in the name of non-residents, to personal loans and mortgage loans. Agreements with correspondent banks allow customers to make payments in "exotic currencies" in more than 150 countries.
During 2017, corporate customers used the 'Carige OnDemand' portal for their on-line transactions with the Banca Carige Group; the number of customers using the service in 2017 was around 55 thousand.

In 2017, the offering of 'Carige RendiOltre' (term deposits on current accounts) introduced in 2016, increasingly enjoyed greater acceptance from customers, particularly of the retail segment, and has been continuously refined. During the year, funding from corporate and institutional clients, whose highly personalised needs were managed through the 'Carige Rendimento Attivo' savings deposit, became even more important.
In the field of insurance investment products, the distribution of First Lineproducts continued: Carige Soluzione Rendimento III, Carige Soluzione Assicurata 2015 and Carige per 5 2015. As for "Third Line" products, the placement of the Unit Linked policy, Carige UnitPiù, continued, as did the distribution of 'Carige Multisoluzione' and 'Multisoluzione Più' which make it possible to allocate the invested premium to different First- and Third-line combinations.
In the non-life insurance segment, the product proposition and sale of insurance policies, especially for motor third party liability, continued and included a 'Guido Più Sereno' option which features a global positioning system (GPS) to be installed in the car for greater security. The premium may be paid by the policyholder in 10 zero-rate free-of-charge monthly instalments (0% Nominal Annual Rate (it. TAN) and 0% Total Annual Effective Rate (it. TAEG).
In 2017, further innovations were made to the range of P.P.I. (Payment Protection Insurance) policies, which protect customers from the risk of not being able to meet financial commitments associated with their loans when certain events occur. In particular, since July a new property & casualty policy has been marketed, 'Carige Domani Mutuo Light', in a single version for all professional categories. The new policy offers coverage against events that can make loan repayment difficult, such as total permanent disability due to injury and illness as well as hospitalisation.
Also with regard to non-life, property and casualty insurance policies, following the constant analysis of customer needs, the range of coverage offered by 'Carige Incendio e Furto', the policy that protects the house and its contents, has been extended. The restyling has maintained the modular structure of the product, with the addition of two new third- party liability coverage options, 'Property' and 'Assistance': the former indemnifies the policy-holder from all situations in which damage connected to the ownership of the property or with fixed elements associated to it is caused to third parties unintentionally, while the latter consists in the possibility to make use of specialised services, in the event of emergencies resulting from repair and maintenance work.
From an advisory service perspective, activities for the re-profiling of customers and contracts continued for the purpose of aligning the delivery of investment advice with the best market practice, partly in view of the forthcoming entry into force of the MiFID 2 Directive. The delivery of the advisory service is grounded on the re-profiling of all customers following the outcome of the new questionnaire, with a financial expertise and risk tolerance profile assigned to each customer and subsequent signing of the advisory contract (a basic version for all customers and an advanced version for private banking customers). The service provides for a new protection model based on a "multivariate portfolio" approach, organised into the binary comparison of several indicators related to financial products/customer portfolio, on the one hand, and the customer's characteristics and needs, on the other. Both models provide insight into the customer's overall portfolio situation, an assessment of the adequacy limits, evidence of securities coming to maturity and an evaluation of compliance with the model portfolio. Via the advisory platform, the advisers that manage relationships with customers are supported in portfolio building by the central Advisory units, which prepare and propose model portfolios and an array of selected products that are consistent with and adequate to the various risk profiles.
In assets under management, sales collaboration continued with the asset management company, Arca SGR, the Groups' reference fund house since 2014, enabling access to a complete and diversified catalogue of products including open-ended funds and fixed-term coupon funds. Within the range of coupon funds, the distribution in different time windows of the flexible balanced funds 'Arca Reddito Multivalore' and 'Arca Cedola Attiva' continued and saw the introduction of the flexible fund 'Arca Reddito Multivalore Plus'. In 2017 the Individual Savings Plans (it. PIR) funds of the Arca Economia Reale Italia System ('Arca Economia Reale Bilanciato Italia 30', 'Arca Economia Reale Bilanciato Italia 55', 'Arca Economia Reale Equity Italia' and 'Arca Azioni Italia') were launched for distribution.
From January 2017, the Luxembourg open-ended collective investment schemes Sidera Funds of the asset management company Arca Fondi SGR were also placed (currently 5 divisions, each with two classes, one for capital accumulation and one for the payout of annuities).
In *Private banking*, the range of open-architecture financial instruments offered via the "Allfunds" platform continued to be integrated with selected top quality products from leading international fund hous-

es. In parallel, the use of model portfolios has been further expanded to increase the efficiency of customer portfolios, in compliance with regulations in force. With specific regard to this customer segment, the placement of individual managed portfolios continued with 10 lines offered.
As to supplementary pension schemes, the distribution of the 4 lines of the Open-ended Pension Fund, 'Arca Previdenza', continued, broken down by maturities and risk appetite. With regard to direct deposits, the offering was mainly focused on the time deposits, differentiated by type of interest rate (fixed/floating and with/without coupon) and maturity.
These instruments are stable components in the calculation of liquidity ratios (LCR and NSFR), ensure compliance with regulatory requirements and are being gradually rolled out and rationalised according to customers' new investment needs especially as a result of the new regulatory framework for crisis management in the EU banking industry under the *Bank Resolution and Recovery Directive* (BRRD).
The number of Carigecash Europa and Carigecash Internazionale ATM cards totalled 539,620, down compared to the previous year (-2.4%); ATM withdrawals (-7.8%) and amounts withdrawn went also down (-7.4%); POS payments instead went up from EUR 24.4 mln in 2016 to EUR 26.4 mln this year (+8.2%), with spending going up by 5.8% (from 1,414 mln in 2015 to EUR 1,497 mln in 2017).
The stock of prepaid cards totalled 134,900 units, up 7.5% Y/Y. Spending totalled approximately EUR 191 mln (around EUR 171 mln in 2016) of which EUR 103 mln through internet payments (against EUR 91.6 mln in 2016).
Transactions with 'Carige Cards' remained stable (-0.3%), despite a 4.2% reduction in the number of credit cards in operation (196,029 cards in 2017 as compared to 204,567 in 2016).
In addition to strictly complying with customer protection regulations, the Carige Group makes considerable effort to adopt the required compliance framework. In this view, Gruppo Carige joined the Banking Ombudsman Scheme in 1993, which in 2007 became part of the Financial Banking Conciliator Association, managing other instruments for out-of-court dispute settlement, including Conciliation and Arbitration; from 15 October 2009, the Banking and Financial Arbitrator, ABF, has been operational, taking action in disputes regarding banking and financial services; starting from 9 January 2017, the Arbitrator for Financial Disputes (ACF) is operational at CONSOB and acts as an out-of-court dispute resolution system between retail investors and banks / intermediaries.
The Group Banks' websites include a special "Complaints" section providing all information on legally enforceable customer protection levels, from complaint submission to out-of-court dispute settlement and relating statistical data.
Centralised with the Parent Bank's Complaints Office, are all obligations arising from Art. 7 of Italian Legislative Decree 196/2003 (Privacy Code) and the "Code of Conduct" for information systems on consumer credit managed by private entities, reliability and timeliness of payments, so as to enable the parties concerned to exercise their right to access, modify and/or cancel any of their personal data processed by the Group Banks.

PROFIT & LOSS AND BALANCE SHEET RESULTS

With respect to published accounts, the 2016 balances of the profit and loss account and the subsequent breakdown tables are reflective of the changes described in the section "Restatement of prior period accounts in compliance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), which is referenced to for further details.
The Parent Company's share of profit/loss for the period amounts to a negative EUR 388.4 mln in the income statement, as against the EUR 291.7 mln loss posted in December 2016.
Compared to the same period of the previous year, the performance reflects negative trends in net interest income and net fees and commissions, in addition to an increase in operating expenses.
Net interest and other banking income therefore fell, despite the EUR 221.5 mln gross profit deriving from the LME transaction, also due to the effect of losses from the sale of receivables, mainly connected to the two transactions carried out by the Group during the year (the first , through the securitisation of a portfolio of bad loans for an amount of approximately EUR 940 mln, the second through the non-recourse assignment of a portfolio of mortgage and unsecured exposures classified as bad loans for an amount of approximately EUR 1.2 bn) which led to a total loss of approximately EUR 308 mln.

The Group's profit and loss account also shows higher operating costs compared to those recorded in the previous financial year, due to the impact of non-recurring items related to staff costs of approximately EUR 61.5 mln (of which EUR 50 mln to provisions for the Solidarity Fund) attributable to the trade union agreement reached in December (in addition, the item had benefited in 2016 from non-recurring positive components for about EUR 19.3 mln), as well as to costs closely related to the one-off transactions required for implementing the Group's Business Plans for an amount of approximately EUR 10.4 mln and the write-down of approximately EUR 15 mln worth of intangible assets.
Lastly, the loss for the year was partly offset by the capital gain (for around EUR 85 mln) posted after the Milan property was sold.

INCOME STATEMENT *(EUR/000)*

		31/12/2017	31/12/2016	Change absolute	Change %
10 -	INTEREST AND SIMILAR INCOME	464,312	538,844	(74,532)	(13.8)
20 -	INTEREST AND SIMILAR EXPENSE	(230,699)	(279,848)	49,149	(17.6)
30 -	**NET INTEREST INCOME**	**233,613**	**258,996**	**(25,383)**	**(9.8)**
40 -	FEE AND COMMISSION INCOME	270,850	274,220	(3,370)	(1.2)
50 -	FEE AND COMMISSION EXPENSE	(31,631)	(34,898)	3,267	(9.4)
60 -	**NET FEE AND COMMISSION INCOME**	**239,219**	**239,322**	**(103)**	**(0.0)**
70 -	DIVIDENDS AND SIMILAR INCOME	10,661	14,077	(3,416)	(24.3)
80 -	NET PROFIT (LOSS) FROM TRADING	4,151	18,459	(14,308)	(77.5)
90 -	NET PROFIT (LOSS) FROM HEDGING	(430)	(2,384)	1,954	(82.0)
100 -	PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	(104,309)	48,810	(153,119)	...
	a) loans	*(321,469)*	*(3)*	*(321,466)*	...
	b) financial assets available for sale	*(7,982)*	*40,302*	*(48,284)*	...
	d) financial liabilities	*225,142*	*8,511*	*216,631*	...
110 -	PROFITS (LOSSES) ON FINACIAL ASSETS/LIABILITIES DESIGNATED AT FAIR VALUE	(1,573)	(3,993)	2,420	(60.6)
120 -	**NET INTEREST AND OTHER BANKING INCOME**	**381,332**	**573,287**	**(191,955)**	**(33.5)**
130 -	NET LOSSES/RECOVERIES ON IMPAIRMENT OF:	(438,724)	(467,917)	29,193	(6.2)
	a) loans	*(427,501)*	*(469,797)*	*42,296*	*(9.0)*
	b) financial assets available for sale	*(15,375)*	*(7,563)*	*(7,812)*	...
	d) other financial activities	*4,152*	*9,443*	*(5,291)*	*(56.0)*
140 -	**NET INCOME FROM BANKING ACTIVITIES**	**(57,392)**	**105,370**	**(162,762)**	**...**
170 -	**NET INCOME FROM BANKING AND INSURANCE ACTIVITIES**	**(57,392)**	**105,370**	**(162,762)**	**...**
180 -	ADMINISTRATIVE EXPENSES:	(622,511)	(572,155)	(50,356)	8.8
	a) personnel expenses	*(358,743)*	*(295,757)*	*(62,986)*	*21.3*
	b) other administrative expenses	*(263,768)*	*(276,398)*	*12,630*	*(4.6)*
190 -	NET PROVISIONS FOR RISKS AND CHARGES	(24,224)	(20,745)	(3,479)	16.8
200 -	NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT	(14,661)	(26,468)	11,807	(44.6)
210 -	NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS	(36,692)	(24,105)	(12,587)	52.2
220 -	OTHER OPERATING INCOME/EXPENSE	71,514	87,919	(16,405)	(18.7)
230 -	**OPERATING EXPENSES**	**(626,574)**	**(555,554)**	**(71,020)**	**12.8**
240 -	PROFITS (LOSSES) ON EQUITY INVESTMENTS	9,982	6,596	3,386	51.3
260 -	IMPAIRMENT ON GOODWILL	-	(19,942)	19,942	(100.0)
270 -	PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS	85,266	(149)	85,415	...
280 -	**PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS**	**(588,718)**	**(463,679)**	**(125,039)**	**27.0**
290 -	TAXES ON INCOME FROM CONTINUING OPERATIONS	169,284	142,221	27,063	19.0
300 -	**PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS**	**(419,434)**	**(321,458)**	**(97,976)**	**30.5**
310 -	PROFIT (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS	26,070	25,390	680	2.7
320 -	**NET PROFIT (LOSS) FOR THE YEAR**	**(393,364)**	**(296,068)**	**(97,296)**	**32.9**
330 -	NON-CONTROLLING INTERESTS	(4,929)	(4,331)	(598)	13.8
340 -	**NET PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE PARENT COMPANY**	**(388,435)**	**(291,737)**	**(96,698)**	**33.1**
	Earnings Per Share (in EUR)				
	- Basic	-0.072	-0.352		
	- Diluted	-0.072	-0.352		

More specifically, Net Interest Income amounted to EUR 233.6 mln, down 9.8% Y/Y, as it was weighed down by a negative interest rate effect associated with market rates continuing their downward trend, and a reduction in funding and lending volumes.
Interest income stood at EUR 464.3 mln (-13.8% compared to December 2016), mainly weighed down by the reduction in interest on loans to customers, whilst interest expense was down 17.6% and totalled EUR 230.7 mln. The reduction in interest expense is specifically attributable to debt securities in issue and loans to customers.

INTEREST AND SIMILAR INCOME *(EUR/000)*

			Change	
	31/12/2017	31/12/2016	absolute	%
Financial assets held for trading	4,178	1,308	2,870	…
Financial assets available for sale	9,165	9,676	(511)	(5.3)
Loans to banks	544	266	278	…
Loans to customers	447,113	525,554	(78,441)	(14.9)
Other assets	3,312	2,040	1,272	62.4
Total interest and similar income	**464,312**	**538,844**	**(74,532)**	**(13.8)**

INTEREST AND SIMILAR EXPENSE *(EUR/000)*

			Change	
	31/12/2017	31/12/2016	Absolute	%
Due to central banks	-	1,140	(1,140)	(100.0)
Due to banks	5,961	4,397	1,564	35.6
Due to customers	34,957	45,337	(10,380)	(22.9)
Securities issued	107,661	154,851	(47,190)	(30.5)
Financial liabilities held for trading	351	3,636	(3,285)	(90.3)
Financial liabilities designated at fair value through profit and loss	15,763	17,104	(1,341)	(7.8)
Other liabilities	12,906	7,300	5,606	76.8
Hedging derivatives	53,100	46,083	7,017	15.2
Total interest and similar expense	**230,699**	**279,848**	**(49,149)**	**(17.6)**

Net fees and commissions amounted to EUR 239.2 mln, essentially stable compared to December 2016. Fee and commission income stood at EUR 270.9 mln, down 1.2% compared to December 2016 primarily on the back of the trends in fees for maintaining and managing current accounts. Fee and commission expense decreased to EUR 31.6 mln (-9.4%), primarily as a result of trends in commissions for guarantees received (EUR 1.6 mln compared with EUR 6.8 mln in December 2016).

FEE AND COMMISSION INCOME *(EUR/000)*

	31/12/2017	31/12/2016	Change	
			Absolute	%
Guarantees issued	7,193	8,249	(1,056)	(12.8)
Portfolio management, brokerage and advisory services:	92,452	88,154	4,298	4.9
1. Trading of financial instruments	*375*	373	2	0.5
2. Currency trading	*1,816*	1,877	(61)	(3.2)
3. Portfolio management	*4,349*	4,748	(399)	(8.4)
4. Custody and administration of securities	*1,777*	2,101	(324)	(15.4)
6. Placement of securities	*42,244*	38,100	4,144	10.9
7. Receipt and issue of orders	*5,469*	5,830	(361)	(6.2)
8. Consulting services	*11*	-	11	...
9. Distribution of third-party services	*36,411*	*35,125*	1,286	3.7
- portfolio management	*2,058*	1,929	129	6.7
- insurance products	*21,492*	19,850	1,642	8.3
- other products	*12,861*	13,346	(485)	(3.6)
Collection and payment services	58,560	59,503	(943)	(1.6)
Factoring services	742	860	(118)	(13.7)
Maintenance and management of current accounts	95,280	102,119	(6,839)	(6.7)
Other services	16,623	15,335	1,288	8.4
Total fee and commission income	**270,850**	**274,220**	**(3,370)**	**(1.2)**

FEE AND COMMISSION EXPENSE *(EUR/000)*

	31/12/2017	31/12/2016	Change	
			Absolute	%
Guarantees received	1,621	6,754	(5,133)	(76.0)
Portfolio management and brokerage services	1,913	1,944	(31)	(1.6)
1. Trading of financial instruments	*128*	167	(39)	(23.4)
3. Portfolio management	*228*	353	(125)	(35.4)
4. Custody and administration of securities	*1,450*	1,325	125	9.4
5. Placement of financial instruments	*105*	94	11	11.7
6. Off-site marketing of financial instruments, products and services	*2*	5	(3)	(60.0)
Collection and payment services	20,723	19,409	1,314	6.8
Other services	7,374	6,791	583	8.6
Total fee and commission expense	**31,631**	**34,898**	**(3,267)**	**(9.4)**

Net gains (losses) from disposal/repurchase of financial assets and liabilities[1] provides an aggregate positive contribution of EUR 230 mln (EUR 75 mln in 2016), mainly due to the positive result of the Liability Management Exercise (LME) which was completed in December 2017.
More specifically, dividends, mainly traceable to the stake held in the Bank of Italy, totalled EUR 10.7 mln (EUR 14.1 mln in December 2016) and net profit (loss) from trading amounted to a positive EUR 4.2 mln, down from EUR 18.5 mln in September 2016.

[1] Items 70, 80, 90, 100 b), d) and 110 of the Income Statement

NET PROFIT (LOSS) FROM TRADING *(EUR/000)*

	31/12/2017	31/12/2016	Change	
			Absolute	%
Debt securities	3,803	15,217	(11,414)	(75.0)
Equities and UCITS	-	(352)	352	(100.0)
Total equities, debt securities and UCITS	**3,803**	**14,865**	**(11,062)**	(74.4)
Financial derivatives	(10,837)	(6,478)	(4,359)	67.3
Exchange differences	15,866	15,069	797	5.3
Other financial assets/liabilities from trading	(4,681)	(4,997)	316	(6.3)
Total profit (loss) from trading	**4,151**	**18,459**	**(14,308)**	**(77.5)**

Net profit (loss) from hedging amounted to a negative EUR 430 thousand, as compared to a negative EUR 2.4 mln in December 2016.

NET PROFIT (LOSS) FROM HEDGING
(EUR/000)

	31/12/2017	31/12/2016	Change	
			absolute	%
(A) Gains on:	**38,446**	**36,104**	**2,342**	**6.5**
Fair value hedging derivatives	26,775	8,362	18,413	...
Hedged financial assets (fair value)	156	13,907	(13,751)	(98.9)
Hedged financial liabilities (fair value)	11,515	13,835	(2,320)	(16.8)
(B) Losses on:	**(38,876)**	**(38,488)**	**(388)**	**1.0**
Fair value hedging derivatives	(12,283)	(15,554)	3,271	(21.0)
Hedged financial assets (fair value)	(26,437)	(16,674)	(9,763)	58.6
Hedged financial liabilities (fair value)	(156)	(6,260)	6,104	(97.5)
Net profit (loss) from hedging (A-B)	**(430)**	**(2,384)**	**1,954**	**(82.0)**

The loss from the sale of loan portfolios amounted to EUR 321.5 mln (almost zero in 2016), and was mainly related to the two *derisking* transactions put in place by the Group during the year (the first, through the securitisation of a portfolio of bad loans of approximately EUR 940 mln, the second through the non-recourse assignment of a portfolio of mortgage and unsecured loans of about EUR 1.2 bn) which led to a total loss of approximately EUR 308 mln.

Net gains / losses from disposal of assets available for sale was a negative EUR 8 mln compared to the positive result of EUR 40.3 mln recorded in December 2016 and includes EUR 9.9 mln of losses derived from the sale of the equity investments held in the FITD Voluntary Scheme (for further information see para. "FITD voluntary scheme" in the section “Key events in 2017”). On 31 December, 2016, on the other hand, it benefited from the effects deriving from the sale of securities classified as AFS (mainly government bonds), from the sale of shares in Visa Europe Ltd. (EUR 9.7 mln) and the sale of the entire stake held in CartaSi S.p.A. (EUR 2.4 mln).

Net gains / losses from repurchase of financial liabilities was a positive EUR 225.1 mln, up from EUR 8.5 mln in December 2016 as a result of the LME transaction which contributed a gross profit of EUR 221.5 mln.

Net profits (losses) from financial assets and liabilities designated at fair value was a negative EUR 1.6 mln (vs. -EUR 4 mln in September 2016).

Net interest and other banking income totalled EUR 381.3 mln, down 33.5% with respect to December 2016.

With regard to net impairment losses on loans and other financial assets and transactions, net provisions were taken for a total amount of EUR 438.7 mln, as against EUR 467.9 mln for the same period in 2016. It should be noted that the accounts for the year ended31 December 2016 included the recognition of major value adjustments taken, amongst other aspects, to comply with guidance previously received from the Supervisory Authority.

More specifically, loan loss provisions totalled EUR 427.5 mln, accounting for 2.7% of total net loans to customers, whereas the value adjustments for the securities classified under assets available for sale include the write-down of the stake held in the Atlante Fund (EUR 10.6 mln) and of the indirect stakes held via the Italian voluntary deposit protection fund (FITD) (EUR 2.4 mln).

NET LOSSES/RECOVERIES ON IMPAIRMENT OF LOANS AND OTHER FINANCIAL ITEMS

(EUR/000)

	31/12/2017	31/12/2016	Change	
			Absolute	%
Loans to banks	1,463	(2,490)	3,953	...
Loans to customers	426,038	472,287	(46,249)	(9.8)
Signature loans (other financial transactions)	*(4,152)*	(9,443)	5,291	(56.0)
Financial assets available for sale	15,375	7,563	7,812	...
Total net losses/recoveries on impairment of loans and other financial items	**438,724**	**467,917**	**(29,193)**	**(6.2)**

Net income from banking activities was therefore a negative EUR 57.4 mln, compared to the positive result of EUR 105.4 mln recorded in December 2016.

Operating expenses stood at EUR 626.6 mln, with respect to EUR 555.6 mln as at December 2016 (+12.8%). More specifically:

- personnel expenses amounted to EUR 358.7 mln, up from December 2016 (+21.3%) when the item benefited from EUR 22.3 mln worth of non-recurring positive effects from agreements on the Company Supplementary Pension Scheme and non-recurring negative effects from charges in connection with the new union agreement (EUR 3 mln); the figure as at 31 December 2017 includes EUR 61.5 mln of non-recurring revenues attributable to the trade union agreement of December, of which EUR 50 mln in provisions to the Solidarity Fund; net of these components, personnel expenses were down 5.7%;
- other administrative expenses amounted to EUR 263.8 mln, down 4.6%; these include: EUR 18.3 mln in expenses for the contribution to the National Resolution Fund and the FITD(vs. EUR 35.6 mln in December 2016); expenses related to the Facility Management contract on hardware platforms managed by an external provider which became effective in 2017 for an amount of EUR 16.8 mln (approximately EUR 10 mln of software leasing expenses were recognised in 2016); EUR 13.9 mln in DTA charges of (same as in December 2016), as well as expenses related to the one-off transactions carried out to implement the Group's Business Plans for EUR 10.4 mln (as against EUR 1.6 mln in 2016). Net of these components, the aggregate was down by 5%.

Net provisions for risks and charges amounted to EUR 24.2 mln (20.7 mln in 2016), of which EUR 19.7mln relate to risks associated to the Insurance Companies' sales agreement (for more information, please see "Disposal of Insurance Companies – Guarantees and Commitments" in the "Accounting Policies" Section) and EUR 3.7 mln refer mainly to provisions for claw-back actions, claims and lawsuits.
Net value adjustments to property and equipment and intangible assets amounted to EUR 51.4 mln, up 1.5% compared to December 2016.
The reduction in value adjustments to tangible assets (EUR 11.8 mln less than in 2016) is essentially traceable to the aforementioned management contract for the hardware platform managed by an external supplier (Facility Management) which involved an expense of EUR 16.8 mln, however, offset by lower leasing costs of software for about EUR 10 mln, and a simultaneous reduction of hardware depreciation.
The increase in value adjustments to intangible assets by EUR 12.6 mln, on the other hand, is mainly due to the write-down (by around EUR 15 mln) of part of the software owned by the Bank. The above was necessary following evidence of a possible reduction in value that emerged during the negotiations initiated as part of the outsourcing project of the information system, following which the Bank verified the residual value attributable to the Bank's software.

OPERATING EXPENSES *(EUR/000)*

	31/12/2017	31/12/2016	Change	
			Absolute	%
Personnel expenses	358,743	295,757	62,986	21.3
Other administrative expenses	263,768	276,398	(12,630)	(4.6)
- overhead expenses	*175,480*	*167,799*	*7,681*	*4.6*
- contribution to the National Resolution Fund and FITD	*18,273*	*35,598*	*(17,325)*	*(48.7)*
- indirect taxes [(1)]	*56,124*	*59,127*	*(3,003)*	*(5.1)*
- DTA charges	*13,891*	*13,874*	*17*	*0.1*
Net provisions for risks and charges	24,224	20,745	3,479	16.8
Value adjustments/write-backs:	51,353	50,573	780	1.5
- intangible assets	36,692	24,105	*12,587*	*52.2*
- property and equipment	14,661	26,468	*(11,807)*	*(44.6)*
Other operating expenses (income)	(71,514)	(87,919)	16,405	(18.7)
Total operating expenses	**626,574**	**555,554**	**71,020**	**12.8**

(1) Taxes recovered from customers are posted to item 220 of the Income Statement "Other operating income (expenses)".

Other net operating income stood at EUR 71.5 mln (EUR 87.9 mln in December 2016); the 18.7% gap is mainly attributable to the reduction in items relating to the recovery of tax and credit facility application fees, which are partly offset by the corresponding cost item 'indirect taxes'.

OTHER OPERATING INCOME/EXPENSE *(EUR/000)*

	31/12/2017	31/12/2016	Change	
			Absolute	%
Lease payments receivable	4,358	4,675	(317)	(6.8)
Third-party charges:	60,618	71,213	(10,595)	(14.9)
recovery of credit facility fees	*14,119*	21,691	*(7,572)*	(34.9)
recovery of taxes [(1)]	*46,167*	49,030	*(2,863)*	*(5.8)*
customer insurance premiums	*332*	492	*(160)*	*(32.5)*
Other income	15,846	21,605	(5,759)	(26.7)
Total other income	**80,822**	**97,493**	**(16,671)**	**(17.1)**
Routine maintenance expenses on investment property	(191)	(550)	359	(65.3)
Expenses for improvement of third parties' assets	(898)	(351)	(547)	...
Other expenses	(8,219)	(8,673)	454	(5.2)
Total other expenses	**(9,308)**	**(9,574)**	**266**	**(2.8)**
Total net operating income	**71,514**	**87,919**	**(16,405)**	**(18.7)**

(1) The item consists of taxes recovered from customers, whose cost is posted to sub-item 180 b) "Other administrative expenses" in the income statement.

In light of the considerations above and having regard to gains on both equity investments and disposal of investments for an aggregate amount of EUR 95.2 mln, profit (loss) before tax from continuing operations was a negative EUR 588.7 mln, as against a negative result of EUR 463.7 mln in December 2016. Tax recovery totalled EUR 169.3 mln, lower than in December 2016 when it totalled EUR 142.2 mln.

Profits from disposal of assets held for sale amounted to EUR 26.1 mln and represents the contribution to the consolidated accounts for the year 2017 attributable to the subsidiary Creditis.

PROFIT (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS

(EUR/000)

	31/12/2017	31/12/2016	Change Absolute	Change %
Profit from discontinued operations	**26,070**	**25,390**	**680**	2.7
-1. Income	45,451	45,213	238	0.5
-2. Expenses	(10,879)	(12,439)	1,560	(12.5)
-5. Taxes and duties	*(8,502)*	*(7,384)*	*(1,118)*	*15.1*

Net of the non-controlling interests' share of loss for the year, the Parent Company's share of profit (loss) for the period amounted to a negative EUR 388.4 mln, compared to a loss of EUR 291.7 mln in December 2016.

Including the income components directly booked to equity, the Parent Company's share of total comprehensive income was a negative EUR 371 mln.

BALANCE SHEET ITEMS, FUNDING AND LENDING

It must be noted that, due to the effect of the application of IFRS 5 –as described in the Accounting Policies of the Notes to the Financial Statements–, the balance sheet amounts of Creditis and of the business unit consisting in the platform for the transfer of bad loans as at 31 December 2017 are posted under the specific items "Non-current assets held for sale and discontinued operations" and "Liabilities associated to non-current assets held for sale and discontinued operations".
Although IFRS 5 does not call for the restatement of comparative balance-sheet data as at 31 December 2016, some restated comparative figures were provided in the tables of the balance sheet that follow and in the related details, as necessary, in addition to the historical figures reported in the 2016 Financial Statements and relevant Report on Operations, for the sole purpose of a like-for-like comparison.

ASSETS *(EUR/000)*

	Situation as at			Change	
	31/12/2017	31/12/2016 restated (*)	31/12/2016	absolute	%
10 - CASH AND CASH EQUIVALENTS	296,581	297,410	297,412	(829)	(0.3)
20 - FINANCIAL ASSETS HELD FOR TRADING	2,453	7,683	7,683	(5,230)	(68.1)
40 - FINANCIAL ASSETS AVAILABLE FOR SALE	2,052,898	2,319,613	2,319,613	(266,715)	(11.5)
60 - LOANS TO BANKS	2,934,607	1,892,014	1,958,763	1,042,593	55.1
70 - LOANS TO CUSTOMERS	15,753,934	17,721,321	18,246,327	(1,967,387)	(11.1)
80 - HEDGING DERIVATIVES	29,581	39,233	39,233	(9,652)	(24.6)
100 - EQUITY INVESTMENTS	98,569	94,235	94,235	4,334	4.6
120 - PROPERTY AND EQUIPMENT	738,442	739,021	761,274	(579)	(0.1)
130 - INTANGIBLE ASSETS	35,005	55,468	56,654	(20,463)	(36.9)
140 - TAX ASSETS	1,950,510	2,059,319	2,063,984	(108,809)	(5.3)
a) current	794,737	985,089	985,651	(190,352)	(19.3)
b) deferred	1,155,773	1,074,230	1,078,333	81,543	7.6
- of which under Law no. 214/2011	527,486	613,780	617,758	(86,294)	(14.1)
150 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	608,077	620,902	-	(12,825)	(2.1)
160 - OTHER ASSETS	419,047	264,785	265,826	154,262	58.3
TOTAL ASSETS	**24,919,704**	**26,111,004**	**26,111,004**	**(1,191,300)**	**(4.6)**

LIABILITIES AND SHAREHOLDERS' EQUITY *(EUR/000)*

	31/12/2017	31/12/2016 restated (*)	31/12/2016	Change	
				absolute	%
10 - DUE TO BANKS	4,656,624	3,468,322	3,468,322	1,188,302	34.3
20 - DUE TO CUSTOMERS	12,624,541	13,710,208	13,710,208	(1,085,667)	(7.9)
30 - SECURITIES ISSUED	3,885,829	5,218,774	5,443,294	(1,332,945)	(25.5)
40 - FINANCIAL LIABILITIES HELD FOR TRADING	850	2,064	2,064	(1,214)	(58.8)
50 - FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	348,459	459,198	459,198	(110,739)	(24.1)
60 - HEDGING DERIVATIVES	224,971	259,037	259,037	(34,066)	(13.2)
80 - TAX LIABILITIES	16,537	20,410	20,464	(3,873)	(19.0)
(a) current	3,557	5,864	5,918	(2,307)	(39.3)
(b) deferred	12,980	14,546	14,546	(1,566)	(10.8)
90 - LIABILITIES ASSOCIATED WITH GROUPS OF ASSETS HELD FOR SALE	193,808	229,397	-	(35,589)	(15.5)
100 - OTHER LIABILITIES	474,579	434,094	438,198	40,485	9.3
110 - EMPLOYEE TERMINATION INDEMNITIES	59,417	65,383	65,769	(5,966)	(9.1)
120 - ALLOWANCES FOR RISKS AND CHARGES	165,240	105,838	106,171	59,402	56.1
a) post-employment benefits	34,410	37,179	37,179	(2,769)	(7.4)
b) other allowances	130,830	68,659	68,992	62,171	90.6
140 - VALUATION RESERVES	(140,633)	(158,100)	(158,100)	17,467	(11.0)
170 - RESERVES	(684,857)	(392,732)	(392,732)	(292,125)	74.4
180 - SHARE PREMIUM RESERVE	628,364	175,954	175,954	452,410	...
190 - SHARE CAPITAL	2,845,857	2,791,422	2,791,422	54,435	2.0
200 - TREASURY SHARES (-)	(15,572)	(15,572)	(15,572)	-	-
210 - NON-CONTROLLING INTERESTS (+/-)	24,125	29,044	29,044	(4,919)	(16.9)
220 - PROFIT (LOSS) FOR THE YEAR (+/-)	(388,435)	(291,737)	(291,737)	(96,698)	33.1
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**24,919,704**	**26,111,004**	**26,111,004**	**(1,191,300)**	**(4.6)**

(*) Data restated to take account of changes made to groups of assets held for sale.

Analytical details of balance sheet restatements as at 31 December 2016 are provided in the following tables.

ASSETS *(EUR/000)*

	Situation as at 31/12/2016 Published	Restatements	31/12/2016 Restated
10 - CASH AND CASH EQUIVALENTS	297,412	(2)	297,410
20 - FINANCIAL ASSETS HELD FOR TRADING	7,683	-	7,683
40 - FINANCIAL ASSETS AVAILABLE FOR SALE	2,319,613	-	2,319,613
60 - LOANS TO BANKS	1,958,763	(66,749)	1,892,014
70 - LOANS TO CUSTOMERS	18,246,327	(525,006)	17,721,321
80 - HEDGING DERIVATIVES	39,233	-	39,233
100 - EQUITY INVESTMENTS	94,235	-	94,235
120 - PROPERTY AND EQUIPMENT	761,274	(22,253)	739,021
130 - INTANGIBLE ASSETS	56,654	(1,186)	55,468
140 - TAX ASSETS	2,063,984	(4,665)	2,059,319
a) current	985,651	(562)	985,089
b) deferred	1,078,333	(4,103)	1,074,230
- of which under Law no. 214/2011	617,758	(3,978)	613,780
150 - NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	-	620,902	620,902
160 - OTHER ASSETS	265,826	(1,041)	264,785
TOTAL ASSETS	**26,111,004**	**-**	**26,111,004**

LIABILITIES AND SHAREHOLDERS' EQUITY *(EUR/000)*

	31/12/2016 Published	Restatements	31/12/2016 Restated
10 - DUE TO BANKS	3,468,322	-	3,468,322
20 - DUE TO CUSTOMERS	13,710,208	-	13,710,208
30 - SECURITIES ISSUED	5,443,294	(224,520)	5,218,774
40 - FINANCIAL LIABILITIES HELD FOR TRADING	2,064	-	2,064
50 - FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	459,198	-	459,198
60 - HEDGING DERIVATIVES	259,037	-	259,037
80 - TAX LIABILITIES	20,464	(54)	20,410
(a) current	5,918	(54)	5,864
(b) deferred	14,546	-	14,546
90 - LIABILITIES ASSOCIATED WITH GROUPS OF ASSETS HELD FOR SALE	-	229,397	229,397
100 - OTHER LIABILITIES	438,198	(4,104)	434,094
110 - EMPLOYEE TERMINATION INDEMNITIES	65,769	(386)	65,383
120 - ALLOWANCES FOR RISKS AND CHARGES	106,171	(333)	105,838
a) post-employment benefits	37,179	-	37,179
b) other allowances	68,992	(333)	68,659
140 - VALUATION RESERVES	(158,100)	-	(158,100)
170 - RESERVES	(392,732)	-	(392,732)
180 - SHARE PREMIUM RESERVE	175,954	-	175,954
190 - SHARE CAPITAL	2,791,422	-	2,791,422
200 - TREASURY SHARES (-)	(15,572)	-	(15,572)
210 - NON-CONTROLLING INTERESTS (+/-)	29,044	-	29,044
220 - PROFIT (LOSS) FOR THE YEAR (+/-)	(291,737)	-	(291,737)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**26,111,004**	**-**	**26,111,004**

Overall funding from customers –direct and indirect deposits– totalled EUR 38,151 mln as at 31 December 2017 (down 6.7% as compared to December 2016), primarily due to trends in direct funding, which was affected by the coming to maturity of seniors bonds for an amount of EUR 1.3 bn and a Lower Tier 2 subordinated bond series for an amount of EUR 20 mln, during the year and by the LME transaction (on EUR 510 mln worth of subordinated notes) which was completed at the end of December.

Direct deposits shrank to EUR 16,858.8 mln, whilst indirect deposits totalled EUR 21,292.1 mln. The latter account for 55.8% of overall funding from customers, with 53.5% consisting in Assets under Management and 46.5% in Assets under Custody.

OVERALL FUNDING *(EUR/000)*

	Situation as at			Change	
	31/12/2017	31/12/2016 restated (*)	31/12/2016	absolute	%
Total (A+B)	**38,150,968**	**40,876,054**	**41,100,574**	**(2,725,086)**	**(6.7)**
Direct deposits (A) (1)	**16,858,829**	**19,388,180**	**19,612,700**	**(2,529,351)**	**(13.0)**
% share of total	*44.2%*	*47.4%*	*47.7%*		
Indirect deposits (B)	**21,292,139**	**21,487,874**	**21,487,874**	**(195,735)**	**(0.9)**
% share of total	*55.8%*	*52.6%*	*52.3%*		
- Assets under Management	11,397,154	10,864,170	10,864,170	532,984	4.9
% share of total	*29.9%*	*26.6%*	*26.4%*		
% share of Indirect deposits	*53.5%*	*50.6%*	*50.6%*		
- Assets under Custody	9,894,985	10,623,704	10,623,704	(728,719)	(6.9)
% share of total	*25.9%*	*26.0%*	*25.8%*		
% share of Indirect deposits	*46.5%*	*49.4%*	*49.4%*		

(1) Items 20, 30 and 50 of Balance Sheet liabilities.

(*) Data restated to take account of changes made to groups of assets held for sale.

Overall funding, including direct funding and deposits from banks, amounted to EUR 21,515.5 mln and was down by 5.9%.

Direct deposits decreased by 13% to EUR 16,858.8 mln. As part of this aggregate, deposits from customers amounted to EUR 12,624.5 mln, down by 7.9%, mainly due to the negative trend in current accounts and demand deposits (EUR 11,141.6 mln, -5.9%), recorded above all in the last quarter of the year and attributable to tensions occurring at the time the capital increase was launched, and the reduction of repurchase agreements to zero (EUR 351.2 mln in December 2016).

Securities issued, almost entirely consisting in bonds to customers, totalled EUR 3,885.8 mln (-25.5% compared to December 2016), mainly affected by EUR 1.3 bn in Senior bonds and EUR 20 mln of a Lower Tier 2 subordinated bond series coming to maturity in 2017, in addition to the LME transaction completed at the end of December 2017 by substituting subordinated bonds for an aggregate nominal amount of EUR 510 mln with new senior securities for a nominal amount of EUR 188.8 mln.

More specifically, direct retail funding, for a total amount of EUR 13,985.5 mln, was down 11% Y/Y, whereas institutional funding (EUR 2,873.4 mln) was down 21.8%.

With regard to the average term to maturity, short-term funding totalled EUR 11,964.3 mln (EUR 13,124.2 mln as at December 2016), accounting for 71% of total funding (67.7% as at December 2016), whilst medium-to-long term funding totalled EUR 4,894.5 mln (EUR 6,263.9 mln as at December 2016), accounting for 29% of total funding (32.3% as at December 2016).

Amounts due to banks amounted to EUR 4,656.6 mln, up from EUR 3,468.3 mln in December 2016, due to the effect of the last tranche of the TLTRO II programme underwritten in March 2017 for an amount of EUR 500 mln and repurchase agreements entered into for an amount of EUR 746.9 mln following the initiatives implemented to rationalise the Group's funding needs.

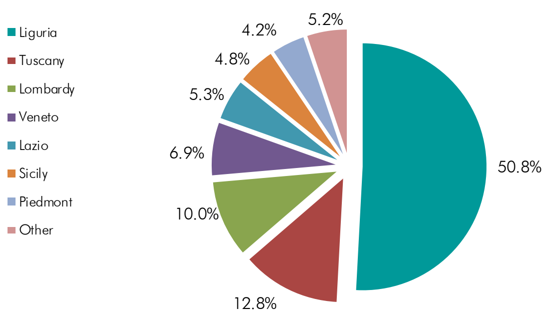
FUNDING (*EUR/000*)

	Situation as at			Change	
	31/12/2017	31/12/2016 restated (*)	31/12/2016	absolute	%
Total (A+B)	**21,515,453**	**22,856,502**	**23,081,022**	**(1,341,049)**	**(5.9)**
Direct deposits (A)	**16,858,829**	**19,388,180**	**19,612,700**	**(2,529,351)**	**(13.0)**
Due to customers	12,624,541	13,710,208	13,710,208	(1,085,667)	(7.9)
current accounts and demand deposits	11,141,642	*11,841,106*	*11,841,106*	(699,464)	(5.9)
repurchase agreements	-	*351,226*	*351,226*	(351,226)	(100.0)
term deposits	1,313,280	*1,344,401*	*1,344,401*	(31,121)	(2.3)
loans	4,021	*5,085*	*5,085*	(1,064)	(20.9)
other payables	165,598	*168,390*	*168,390*	(2,792)	(1.7)
Securities issued	3,885,829	5,218,774	5,443,294	(1,332,945)	(25.5)
bonds	3,884,698	*5,215,698*	*5,440,218*	(1,331,000)	(25.5)
other securities	1,131	*3,076*	*3,076*	(1,945)	(63.2)
Liabilities designated at fair value through profit and loss	348,459	459,198	459,198	(110,739)	(24.1)
bonds	348,459	*459,198*	*459,198*	(110,739)	(24.1)
short-term	11,964,301	*13,124,239*	13,124,239	(1,159,938)	(8.8)
% share of total	*71.0*	*67.7*	*66.9*		
medium-long term	4,894,528	*6,263,941*	6,488,461	(1,369,413)	(21.9)
% share of total	*29.0*	*32.3*	*33.1*		
Due to banks (B)	**4,656,624**	**3,468,322**	**3,468,322**	**1,188,302**	**34.3**
Due to central banks	3,500,000	3,000,000	3,000,000	500,000	16.7
Current accounts and demand deposits	67,879	28,998	28,998	38,881	...
Term deposits	746,949	-	-	746,949	...
Loans	325,897	422,728	422,728	(96,831)	(22.9)
Other payables	15,899	16,596	16,596	(697)	(4.2)

(*) Data restated to take account of changes made to groups of assets held for sale.

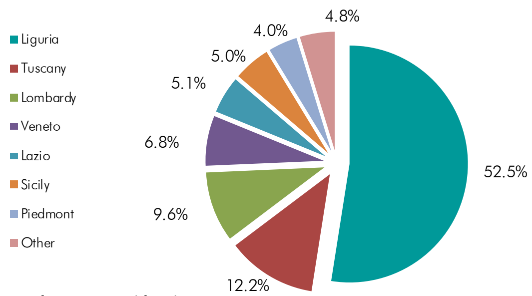
Regional data highlights Liguria's prevailing share of direct funding with 50.8% of total. Tuscany is the second-ranking region with a share of 12.8%, followed by Lombardy (10%). Veneto's share of total is 6.9% and Lazio's 5.3%. The other regions hold shares of less than 5%.

DIRECT DEPOSITS AS AT 31/12/2017 (1)
100%= 13,985.5 MLN



(1) Net of institutional funding.

DIRECT DEPOSITS AS AT 31/12/2016 (1)
100%= 15,784.7 MLN



(1) Net of institutional funding.

In terms of breakdown by segments, 71.1% of amounts due to customers were from households and amounted to EUR 8,981.7 mln; non-financial companies and personal businesses (EUR 2,175.7 mln) accounted for 17.2%. Financial and insurance companies contributed EUR 492.7 mln worth of deposits (3.9% of total), private social institutions EUR 679.4 mln (5.4% of total) and public administrations EUR 295.1 mln (2.3% of total).

DIRECT DEPOSITS - BREAKDOWN BY BUSINESS SEGMENT *(EUR/000)*

	Situation as at			
	31/12/2017		31/12/2016	
		%		%
Public Administration	295,075	2.3%	255,816	1.9%
Financial and insurance businesses	492,710	3.9%	331,600	2.5%
Non-financial businesses and personal businesses	2,175,734	17.2%	2,317,829	17.4%
Private social institutions and non-classified entities	679,361	5.4%	747,481	5.6%
Households	8,981,661	71.1%	9,706,257	72.7%
Total by business segment	**12,624,541**	**100.0%**	**13,358,982**	**100.0%**
Repurchase agreements	-		351,226	
Total due to customers	**12,624,541**		**13,710,208**	
Securities issued	**3,885,829**		**5,443,294**	
Liabilities designated at fair value	**348,459**		**459,198**	
Total direct deposits	**16,858,829**		**19,612,700**	

Indirect deposits, amounting to EUR 21,292.1 mln, were down by 0.9% during the year, due to the concentration in assets under custody, which was not sufficiently offset by the growth in assets under management.

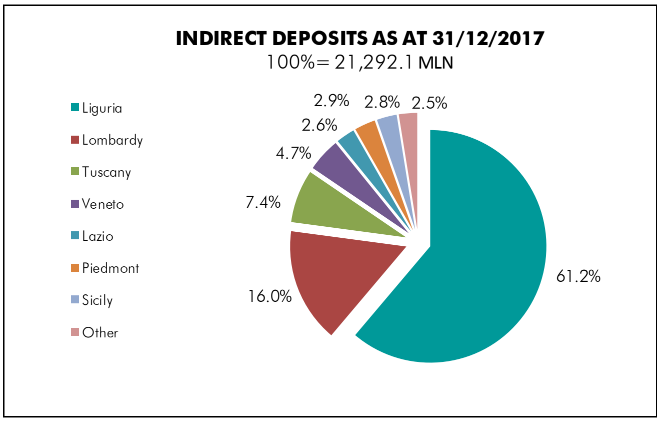
Assets under management stood at EUR 11,397.2 mln, up 4.9% over the year, primarily as a result of the trend in mutual funds and open-ended collective investment schemes (SICAV), which rose by 7.2% to EUR 5,136.3 mln and the increase in banking and insurance products which totalled EUR 5,900.1 mln. On the other hand, asset management shows a negative trend, from EUR 519.9 mln to EUR 360.8 mln (-30.6%).

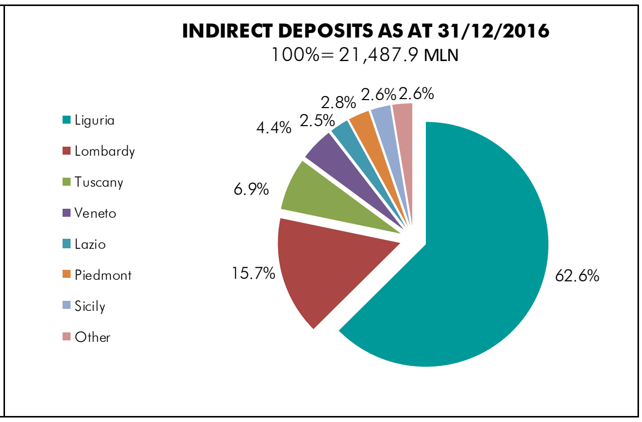
Assets under custody amounted to EUR 9,895 mln, down 6.9% Y/Y; a decrease was recorded in government bonds (-11.7% to EUR 2,618.1 mln); bonds totalled EUR 726.4 mln (-17.4%), while shares amounted to EUR 919.5 mln (+1.8%). The item "Other", primarily attributable to assets pertaining to Amissima Assicurazioni, stood at EUR 5,631 mln, down 4.2%.

INDIRECT DEPOSITS *(EUR/000)*

	Situation as at		Change	
	31/12/2017	31/12/2016	absolute	%
Total (A+B)	**21,292,139**	**21,487,874**	**(195,735)**	**(0.9)**
Assets under Management (A)	**11,397,154**	**10,864,170**	**532,984**	**4.9**
Mutual funds and open-end collective investment schemes	5,136,297	4,790,105	346,192	7.2
Portfolio management	360,762	519,926	(159,164)	(30.6)
Bancassurance products	5,900,095	5,554,139	345,956	6.2
Assets under Custody (B)	**9,894,985**	**10,623,704**	**(728,719)**	**(6.9)**
Government securities	2,618,089	2,965,943	(347,854)	(11.7)
Bonds	726,393	879,201	(152,808)	(17.4)
Shares	919,524	902,994	16,530	1.8
Other	5,630,979	5,875,566	(244,587)	(4.2)

As far as indirect deposits are concerned, the Liguria region contributed the highest share, i.e. 61.2% of the total, followed by Lombardy (16%) and Tuscany (7.4%). The remaining regions contributed less than 5% each.





In terms of breakdown by segment, the two main customer segments -households and financial and insurance companies- respectively contributed 66.6% and 28.3% of the total; the share contributed by non-financial businesses and personal businesses was 3.4%.

INDIRECT DEPOSITS - BREAKDOWN BY BUSINESS SEGMENT *(EUR/000)*

	Situation as at			
	31/12/2017		31/12/2016	
		%		%
Public Administration	189,245	0.9%	170,903	0.8%
Financial and insurance businesses	6,026,404	28.3%	6,342,222	29.5%
Non-financial businesses and personal businesses	732,478	3.4%	772,662	3.6%
Private social institutions and non-classified entities	170,508	0.8%	212,260	1.0%
Households	14,173,504	66.6%	13,989,829	65.1%
Total indirect deposits	**21,292,139**	**100.0%**	**21,487,874**	**100.0%**

Net loans to customers (item 70 of the Balance Sheet) totalled EUR 15,753.9 mln (-11.1% Y/Y).

LOANS TO CUSTOMERS *(EUR/000)*

	Situation as at			Change	
	31/12/2017	31/12/2016 restated (*)	31/12/2016	absolute	%
Current accounts	1,506,888	1,917,793	1,917,793	(410,905)	(21.4)
Mortgage loans	11,222,115	12,832,661	12,832,661	(1,610,546)	(12.6)
Credit cards, personal loans and fifth of salary-backed loans	72,740	73,469	598,325	(729)	(1.0)
Leasing	612,016	660,122	660,122	(48,106)	(7.3)
Factoring	82,831	96,545	96,545	(13,714)	(14.2)
Other loans	2,013,094	2,140,227	2,140,377	(127,133)	(5.9)
Debt securities	244,250	504	504	243,746	...
Total	**15,753,934**	**17,721,321**	**18,246,327**	**(1,967,387)**	**(11.1)**

(*) Data restated to take account of changes made to groups of assets held for sale.

Gross of value adjustments and net of debt securities classified as L&R, loans to customers totalled EUR 17,734 mln, down 16.2%.
Excluding the institutional component, gross loans to retail customers amounted to EUR 17,165.3 mln and fell by 16.6%. As part of this aggregate, a decrease was registered in loans to businesses (-10.4% to EUR 9,258.6 mln) and a less marked drop was observed in loans to households (-3.9% to EUR 5,781.2 mln).

The short-term component, accounting for 13.6% of total, amounted to EUR 2,416.3 mln, down 7.9%; the medium-long term component amounted to EUR 13,639.9 mln (-8%). Bad loans fell to EUR 1,677.9 mln (-54.7%), mainly as a result of the aforementioned transactions for the sale or securitisation of portfolios of loans classified in the segment.
Loans to banks, net of debt securities classified as L&R and gross of adjustments for an amount of EUR 4.3 mln, totalled EUR 2,938.9 mln, up from EUR 1,894.5 mln at the beginning of the year; 89.9% of this aggregate was accounted for by short-term loans.
The net interbank position (difference between loans to and amounts due to customers, net of securities reclassified as L&R) showed a debt exposure of EUR 1,722 mln, as compared to EUR 1,581.6 mln in December 2016.

LOANS (1) *(EUR/000)*

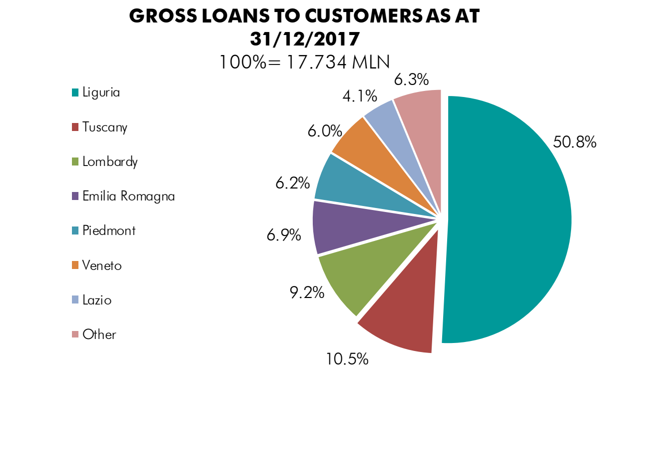
	Situation as at			Change	
	31/12/2017	31/12/2016 restated (*)	31/12/2016	absolute	%
Total (A+B)	**18,444,291**	**19,607,512**	**20,199,267**	**(1,163,221)**	**(5.9)**
Loans to customers (A)	**15,509,684**	**17,720,817**	**18,245,823**	**(2,211,133)**	**(12.5)**
-Gross exposure (2)	17,734,030	21,161,797	21,713,025	(3,427,767)	(16.2)
current accounts	*1,277,302*	*1,537,423*	*1,537,573*	(260,121)	(16.9)
mortgage loans	*9,256,451*	*9,728,799*	*9,728,799*	(472,348)	(4.9)
credit cards, personal loans and fifth of salary-backed loans	*71,382*	*72,013*	*599,231*	(631)	(0.9)
leasing	*481,101*	*522,942*	*522,942*	(41,841)	(8.0)
factoring	*56,975*	*62,194*	*62,194*	(5,219)	(8.4)
other loans	*1,805,231*	*1,929,390*	*1,929,390*	(124,159)	(6.4)
non-performing assets	*4,785,588*	*7,309,036*	*7,332,896*	(2,523,448)	(34.5)
-short term	2,416,250	2,624,109	2,639,712	(207,859)	(7.9)
% share of nominal value	*13.6*	*12.4*	*12.2*		
-medium/long term	13,639,898	14,833,015	15,347,705	(1,193,117)	(8.0)
% share of nominal value	*76.9*	*70.1*	*70.7*		
-Bad loans	1,677,882	3,704,673	3,725,608	(2,026,791)	(54.7)
% share of nominal value	*9.5*	*17.5*	*17.2*		
-Value adjustments (-)	2,224,346	3,440,980	3,467,202	(1,216,634)	(35.4)
Loans to banks (B)	**2,934,607**	**1,886,695**	**1,953,444**	**1,047,912**	**55.5**
-Gross exposure (2)	2,938,895	1,894,508	1,961,257	1,044,387	55.1
compulsory reserves	*1,094,297*	*1,279,031*	*1,279,031*	(184,734)	(14.4)
current accounts and demand deposits	*27,136*	*34,270*	*75,219*	(7,134)	(20.8)
term deposits	-	-	*25,800*	-	...
repurchase agreements	*1,041,292*	-	-	1,041,292	...
loans	*763,390*	*562,489*	*562,489*	200,901	35.7
non-performing assets	*12,780*	*18,718*	*18,718*	(5,938)	(31.7)
-short term	2,640,737	1,573,645	1,614,594	1,067,092	67.8
% share of nominal value	*89.9*	*83.1*	*82.3*		
-medium/long term	298,158	302,145	327,945	(3,987)	(1.3)
% share of nominal value	*10.1*	*15.9*	*16.7*		
-Bad loans	-	18,718	18,718	(18,718)	(100.0)
% share of nominal value	-	*1.0*	*1.0*		
-Value adjustments (-)	4,288	7,813	7,813	(3,525)	(45.1)

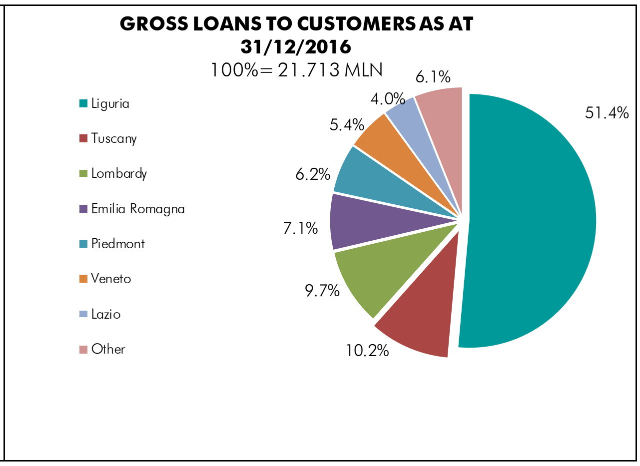
(1) Net of debt securities classified as L&R, amounting to EUR 244,250 thousand (loans to customers) as at 31/12/2017 and EUR 504 thousand (loans to customers) and EUR 5,319 thousand (loans to banks) as at 31/12/2016.

(2) Before value adjustments.

(*) Data restated to take account of changes made to groups of assets held for sale.

In terms of a geographical breakdown, Liguria accounts for 50.8% of loans to customers. Tuscany is the second-ranking region, with a share of 10.5%; Lombardy ranks third with a share of 9.2%.





In terms of a breakdown by segment, non-financial companies and personal businesses account for 56.7% of loans to customers, for a total of EUR 10,057.5 mln; the households' share of total (30.7%) is mostly comprised of mortgages for the purchase of homes. The public administrations' share of total is 8.6%, while financial and insurance companies account for 3.5% of total.

GROSS LOANS TO CUSTOMERS (1) - BREAKDOWN BY BUSINESS SEGMENT *(EUR/000)*

	Situation as at			
	31/12/2017		31/12/2016	
		%		%
Public Administration	1,528,288	8.6%	1,701,479	7.8%
Financial and insurance businesses	628,626	3.5%	742,226	3.4%
Non-financial businesses and personal businesses	*10,057,479*	*56.7%*	*12,874,740*	*59.3%*
Construction	*2,177,746*	*12.3%*	*3,006,628*	*13.8%*
Wholesale and retail trade; repair of motorvehicles and motorcycles	*1,688,683*	*9.5%*	*2,022,334*	*9.3%*
Real Estate	*1,575,834*	*8.9%*	*2,228,359*	*10.3%*
Manufacturing	*1,566,996*	*8.8%*	*1,910,299*	*8.8%*
Transportation and storage	*1,114,335*	*6.3%*	*1,305,741*	*6.0%*
Other	*1,933,885*	*10.9%*	*2,401,378*	*11.1%*
Private social institutions and non-classified entities	73,271	0.4%	107,779	0.5%
Households	5,446,366	30.7%	6,286,800	29.0%
Total loans to customers	**17,734,030**	**100.0%**	**21,713,025**	**100.0%**

(1) Gross of value adjustments and net of debt securities classified as L&R.

Gross non-performing on-balance-sheet loans to customers amounted to EUR 4,785.6 mln, down by 34.5% compared to the levels as at December 2016; approximately EUR 2.2 bn of such variation is accounted for by the foregoing transactions for the sale or securitisation of non-performing loan portfolios carried out during the year. Because of this, the corresponding share of gross bad loans to customers out of total gross loans to customers ("gross NPE ratio") decreased from 34.5% in 2016 to 27% in 2017.
In particular, gross bad loans to customers amounted to EUR 1,677.9 mln, down 54.7% (mainly as a result of the aforementioned derisking transactions) and account for 9.5% of the aggregate.
Gross Unlikely-To-Pay exposures amounted to EUR 3,027 mln, and were down 13.2%.
Past due loans, also consisting entirely in loans to customers, totalled EUR 80.7 mln, on a downturn from EUR 118.6 mln as at December 2016.
The percentage Coverage of non-performing on-balance-sheet loans to banks and customers is 44.8% compared to 45.3% recorded at the end of 2016; in particular, bad loans show a coverage of 64.2%, (68.8% including write-offs), unlikely to pay loans of 34.8% (35.1% inclusive of write-offs) and past-due exposures of 18%, values that guarantee full compliance with the coverage targets set by the ECB.
Non-performing signature loans amounted to EUR 96.4 mln, down 11.3% compared to December 2016, and were 21.7% written down.

As a whole, losses on loans to customers (including performing exposures) amounted to EUR 2,251.9 mln, of which EUR 2,224.3 mln were for on-balance-sheet loans and EUR 27.5 mln for signature loans.

CREDIT QUALITY [(1)] *(EUR/000)*

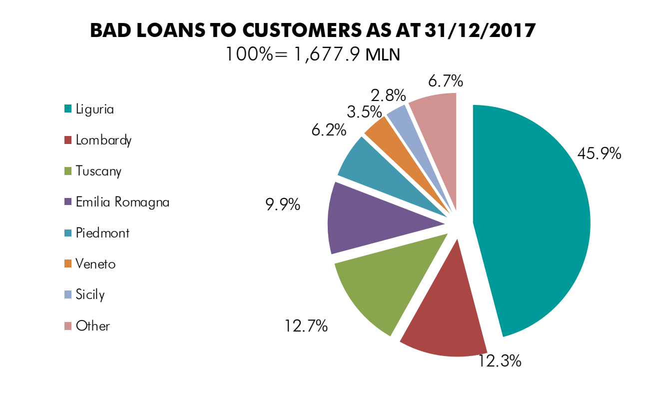
	31/12/2017				31/12/2016 restated (*)				31/12/2016			
	Gross exposure (a)	Value adjustments (b)	Net exposure (a)-(b)	% (b) / (a)	Gross (a)	Value (b)	Net exposure (a)-(b)	% (b) / (a)	Gross (a)	Value (b)	Net exposure (a)-(b)	% (b) / (a)
On-balance-sheet loans												
Non-performing loans												
Bad loans	1,677,882	1,077,590	600,292	64.2	3,723,391	2,337,546	1,385,845	62.8	3,744,326	2,356,288	1,388,038	62.9
- banks	-	-	-	...	18,718	7,813	10,905	41.7	18,718	7,813	10,905	41.7
- customers	1,677,882	1,077,590	600,292	64.2	3,704,673	2,329,733	1,374,940	62.9	3,725,608	2,348,475	1,377,133	63.0
Unlikely to pay	3,039,766	1,057,558	1,982,208	34.8	3,485,770	961,893	2,523,877	27.6	3,486,957	962,545	2,524,412	27.6
- banks	12,780	4,288	8,492	33.6	-	-	-	...	-	-	-	...
- customers	3,026,986	1,053,270	1,973,716	34.8	3,485,770	961,893	2,523,877	27.6	3,486,957	962,545	2,524,412	27.6
Past due	80,720	14,494	66,226	18.0	118,593	18,689	99,904	15.8	120,331	19,666	100,665	16.3
- customers	80,720	14,494	66,226	18.0	118,593	18,689	99,904	15.8	120,331	19,666	100,665	16.3
Total non-performing loans	**4,798,368**	**2,149,642**	**2,648,726**	**44.8**	**7,327,754**	**3,318,128**	**4,009,626**	**45.3**	**7,351,614**	**3,338,499**	**4,013,115**	**45.4**
- banks	**12,780**	**4,288**	**8,492**	**33.6**	**18,718**	**7,813**	**10,905**	**41.7**	**18,718**	**7,813**	**10,905**	**41.7**
- customers	**4,785,588**	**2,145,354**	**2,640,234**	**44.8**	**7,309,036**	**3,310,315**	**3,998,721**	**45.3**	**7,332,896**	**3,330,686**	**4,002,210**	**45.4**
- of which Forborne (2)	*1,790,386*	*633,820*	*1,156,566*	*35.4*	*1,875,879*	*571,124*	*1,304,755*	*30.4*	*1,875,879*	*571,124*	*1,304,755*	*30.4*
Performing loans												
- banks	2,926,115	-	2,926,115	-	1,875,790	-	1,875,790	-	1,942,539	-	1,942,539	-
- customers	12,948,442	78,992	12,869,450	0.6	13,852,761	130,665	13,722,096	0.9	14,380,129	136,516	14,243,613	0.9
Total performing loans	**15,874,557**	**78,992**	**15,795,565**	**0.5**	**15,728,551**	**130,665**	**15,597,886**	**0.8**	**16,322,668**	**136,516**	**16,186,152**	**0.8**
- of which Forborne	*757,964*	*15,597*	*742,367*	*2.1*	*666,530*	*40,331*	*626,199*	*6.1*	*666,530*	*40,331*	*626,199*	*6.1*
Total on-balance-sheet loans	**20,672,925**	**2,228,634**	**18,444,291**	**10.8**	**23,056,305**	**3,448,793**	**19,607,512**	**15.0**	**23,674,282**	**3,475,015**	**20,199,267**	**14.7**
- banks	**2,938,895**	**4,288**	**2,934,607**	**0.1**	**1,894,508**	**7,813**	**1,886,695**	**0.4**	**1,961,257**	**7,813**	**1,953,444**	**0.4**
- customers	**17,734,030**	**2,224,346**	**15,509,684**	**12.5**	**21,161,797**	**3,440,980**	**17,720,817**	**16.3**	**21,713,025**	**3,467,202**	**18,245,823**	**16.0**
Signature loans												
Non-performing	96,430	20,911	75,519	21.7	108,683	21,397	87,286	19.7	108,683	21,397	87,286	19.7
- customers	96,430	20,911	75,519	21.7	108,683	21,397	87,286	19.7	108,683	21,397	87,286	19.7
Other loans	525,693	6,630	519,063	1.3	616,977	10,295	606,682	1.7	616,977	10,295	606,682	1.7
- banks	275	-	275	-	558	-	558	-	558	-	558	-
- customers	525,418	6,630	518,788	1.3	616,419	10,295	606,124	1.7	616,419	10,295	606,124	1.7
Total signature loans	**622,123**	**27,541**	**594,582**	**4.4**	**725,660**	**31,692**	**693,968**	**4.4**	**725,660**	**31,692**	**693,968**	**4.4**
- banks	**275**	**-**	**275**	**-**	**558**	**-**	**558**	**-**	**558**	**-**	**558**	**-**
- customers	**621,848**	**27,541**	**594,307**	**4.4**	**725,102**	**31,692**	**693,410**	**4.4**	**725,102**	**31,692**	**693,410**	**4.4**
Total	**21,295,048**	**2,256,175**	**19,038,873**	**10.6**	**23,781,965**	**3,480,485**	**20,301,480**	**14.6**	**24,399,942**	**3,506,707**	**20,893,235**	**14.4**
- banks	**2,939,170**	**4,288**	**2,934,882**	**0.1**	**1,895,066**	**7,813**	**1,887,253**	**0.4**	**1,961,815**	**7,813**	**1,954,002**	**0.4**
- customers	**18,355,878**	**2,251,887**	**16,103,991**	**12.3**	**21,886,899**	**3,472,672**	**18,414,227**	**15.9**	**22,438,127**	**3,498,894**	**18,939,233**	**15.6**

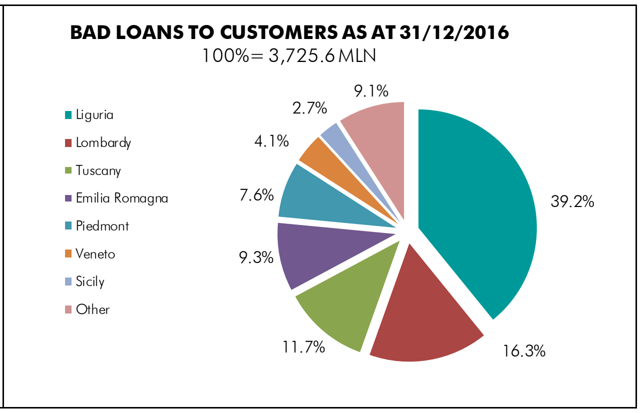
(1) Net of debt securities classified as L&R, amounting to EUR 244,250 thousand (loans to customers) as at 31/12/2017 and EUR 504 thousand (loans to customers) and EUR 5,319 thousand (loans to banks) as at 31/12/2016.

(2) Figures as at 31/12/2016 were restated: gross exposure was up from 1,777,648 to 1,875,879 and value adjustments were up from 557,041 to 571,124.

(*) Data restated to take account of changes made to groups of assets held for sale.

A geographic breakdown of bad loans shows that Liguria has the largest share of the total, equal to 45.9%, followed by Tuscany (12.7%) and Lombardy (12.3%).





The breakdown by business segment shows a total amount of bad loans for non-financial companies and personal businesses of EUR 1,486.8 mln with a share of 88.6%. The highest share of bad loans is in the "Construction" segment (EUR 570 mln, 34%), followed by "Manufacturing" (EUR 236.1 mln, 14.1%). The "Households" segment ranks second in volume and accounts for 10.1% of the total.

BAD LOANS TO CUSTOMERS (1) - BREAKDOWN BY BUSINESS SEGMENT *(EUR/000)*

	Situation as at			
	31/12/2017		31/12/2016	
		%		%
Public Administration	2,911	0.2%	3,011	0.1%
Financial and insurance businesses	14,684	0.9%	43,639	1.2%
Non-financial businesses and personal businesses	1,486,795	88.6%	3,018,529	81.0%
Construction	569,987	*34.0%*	1,020,267	*27.4%*
Manufacturing	236,142	*14.1%*	506,986	*13.6%*
Wholesale and retail trade; repair of motorvehicles and motorcycles	216,447	*12.9%*	419,008	*11.2%*
Real Estate	215,507	*12.8%*	583,458	*15.7%*
Accommodation and food services	68,623	*4.1%*	104,468	*2.8%*
Other	*180,089*	*10.7%*	*384,342*	*10.3%*
Private social institutions and non-classified entities	3,231	0.2%	5,152	0.1%
Households	170,261	10.1%	655,277	17.6%
Total bad loans	**1,677,882**	**100.0%**	**3,725,608**	**100.0%**

(1) Gross of value adjustments and net of debt securities classified as L&R.

The gross bad loans/total loans ratio is 9.5% (17.2% in 2016); for non-financial companies and personal businesses the ratio is higher than Group average and stands at 13.8% (23.4% in 2016).

BAD LOANS/TOTAL LOANS (1) - BREAKDOWN BY BUSINESS SEGMENT *(percentage values)*

	Situation as at	
	31/12/2017	31/12/2016
Public Administration	0.2%	0.2%
Financial businesses	2.3%	5.9%
Non-financial businesses and personal businesses	14.8%	23.4%
- of which (2):		
Construction	*26.2%*	*33.9%*
Wholesale and retail trade; repair of motorvehicles and motorcycles	*12.8%*	*20.7%*
Real Estate	*13.7%*	*26.2%*
Manufacturing	*15.1%*	*26.5%*
Transportation and storage	*4.8%*	*7.1%*
Private social institutions and non-classified entities	4.4%	4.8%
Households	3.1%	10.4%
Total	**9.5%**	**17.2%**

(1) Gross of value adjustments and net of debt securities classified as L&R.
(2) Main business segments in terms of overall credit exposure.

Securities in the portfolio amounted to EUR 2,298.6 mln, down from December 2016 (-1.2%); however, the decrease in available-for-sale securities (EUR 266.7 mln less than in December 2016) was not sufficiently offset by the increase in securities classified as Loans and Receivables (+EUR 238.4 mln compared to December 2016).
As shown in the table below, debt securities (EUR 1,966.3 mln) make up 85.5% of the portfolio (although consisting mainly of government securities, this item also includes securities issued by securitisation vehicles). Equities amount to EUR 318.6 mln, and include the 4.03% equity investment in the Bank of Italy, amounting to EUR 302.4 mln, unchanged as compared to the prior period. Units in UCITS (Undertakings for Collective Investment in Transferable Securities) totalled EUR 13.7 mln.
Net of the Bank of Italy shareholding, Italian government bonds account for 83.9% of the total, with a 3-year financial duration.
As regards the breakdown under the international accounting standards (IAS/IFRS), –available-for-sale securities amounted to EUR 2,052.9 mln, account for 89.3% of the securities portfolio and included approximately 45 mln in securities deriving from the conversion of non-performing loans; held for trading securities amounted to EUR 1.5 mln, while securities classified as Loans and Receivables amounted to EUR 244.3 mln.
The significant increase in the Loans & Receivables item is due to the recognition in the transferors' balance sheet assets of EUR 243.9 mln in Senior instruments underwritten as part of the securitisation of a bad loan portfolio following the derecognition of the portfolio in the third quarter of 2017 (for further details please refer to the paragraph "Securitisations completed by the Banca Carige Group" in the "Accounting Policies" section).

SECURITIES PORTFOLIO *(EUR/000)*

	Situation as at			Change	
	31/12/2017	31/12/2016 restated (*)	31/12/2016	absolute	%
Debt securities	1,966,279	1,975,251	1,975,251	(8,972)	(0.5)
Held for trading	*1,490*	*1,246*	*1,246*	*244*	*19.6*
Available for sale	*1,720,539*	*1,968,182*	*1,968,182*	*(247,643)*	*(12.6)*
Loans and Receivable	*244,250*	*5,823*	*5,823*	*238,427*	*...*
Equity instruments	318,643	327,532	327,532	*(8,889)*	(2.7)
Available for sale	*318,643*	*327,532*	*327,532*	*(8,889)*	(2.7)
Units in UCITS	13,716	23,899	23,899	*(10,183)*	(42.6)
Available for sale	*13,716*	*23,899*	*23,899*	*(10,183)*	(42.6)
Total (1)	**2,298,638**	**2,326,682**	**2,326,682**	**(28,044)**	**(1.2)**
of which:					
Held for trading	*1,490*	*1,246*	*1,246*	*244*	*19.6*
Available for sale	*2,052,898*	*2,319,613*	*2,319,613*	*(266,715)*	*(11.5)*
Loans and Receivable	*244,250*	*5,823*	*5,823*	*238,427*	*...*

(1) Balance sheet items 20 (net of derivatives totalling EUR 4,626 thousand; EUR 6,437 thousand as at 31/12/2016), 40, 60 (only for L&Rs) and 70 (only for L&Rs) are included in the aggregate.
(*) Data restated to take account of changes made to groups of assets held for sale.

The value of hedging derivatives (assets) amounted to EUR 29.6 mln (EUR 39.2 mln in December 2016) and hedging derivatives (liabilities) totalled EUR 225 mln (EUR 259 mln in December 2016).

HEDGING DERIVATIVES BY HEDGE TYPE

(EUR/000)

	Situation as at			Change	
	31/12/2017	31/12/2016 restated (*)	31/12/2016	absolute	%
ASSET-HEDGING DERIVATIVES					
Liability-hedging derivatives	**23,096**	**38,817**	**38,817**	**(15,721)**	**(40.5)**
Fair value micro-hedging	23,096	38,817	38,817	(15,721)	(40.5)
interest rate	*23,096*	*38,817*	*38,817*	*(15,721)*	*(40.5)*
Macro-hedging of the financial assets and liabilities portfolio	6,485	416	416	6,069	...
Total asset-hedging derivatives	**29,581**	**39,233**	**39,233**	**(9,652)**	**(24.6)**
LIABILITY-HEDGING DERIVATIVES					
Asset-hedging derivatives	**224,933**	**232,345**	**232,345**	**(7,412)**	**(3.2)**
Fair value micro-hedging	224,933	232,345	232,345	(7,412)	(3.2)
interest rate	*224,933*	*232,345*	*232,345*	(7,412)	(3.2)
Macro-hedging of the financial assets and liabilities portfolio	38	26,692	26,692	(26,654)	(99.9)
Total liability-hedging derivatives	**224,971**	**259,037**	**259,037**	**(34,066)**	**(13.2)**

The value of trading derivative contracts stood at EUR 1 mln (assets) and EUR 0.9 mln (liabilities), both of which on a downturn as compared to data as at 31 December 2016 (respectively EUR 6.4 mln and EUR 2.1 mln) mainly due to the termination of some derivatives.

TRADING DERIVATIVES *(EUR/000)*

	Situation as at			Change	
	31/12/2017	31/12/2016 restated (*)	31/12/2016	absolute	%
Assets for trading derivatives	**963**	**6,437**	**6,437**	**(5,474)**	**(85.0)**
Financial derivatives	963	6,437	6,437	(5,474)	(85.0)
- trading	*963*	1,958	*1,958*	(995)	(50.8)
- connected with the fair value option	-	4,479	*4,479*	(4,479)	(100.0)
Total	**963**	**6,437**	**6,437**	**(5,474)**	**(85.0)**

Liabilities for trading derivatives	**850**	**2,064**	**2,064**	**(1,214)**	**(58.8)**
Financial derivatives	850	2,064	2,064	(1,214)	(58.8)
- trading	*850*	2,064	*2,064*	(1,214)	(58.8)
Total	**850**	**2,064**	**2,064**	**(1,214)**	**(58.8)**

Tax assets and liabilities amounted to EUR 1,950.5 mln and EUR 16.5 mln respectively (EUR 2,059.3 mln and EUR 20.4 mln in December 2016). Deferred tax assets totalled EUR 1,155.8 mln, of which EUR 527.5 mln were in connection with Law no. 214/2011.

Lastly, the table of non-current assets (liabilities) held for sale and discontinued operations is given below.

NON-CURRENT ASSETS (LIABILITIES) HELD FOR SALE AND DISCONTINUED OPERATIONS

(EUR/000)	Situation as at		Change	
	31/12/2017	31/12/2016 (*) restated	absolute	%
A. Individual assets	**-**	**22,203**	**22,203**	**100.0**
A.3 Property and equipment	-	22,203	22,203	100.0
B. Asset groups (discontinued operations)	**608,077**	**598,699**	**9,378**	**1.6**
-B.5 Loans to banks	62,828	66,749	3,921	5.9
-B.6 Loans to customers	543,062	525,006	18,056	3.4
-B.8 Property and equipment	35	50	15	30.0
-B.9 Intangible assets	1,098	1,186	88	7.4
-B.10 Other assets	1,054	5,708	4,654	81.5
D. Liabilities associated with groups of non-current assets held for sale and discontinued operations	**193,808**	**229,397**	**35,589**	**15.5**
-D.3 Securities issued	188,636	224,520	35,884	16.0
-D.6 Allowances	464	333	131	39.3
-D.7 Other liabilities	4,708	4,544	164	3.6

* Data restated to take account of changes made to groups of assets held for sale.

FIXED ASSETS AND EQUITY INVESTMENTS

The value of property and equipment amounted to EUR 738.4 mln and was substantially stable during the year (-0.1%). Assets used in the business (EUR 582.7 mln) decreased by 5.4%, while those held for investment purposes (EUR 155.7 mln) were up 7.3%.
Intangible assets amounted to EUR 35 mln, down from EUR 55.5 mln as at December 2016 due to the afore-mentioned software write-down.
Equity investments amounted to EUR 98.6 mln (EUR 94.2 mln in 2016) and were mainly in relation to the Autostrada dei Fiori, a company subject to significant influence, valued at equity and companies valued at cost. The EUR 4.4 mln increase is due to the Autostrada dei Fiori's share of profit (loss) for the period.

ANNUAL CHANGES IN EQUITY INVESTMENTS *(EUR/000)*

		31/12/2017	31/12/2016 restated (*)	31/12/2016
A.	**Opening balance**	**94,235**	**92,536**	**92,536**
B.	**Increases**	**4,408**	**1,699**	**1,699**
	B.4 Other changes	4,408	1,699	1,699
C.	**Decreases**	**74**	**-**	**-**
D.	**Closing balance**	**98,569**	**94,235**	**94,235**

(*) Data restated to take account of changes made to groups of assets held for sale.

CASH FLOW STATEMENT, SHAREHOLDERS' EQUITY AND RISK MANAGEMENT

In 2017, liquidity used in operations amounted to a total of EUR 478.8 mln: operations generated a positive flow of EUR 57.9 mln and financial assets generated EUR 531.1 mln in cash, while financial liabilities absorbed EUR 952 mln worth of cash flows. Investment activities absorbed cash for an amount of EUR 14.7 mln, while funding generated cash for a total of EUR 492.6 mln. The total net cash flow used in the year amounted to EUR 828 mln.

After deducting treasury shares for an amount of EUR 15.6 mln[1], equity as at 31 December 2017, amounted to EUR 2,244.7 mln and consisted of: share capital for an amount of EUR 2,845.9 mln, share premiums amounting to EUR 628.4 mln, negative reserves totalling EUR 684.9 mln, negative valuation reserves for an amount of EUR 140.6 mln (of which EUR 101 mln referred to the negative cash flow hedging reserve) and a loss for the period totalling EUR 388.4 mln.

The change, during the year, in the items 'Share Capital' and 'Share premium reserve' is connected to the capital increase transaction ended on 22 December 2017 for an amount of EUR 544.4 mln (EUR 506.8 mln net of charges incurred; for more information, please refer to the Notes to the Financial Statements, Part F - Consolidated shareholders' equity, Section 1).

The Parent Company's share of consolidated shareholders' equity and consolidated net profit (loss) for the period is obtained from Banca Carige's shareholders equity and net profit (loss) for the period through the following changes:

RECONCILIATION BETWEEN PARENT COMPANY AND CONSOLIDATED EQUITY AND PROFIT (LOSS) FOR THE YEAR

(EUR/000)

	Shareholders' equity	of which net profit (loss)
Balance as at 31/12/2017 - as per Parent Company financial statements	**2,149,805**	**(385,985)**
Difference from carrying amount	720	17,653
Impairment of goodwill recognised in the consolidated financial statements	(51,931)	-
Cancellation, at consolidated level, of impairment of equity investments in subsidiaries	163,723	-
Dividends distributed by subsidiaries and written off	(14,108)	(14,108)
Dividends distributed by associated companies and written off	(5,361)	(5,361)
Other	1,876	(634)
Consolidated balance as at 31/12/2017	**2,244,724**	**(388,435)**

[1] The treasury shares held by Banca Carige as at 31 December 2017 numbered 219,513 and were not traded during the year.

The Parent Company, Banca Carige, in compliance with the law and regulations and the provisions of the Corporate Governance Code for listed companies, has adopted an Internal Control System (ICS) designed to detect, measure and continually verify risks typical of the Bank's activities. From an operational perspective, the ICS includes 3 levels of control:

- Line controls (1st level) for the purpose of ensuring the correct performance of transactions; these are carried out by the operating units or built into IT procedures;
- Risk management controls (2nd level), aimed at defining the methods for measuring risk and verifying compliance with the limits assigned to the various operating functions and monitoring the attainment of their respective risk-return objectives. The above controls are assigned to units other than operating units: the Manager in charge of preparing the company's accounting documents, Risk Management, Internal Validation, Compliance, Anti-Money Laundering;
- Internal auditing (3rd level) is performed by the Internal Control department (which is different and independent from the operating units). Its tasks are: to assess the adequacy and effectiveness of first and second level controls, to identify irregularities, breaches of procedures and regulations and to evaluate the functional efficiency of the Internal Control System as a whole.

Risk-taking policies in the Carige Group are set by the RAF (Risk Appetite Framework), approved by the Parent Company's Board of Directors, which defines the risk-return target profile which the Group intends to adopt in line with its business model and Strategic Plan.

The Parent Company has steering and supervision functions in respect of all risks, primarily via an integrated risk management of Pillar 1 and Pillar 2 risks under the Bank of Italy's supervisory instructions (Circ. No. 285 of 17 December 2013, as later amended).

The different risk categories are monitored by the 2nd level Control Functions and results are subject to periodic reporting to the Board of Directors, Risk Committee, Risk Control Committee and Top Management.

It must be recalled that in prior years a number of significant measures were taken to qualitatively and quantitatively strengthen the Internal Auditing, Risk Management and Compliance functions of the Parent Company and further activities are in progress to reinforce the supporting information system. Partly in light of the observations made at a Group level by the ECB within the SREP process and further to subsequent inspections, progress was made throughout the year in improvement initiatives aimed at further strengthening risk management and control at Group level. Finally, the Group continued to implement the activities -currently in progress- aimed at strengthening anti-money laundering controls and the related IT architecture. In this regard no provisions for risks and charges were made as the requirements set out by IAS 37 do not apply.

*** - ***

As at 31 December 2017, the Group had a phased-in Total Capital Ratio of 12.4%, a phased-in Tier I Ratio of 12.4% and a phased-in Common Equity Tier 1 Ratio of 12.6%, higher than the minimum regulatory levels.

The CET1 Ratio is higher than the regulatory limits and the 9% minimum threshold required by the ECB under the SREP process for 2017, in addition to being higher than the Pillar 2 Guidance threshold of 11.25%.

The TCR is higher than both the regulatory limit and the 12.5% minimum threshold required by the ECB under the SREP process for 2017.

BREAKDOWN OF CONSOLIDATED OWN FUNDS

(EUR/000)

	Situation as at	
	31/12/2017	31/12/2016
	Bis III p.i.	Bis III p.i.
Common Equity Tier 1 capital before deductions	**2,364,585**	**2,266,737**
Share capital	2,845,856	2,791,336
Reserves from profit and other reserves	(684,858)	(392,732)
Share premium reserve	628,363	175,949
Profit (+) / Loss (-) for the year	(388,435)	(291,737)
OCI reserves	(140,634)	(158,100)
Phase in - impact on CET1	104,293	142,022
Deductions from common equity Tier 1 capital	**462,429**	**324,292**
Goodwill	-	-
Bis III deductions with 10% threshold	-	-
Bis III deductions with 17.65% threshold	-	-
Excess of deduction from AT1 items over AT1 capital	-	-
Other negative elements and prudential filters	462,429	324,292
Common Equity Tier 1 capital (CET1)	**1,902,156**	**1,942,445**
Additional Tier 1 capital (AT1)	**2,001**	**97,724**
AT1 instruments (capital)	1	86
AT1 instruments (share premium)	0	5
Innovative capital instruments (Grandfathering)	2,000	97,632
Phase in - impact on AT1	-	-
Excess of deduction from AT1 items over AT1 capital	-	-
Tier 1 (T1) (CET1+AT1)	**1,904,157**	**2,040,169**
Tier 2 (T2)	**28,084**	**317,739**
Own Funds (T1+T2)	**1,932,240**	**2,357,908**

CONSOLIDATED OWN FUNDS AND SOLVENCY RATIOS

(EUR/000)	Situation as at	
	31/12/2017	31/12/2016
	Bis III p.i.	Bis III p.i.
Own Funds		
Common Equity Tier 1 capital	1,902,156	1,942,445
Additional Tier 1 capital	2,001	97,724
Tier 1 capital	1,904,157	2,040,169
Tier 2 capital	28,084	317,739
Own Funds	1,932,240	2,357,908
Risk-weighted assets		
Credit risk	13,558,328	14,949,832
Credit risk Bis III (1)	733,412	965,777
Market risk	4,270	17,099
Operational risk	1,033,660	1,096,067
Total risk-weighted assets	15,329,671	17,028,774
Capital requirements		
Credit risk	1,084,666	1,195,987
Credit risk Bis III	58,673	77,262
Market risk	342	1,368
Operational risk	82,693	87,685
Total	1,226,374	1,362,302
Ratios		
Common Equity Tier 1 capital /Total risk-weighted assets	12.4%	11.4%
Tier 1 capital /Total risk-weighted assets	12.4%	12.0%
Own Funds/Total risk-weighted assets	12.6%	13.8%

(1) Includes risk weights for DTAs and non-deductible material and non-material investments.

GROUP COMPANIES

Provided below is a summary of the Profit and Loss and balance sheet results of the Group companies. For further details on the scope of consolidation and related-party transactions, please refer to Part A - Accounting Policies, Section 3 – Scope and methods of consolidation and Part H – Related-parties transactions of the Explanatory Notes.

A. The parent company: Banca Carige

As at 31 December 2017, overall funding from customers of the Parent Company **Banca Carige S.p.A.** totalled EUR 34.885,2 mln, down 7.5% compared to December 2016. Direct deposits amounted to EUR 15,962.2 mln; indirect deposits amounted to EUR 18,923 mln, down 1.6% mainly due to trends in assets under custody.

On-balance-sheet loans to customers, net of value adjustments for an amount of EUR 2,143.8 mln, totalled EUR 15,727.5 mln and were down by 10.6% as compared to December 2016. Gross of provisions, the aggregate stood at EUR 17,871.2 mln, down 14.4%. Mid-long term loans (EUR 13,457 mln) account for 75.3% of total loans and were down by 7.1%; short-term loans (EUR 2,852.2 mln, accounting for 16% of the total), decreased by 2%.

The securities portfolio amounts to EUR 2,401.6 mln and was down by 2% compared to December 2016.

The profit/loss account for the period posted a EUR 386 mln net loss, compared to the loss of EUR 313.6 mln registered in December 2016. Net interest income amounted to EUR 224.5 mln, down by 10.1% compared to December 2016; net fee and commission income amounted to EUR 227.7 mln and was down by 1.2% Y/Y. Net gains (losses) from disposal/repurchase of financial assets and liabilities[1] provided a total positive contribution of EUR 249.4 mln (EUR 92.2 mln in 2016), mainly due to the positive outcome of the Liability Management Transaction concluded in December 2017. Overall, Net interest and other banking income reached EUR 390.4 mln, which was a decrease of 31.8%.

Net losses on impairment of loans and other financial items totalled EUR 432.5 mln (EUR 449.1 mln as at December 2016).

Operating costs amounted to EUR 592.3 mln and were up by 12.8%, while personnel expenses amounted to EUR 333.3 mln, an increase compared to December 2016 (+ 22.4%), while other administrative expenses amounted to EUR 249.8 mln and were down by 5.4%.

Profit (loss) before tax from continuing operations was therefore a negative EUR 549.2 mln; against EUR 163.2 mln in income tax recovery, a net loss of EUR 386 mln was posted in the period.

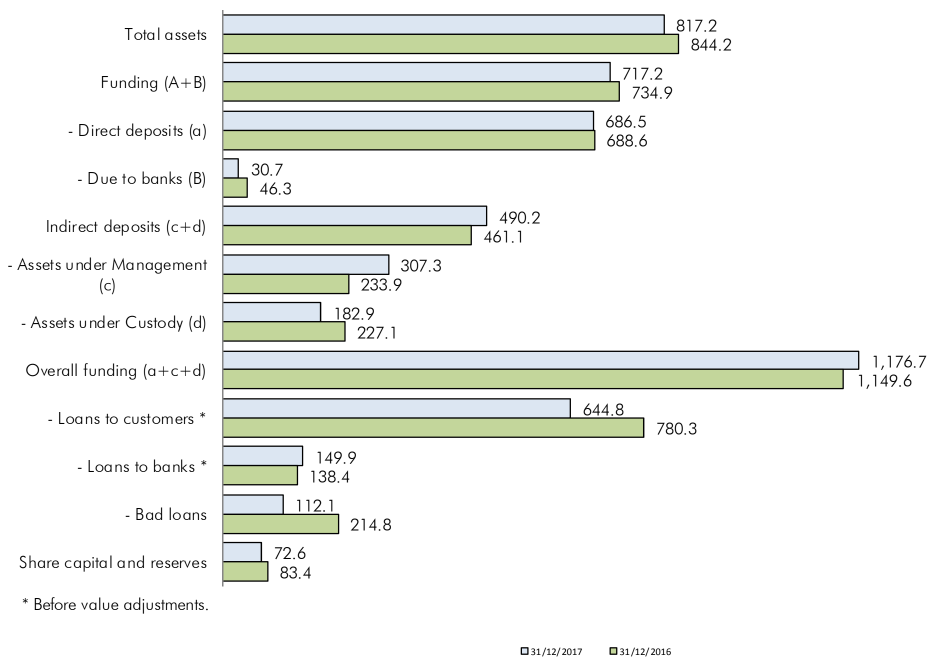
B. Subsidiary banks.

As of 2006, Banca Carige is the Group's sole retail bond issuer, while all other Group banks are in charge of placement. Accordingly, in order to manage maturity transformation more effectively, Carige's Board of Directors resolved to cover the medium/long-term financial demand of subsidiary banks via Carige's subscription to bonds issued by the subsidiaries. For the latter, this process results in a higher amount of assets under custody and bonds issued, with a lower amount of funds borrowed on the interbank lending market.

[1] Items 70, 80, 90, 100 b), d) and 110 of the Profit and Loss Account

As at 31 December 2017, **Banca del Monte di Lucca S.p.A.'s** overall funding totalled EUR 1,176.7 mln and had grown by 2.4% Y/Y. Direct deposits amounted to EUR 686.5 mln, essentially stable compared to December 2016 (-0.3%); indirect deposits amounted to EUR 490.2 mln, up 6.3% from the start of the year due to the positive trend in asset management, despite the decrease in assets under custody.
Loans to customers, before value adjustments, amounted to EUR 711.7 mln and were down compared to December 2016 (-6.8%). Mid-long term loans (EUR 456.3 mln) accounted for 70.8% of the total and were down 6%; short-term loans, totalling EUR 76.5 mln (11.9% of the total), decreased by 4.3%. The securities portfolio amounted to EUR 21.8 mln, as compared to EUR 389 thousand as at December 2016.
The profit and loss account shows a net loss of EUR 12.3 mln, compared to a net loss of 10.8 mln in the previous year. Net interest income amounted to EUR 10 mln and was down by 12.4% compared to December 2016; net fee and commission income showed substantial stability, amounting to EUR 8 mln (+0.2%). Trading activity and the net result of hedging activities were positive for EUR 92 thousand and EUR 93 thousand. Losses from disposal of loans amounted to 10 mln and are connected to the securitisation transaction with the derecognition of a portfolio of bad debts, which took place on 8 August 2017. Overall, Net Interest and other banking income reached EUR 7.8 mln which was a decrease compared to the EUR 19.6 mln of December 2016.
Net losses on impairment of loans and other financial items totalled EUR 6.1 mln (EUR 18.6 mln as at December 2016).
Operating costs amounted to EUR 19.1 mln and went up by 11.9%, with personnel expenses standing at EUR 11.2 mln (+ 8.8%) and were impacted by EUR 1.3 mln provisions to the Solidarity Fund, while other administrative expenses amounted to EUR 9.6 mln (+ 5.8%).
Profit (loss) before tax from continuing operations was therefore a negative EUR 17.3 mln (-EUR 16.1 mln as at December 2016). Against EUR 5 mln in recoveries on income taxes, net profit (loss) was a negative EUR 12.3 mln.

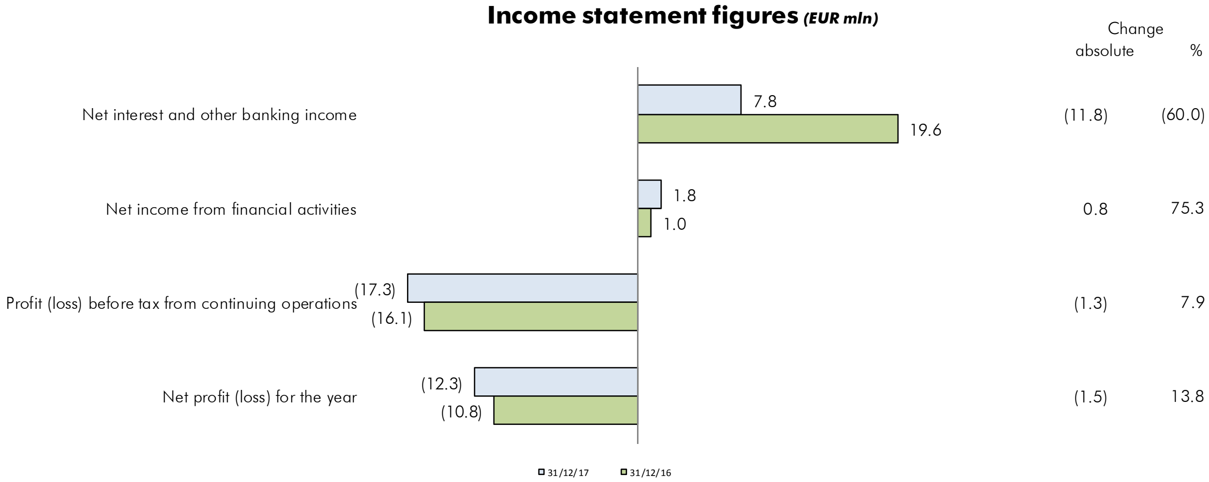
Balance sheet figures ***(EUR mln)***



	31/12/2017	31/12/2016	Change absolute	Change %
Total assets	817.2	844.2	(27.0)	(3.2)
Funding (A+B)	717.2	734.9	(17.7)	(2.4)
- Direct deposits (a)	686.5	688.6	(2.1)	(0.3)
- Due to banks (B)	30.7	46.3	(15.6)	(33.7)
Indirect deposits (c+d)	490.2	461.1	29.2	6.3
- Assets under Management (c)	307.3	233.9	73.4	31.4
- Assets under Custody (d)	182.9	227.1	(44.2)	(19.5)
Overall funding (a+c+d)	1,176.7	1,149.6	27.1	2.4
- Loans to customers *	644.8	780.3	(135.4)	(17.4)
- Loans to banks *	149.9	138.4	11.5	8.3
- Bad loans	112.1	214.8	(102.7)	(47.8)
Share capital and reserves	72.6	83.4	(10.8)	(12.9)

* Before value adjustments.

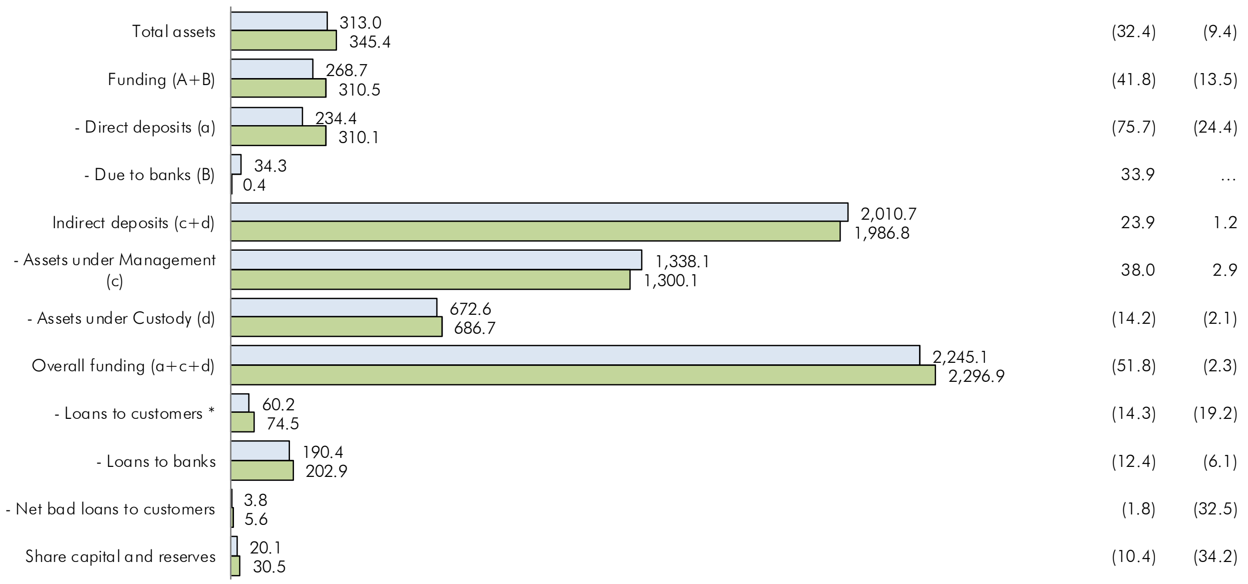
Income statement figures ***(EUR mln)***



	Situation as at		Change	
	31/12/17	31/12/16	absolute	%
RESOURCES **(end of period)**				
Number of branches	20	24	(4.0)	(16.7)
Headcount	148	154	(6.0)	(3.9)

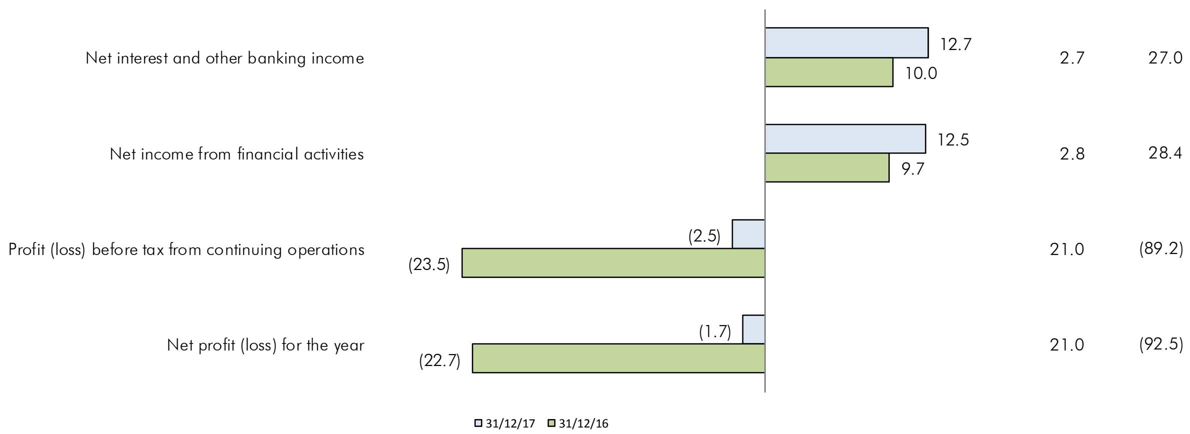
As at 31 December 2017 Banca Cesare Ponti S.p.A.'s overall funding from customers totalled EUR 2,245.1 mln, down from EUR 2,296.9 mln in December 2016, primarily due to the negative trend in direct funding, not sufficiently offset by the growth in indirect deposits.
In particular, direct deposits amounted to EUR 234.4 mln and were down by 24.4%, while indirect deposits amounted to EUR 2,010.7 mln, up 1.2%.
Loans to customers, before value adjustments, amounted to EUR 60.2 mln and were down by 19.2%; medium / long-term loans (EUR 51.1 mln) decreased by 18.2% compared to December 2016, accounting for 84.8% of the total; short-term loans amounted to EUR 5.4 mln, equal to 8.9% of the total (-18%).
The securities portfolio amounts to EUR 34 mln and was down by 1.9% compared to EUR 34.7 mln in December 2016.
The profit and loss account shows a net loss for the year of EUR 1.7 mln compared to a negative net result of EUR 22.7 mln, reported in December 2016, when EUR 19.9 mln worth of impairment losses were taken on goodwill, following the impairment test which revealed the need for a full write-down. Net interest income amounted to EUR 1.6 mln, down compared to EUR 2 mln in December 2016; net fee and commission income amounted to EUR 11.2 mln, an increase compared to EUR 7.5 mln in December 2016. Net interest and other banking income therefore amounted to EUR 12.7 mln (EUR 10 mln in December 2016). Net losses/reversals on impairment of loans and other financial items amounted to EUR 197 thousand compared to EUR 262 thousand in December 2016. Operating costs amounted to EUR 15 mln, an increase of 12.8% as a result of costs arising from private bankers being seconded with the Bank from other banks of the Group and the provision of EUR 0.8 mln to the Solidarity Fund. The profit (loss) from continuing operations before tax amounted to a negative EUR 2.5 mln (as against -EUR 23.5 mln in December 2016); considering EUR 831 thousand in income tax recovery, a net loss for the year of EUR 1.7 mln was posted.

Balance sheet figures ***(EUR mln)***



* Before value adjustments.

Income statement figures ***(EUR mln)***



	Situation as at		Change	
	31/12/17	31/12/16	absolute	%
RESOURCES (end of period)				
Number of branches	7	7	-	-
Headcount	47	51	(4.0)	(7.8)

C. Financial subsidiaries.

Creditis Servizi Finanziari S.p.A. showed a net profit of EUR 16.9 mln for 2017. Net interest income totalled EUR 34.3 mln. Interest income (EUR 38.5 mln) is primarily accounted for by interest on personal loans (EUR 23.8 mln). Interest expense, amounting to EUR 4.2 mln, consists in interest accrued on loans granted by the Parent Company and the senior tranches of ABS securities originating from two securitisations of performing loans. Fee and commission income amounted to EUR 3.7 mln, of which EUR 1.7 mln was in fees and commissions paid by the insurance companies for the distribution of insurance policies. Fee and commission expense amounted to EUR 1.2 mln. Impairment losses on loans totalled EUR 1.7 mln. On the cost side, expenses for personnel seconded by the Parent Company amounted to EUR 2.9

mln. Other administrative expenses, inclusive of depreciation, totalled EUR 6.2 mln. The result was a positive EUR 25.4 mln before tax. Net of EUR 8.5 mln in income taxes, net profit totalled EUR 16.9 mln.

CREDITIS SERVIZI FINANZIARI *(EUR/000)*

	Situation as at		Change	
	31/12/17	31/12/16	Absolute	%
LENDING				
Loans to customers [(1)]	569,451	554,669	14,782	2.7
- Personal loans [(1)]	358,502	341,552	16,950	5.0
- Revolving credit cards [(1)]	15,658	17,290	(1,632)	(9.4)
- Fifth of salary-backed loans [(1)]	195,291	195,827	(536)	(0.3)
Total assets	562,483	567,379	(4,896)	(0.9)
Deposits	494,704	502,483	(7,779)	(1.5)
- Due to Banca Carige for loans	368,828	318,809	50,019	15.7
- Deposits for securitised loans	125,876	183,674	(57,798)	(31.5)
Capital and reserves	43,782	43,040	742	1.7
INCOME STATEMENT				
Net Interest Income	34,346	34,226	120	0.4
Net fee and commission income	2,487	1,869	618	33.1
Administrative expenses	8,601	9,859	(1,258)	(12.8)
Operating income	25,366	22,234	3,132	14.1
Profit (loss) for the year	16,864	14,850	2,014	13.6
RESOURCES				
Headcount [(2)]	53	54	(1)	(1.9)

(1) Before value adjustments.
(2) Parent Company's seconded personnel.
Creditis' contribution to the consolidated financial statements is reported, net of intragroup relations, in the balance sheet and income statement items relating to "Non-current assets held for sale and discontinued operations".

Argo Mortgage 2 Srl, a special purpose vehicle for the securitisation of mortgage loans to consumer customers, established by Banca Carige in June 2004, posted payment collections for an overall amount of EUR 984.8 mln, of which EUR 18.0 mln in 2017. As at 31 December 2017, the following securities were outstanding for a total amount of EUR 63.1 mln: Class A notes for an amount of EUR 7.0 mln, Class B notes for an amount of EUR 26.8 mln and Class C notes for an amount of EUR 29.3 mln.

Carige Covered Bond S.r.l. is the vehicle company which was set up to carry out two medium / long-term funding programmes.
With regard to the programme launched in 2008 ("OBG1"), as at 31 December 2017 the Company had purchased EUR 8.4 bn worth of loans originated by the banks of the Banca Carige Group, whose outstanding debt totals EUR 3.9 bn, and registered collections for an amount of EUR 662.6 mln in 2017. As at the same date, covered bonds issued under the bond issuance programme and not yet re-paid amounted to EUR 3.1 bn. No other issuances were made in 2017.
With reference to the programme launched in 2016, the Company has purchased EUR 519 mln worth of loans originated by the banks of the Banca Carige Group, whose outstanding debt totals EUR 485.7 mln, and registered collections for an amount of EUR 39.2 mln in 2017.
As at the same date, covered bonds issued under the bond issuance programme and not yet re-paid amounted to EUR 370 mln, of which EUR 275 mln issued in 2017.

Carige Covered Bond 2 S.r.l. is the special purpose vehicle set up to carry out a medium to long-term issuance programme for a maximum of EUR 5 bn.
As at 31 December 2017, the Company purchased EUR 1.4 bn worth of loans originated by the banks of the Banca Carige Group, whose outstanding debt totals EUR 0.6 bn, and registered collections for an amount of EUR 147.2 mln in 2017. No other issuances were made in 2017.
Lanterna Finance S.r.l., a special purpose vehicle for the securitisation of commercial mortgage and signature loans, established by Banca Carige in 2015, posted an overall amount of EUR 359.5 mln in collections, of which EUR 145.8 mln in 2017. As at 31 December 2017, the following securities were outstanding for a total amount of EUR 395.8 mln: Class A securities for an amount of EUR 64.0 mln and Class B securities for EUR 331.8 mln. Class A securities are used by the Parent Company for medium and long-term refinancing transactions with the European Central Bank.
Lanterna Lease S.r.l., a special purpose vehicle established in 2016 for the securitisation of receivables arising from financial lease agreements originated by Banca Carige, posted an overall amount of EUR 73.7 mln in collections, of which EUR 42.9 mln in 2017. As at 31 December 2017, the following securities were outstanding for a total amount of EUR 206.8 mln: Class A securities for an amount of EUR 49.8 mln and Class B securities for an amount of EUR 157.0 mln.

Lanterna Consumer S.r.l., a special purpose vehicle established in 2016 and further developed in 2017 for the securitisation of receivables originated by the subsidiary Creditis Servizi Finanziari S.p.A. arising from personal loans and salary/pension-backed loans, posted an overall amount of EUR 323.1 mln in collections, of which EUR 188.2 mln in 2017. As at 31 December 2017, the following securities were outstanding for a total amount of EUR 307.1 mln: Class A securities for an amount of EUR 188.4 mln and Class B securities for an amount of EUR 118.7 mln.

D. <u>Other main subsidiaries.</u>

The Group's trust, Centro Fiduciario C.F. S.p.A., closed 2017 with a net profit for the year of EUR 66 thousand, against a profit of EUR 10 thousand in 2016. The positive result was achieved as a consequence of the revision of provisions for risks and charges from failure to report suspicious money-laundering transactions, following the entry into force of Italian Legislative Decree no. 90/2017, which redefined the sanctioning framework in this area, providing inter alia for the shortening of the deadlines for completion of the sanctioning proceedings and a significant mitigation of the sanctions applicable also to periods prior to the date of entry into force of the decree.

Without said reversal of provisions amounting to approximately EUR 245 thousand, the operating income would have been a negative EUR 180 thousand, with the main driver consisting in the reduction in revenues, considering that the value of production in 2017 amounted to EUR 594 thousand, down by EUR 115 thousand compared to 2016 (-16%), despite a significant containment of costs (-7.1%).

Carige REOCO S.p.A. is the new company of the Banca Carige Group set up on 20 July 2017 with the primary purpose of acquiring, enhancing and maximising the economic recovery of real estate projects financed by the Bank that are experiencing economic difficulties; 2017 was therefore the first year of the company that is still in a start-up phase of its business. In light of this, the profit and loss account closes with a loss of EUR 109 thousand, which essentially derives from production costs of about EUR 143 thousand, in respect of which revenues have not yet been obtained. The above costs are essentially represented by service costs of approximately EUR 140 thousand, relating almost entirely to the remuneration of Directors, Statutory Auditors and seconded personnel, with reference to the period of accrual. The result of the profit and loss account benefits from the registration of EUR 34 thousand worth of deferred IRES tax assets; this recognition is possible in view of the results targeted in the company's Strategic Plan, which forecast a net profit during the company’s third year of activities.

SOCIAL AND CULTURAL PROMOTION ACTIVITIES

Promotional activities focused on the consolidation of the Carige brand at a local and national level.
In this regard, during the last quarter of 2017 the Bank, in particular, promoted a round of nine meetings in Liguria, under the heading "let's talk about Carige", aimed at raising public awareness with regard to strategies in place and the Group's development and transformation plan.
Corporate advertising was carried out above all with the campaign to support the capital increase of Banca Carige dedicated to informing the public about the Group's evolution and the underwriting conditions. At the end of the year, the Christmas greeting campaign was also promoted, as usual, aimed at consolidating the image in areas where the Group is traditionally present.
In cultural terms, on the weekends of April 1 and October 14, the Banca Carige Group joined the "Rolli Days" as main sponsor. The popular event, which attracts over one hundred thousand visitors per edition, is promoted by the Municipality of Genoa to promote the history and tradition of the city in the 1600s, the period of its greatest splendour. On this occasion numerous historic Unesco World Heritage Palaces (the ‘Rolli’) are opened to display their artistic treasures. Banca Carige has also opened its art collections to the public, receiving over five thousand visits in four days.
The promotion of culture was also reflected in the participation in the traditional ‘Rapallo Carige’ national literary prize for women writers, marking its 33rd consecutive edition. In the realm of literature, Banca Carige also organised, together with Fondazione Cassa di Risparmio di Carrara, the tenth edition of the "Con.Vivere" event, dedicated to the theme of interpersonal and social relations and of physical and virtual networks. The event hosted meetings with journalists, politicians, intellectuals, artists and singers, workshops, exhibitions and concerts.
The Banca del Monte di Lucca promoted, among other initiatives, together with Banca Cesare Ponti, the event dedicated to Market Scenarios "Investing in 2017 between opportunities and uncertainties" with the participation of the Deputy General Manager of Arca Fondi SGR, a lecture by Sebastiano Barisoni, on "Fake news or free information? Economic journalism between conspiracy and transparency” and the conference on "Art bonuses, tax benefits for assets of artistic and cultural interest ", were events that witnessed the participation of a large audience. Confirmed also in 2017 was the Christmas appointment with the concert "Prince - Purple Rain" at the Giglio Municipal Theater in Lucca. The concert offered the opportunity to retrace a journey into the world of an artist, Prince, who significantly influenced the music world's evolution.
Banca Carige, as a patron of Italian culture, also supported the Fondazione Teatro Carlo Felice in 2017.
Traditionally present in sport, Gruppo Carige continued to sponsor the Sampdoria and Genoa football club (C.F.C.), as well as volleyball, basketball, water polo, tennis and football teams, in order to encourage young people's participation in sport and also to support small sporting organisations in the local communities in which the Group is present.

The promotion of social activities translated into the support to many voluntary associations engaged in solidarity projects and to the several initiatives they carry out at a national level. Of particular importance is the commitment of the Banca Carige Group to Gaslini Onlus, a body that supports the projects of the Istituto Giannina Gaslini. The sum allocated by the Group to Christmas gifts for 2017 was donated to this institution.

Moreover, financial support was given again to Assegno Amico, a not-for-profit organisation designed to financially support the families of children hospitalised at the Istituto Giannina Gaslini, who experience economic distress and social exclusion as a consequence of their child's disease.

The Banca Carige Group's attention for young people also took the form of regular educational training sessions on money saving for schools. Ongoing collaboration with the University of Genoa and a number of other universities from all over Italy fits within this context. The most significant event addressing youth, the *Festival della Cultura Creativa*, was promoted by the Banca Carige Group under an Italian-wide project supported by the Italian Banking Association (ABI) involving around 400 students from primary and secondary schools in the province of Genoa.

Worthy of note was the collaboration for meetings and conferences organised by Professional and Trade Associations in the various regions of Italy in which the Banca Carige Group operates.

Thanks to its partnership with organisations and consortia, the Group similarly maintained a significant institutional presence in tourism, qualifying as the financial partner of choice for tourism operators.

Also, in 2017 the Bank maintained its commitment to the publishing industry, by promoting the culture and information magazine, "La Casana", with the goal of championing culture and the artistic heritage of the areas where the Group operates. In collaboration with the University of Genoa, Banca Carige also published the scientific magazine "Economia e Diritto del Terziario" (Law and Economics of the Service sector).

Finally, great appreciation was shown for "Vetrine d'artista", an exhibition (in collaboration with the "Renzo Aiolfi" association) of works by the most important 20th century painters from Savona and emerging artists, which are on display in the windows of the Banca Carige Head Office of the local Market Area of Western Liguria, at Corso Italia, in Savona.

With regard to the enhancement of cultural heritage, Carige took part in the annual event "Invito a Palazzo", promoted by the Italian Banking Association and celebrating its 15th year, which allows art lovers and tourists to admire works of art in the Bank's art collection, which are usually not accessible to the public. On this occasion, Banca Carige's headquarters hosted the photography exhibition "Ritorno a Genova" in collaboration with Fratelli Alinari, which displayed an album of the late 19th century whose images document the development of the city during the second half of the nineteenth century. 2017 also saw the opening of the seventeenth-century Palazzo del Monte di Pietà in Palermo, which now hosts Banca Carige's Head Office in Sicily, with a photographic exhibition on the historic city centre of Palermo and of the Savona's Head Office in the Western Liguria Market area that hosted the exhibition "The poetry of Eso Peluzzi" displaying several paintings by the famous painter from Savona that today enrich Banca Carige's art collections.

MAIN RISKS AND UNCERTAINTIES[2] AND OUTLOOK ON OPERATIONS

Business operations in 2017 unfolded within a macroeconomic framework characterised by the strengthening of the growth trend observed already in the first months of the year, driven by the expansive policies implemented in the world's key geographies and the conditions of the financial markets which remain favourable. Nonetheless, from a political point of view, there are some uncertainties, due in particular to relations between North Korea and the United States and to the renewed tensions in Israeli-Palestinian relations.

[2] The methods used by the Group to manage risks are reported in Part E of the Notes to the Financial Statements.

The financial scenario of reference continues to be affected by low interest rates and a still critical, albeit decreasing, credit risk in relation to the stabilisation of the economy and continued reduction of gross non-performing loans, through active NPL management by the intermediaries as well as important sale transactions which took place during the year.
The recovery of the Italian economy continued steadily and relatively sustainably (GDP is estimated to increase by 1.6% for 2017), but has nevertheless remained lower than that of the other major European countries. Contributing to this strengthening were domestic demand, stimulated in particular by investments in capital goods as well as the recovery of exports, in a context of improving employment markets.

The Group manages the risks typical of the banking business, including liquidity, market, credit and compliance risk, by using regulatory models and more advanced methods that have over time, made it possible to expand the range of risks monitored and improve the assessment of capital adequacy from both a regulatory and an economic point of view.

The main risks and uncertainties derive from the critical nature of the macroeconomic environment, which although improving, is still characterised by weak growth, especially in Italy, not allowing for a decisive expansion of funding/lending volumes and conditioning the quality of credit granted.
The geopolitical tensions flaring up in the international scene have exacerbated and secessionist movements in some parts of Europe are mounting, intensifying fears of other countries leaving the Euro zone and leading to the breakup of the monetary union or even the dissolution of the European architecture as a whole.
The continuously evolving regulatory framework may also be an element of uncertainty with specific regard to liquidity and capital profiles and the IRRBB rate (with impacts caused by the adoption of IFRS 9, a new definition of default, more stringent rules on exposures with sovereign states, the EU-wide process of transposition of the new Stable Funding and Leverage Ratio regulatory frameworks, changes in the calculation of the capital requirement on credit risk) and, more in general, the entire supervisory mechanism (Banking Union, Single Supervisory Mechanism (SSM), the introduction of the Bank Recovery and Resolution Directive (BRRD), the introduction of the bail-in mechanism as a tool for the resolution of failing banks); chief among the uncertainties connected with the SSM are the findings that may emerge as a result of the ongoing on-site and remote inspections conducted by the ECB on the Bank's operations.
In addition to these challenges come specific issues that are inherent in the lending sector, such as the reduced Net Interest Income in a scenario of low interest rates and low funding/lending volumes, difficulties in compressing operating expenses further, the need to perform large write-downs on the NPL portfolio and proceed towards a rapid disposal of non-performing assets.
A further element of risk is the considerable NPL share of total assets and related uncertainties as to how these risks must be managed, in consideration, among other aspects, of the constraints imposed by the regulator.
Group operations will be carried out in compliance with the economic, financial and capital objectives outlined in the new 2017-2020 Business Plan (the guidelines of which are reported in the above section "Strategy and Business Performance"), approved by the Board of Directors of Banca Carige on 13 September 2017, which includes the new strategic guidelines for managing Non-Performing Exposures (NPEs) and the capital strengthening actions designed to complete the Group's de-risking process.

During the last quarter of the year, the Bank, as envisaged in the 2017-2020 Business Plan, carried out capital increase transactions and optimisation of liabilities, as well as the sale of the Milan property. Processes related to the further sale of assets, such as the sale of the Creditis consumer credit company, the NPL management platform and the transfer of the merchant business book division were also initiated and, in some cases, almost completed.
The successful completion of the above transactions, which made it possible to restore capital ratios to the levels required by the ECB for the year 2017 with the Supervisory Review and Evaluation Process (SREP) Decision of December 2016, represented the basis for the Directors' assessment on the going concern assumption.
In addition, during the course of 2017, the securitisation of a portfolio of bad loans with a gross value of approximately EUR 940 mln backed by the Italian Government Guarantee Scheme (GACS) was carried

out as was the sale of a portfolio of bad loans with a gross value of approx. EUR 1,200 mln, both contributing to the improvement of asset quality.
With reference to the interventions on operating costs, in 2017 the agreement with the trade unions was reached for making use of the "Solidarity Fund", which represents a fundamental action for the Bank's structural efficiency.

With regard to the requirements of IAS 1 and guidance provided in Document no. 2 of 6 February 2009, jointly issued by the Bank of Italy, Consob and ISVAP as subsequently updated, the Board of Directors attentively assessed the going concern assumption.
Following this assessment, and taking into account the higher capital ratios required for the financial year 2018 by prudential regulations, the Group has reasonable expectations to continue its operating existence in the foreseeable future, mainly based on the:

- implementation of the actions included in the 2017-2020 Business Plan, some of which have already been completed (in particular, the Capital Increase and the Liability Management Exercise), approved by the Board of Directors on 13 September 2017;
- completion of the aforementioned asset disposals set out in the Plan;
- issuance of a subordinated bond, included in the Group's funding plan approved by the Board of Directors on 9 February 2018, for an amount of EUR 350 mln and for which the necessary operational activities have commenced.

The implementation of the aforementioned actions reveals that the Group also has the has the forward-looking ability to comply with the prudential Own Funds and Liquidity requirements imposed by the ECB within the SREP scope, being able to absorb the impacts deriving from the achievement of the objectives identified in terms of reduction of non-performing loans and minimum NPL coverage levels required.

Despite the uncertainties associated with the current conditions, the Financial Statements were thus prepared based on the going concern.

The Board of Directors

The Chairman

The Manager in charge of preparing the corporate accounting documents

The Chief Executive Officer

CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

	31/12/2017	31/12/2016
10. Cash and cash equivalents	296,581	297,412
20. Financial assets held for trading	2,453	7,683
40. Financial assets available for sale	2,052,898	2,319,613
60. Loans to banks	2,934,607	1,958,763
70. Loans to customers	15,753,934	18,246,327
80. Hedging derivatives	29,581	39,233
100. Equity investments	98,569	94,235
120. Property and equipment	738,442	761,274
130. Intangible assets	35,005	56,654
140. Tax assets	1,950,510	2,063,984
a) current	794,737	985,651
b) deferred	1,155,773	1,078,333
of which under Law no. 214/2011	527,486	617,758
150. Non-current assets and disposal groups held for sale	608,077	-
160. Other assets	419,047	265,826
Total assets	24,919,704	26,111,004

(EUR/000)

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	31/12/2017	31/12/2016
10. Due to banks	4,656,624	3,468,322
20. Due to customers	12,624,541	13,710,208
30. Securities issued	3,885,829	5,443,294
40. Financial liabilities held for trading	850	2,064
50. Financial liabilities designated at fair value through profit or loss	348,459	459,198
60. Hedging derivatives	224,971	259,037
80. Tax liabilities	16,537	20,464
a) current	3,557	5,918
b) deferred	12,980	14,546
90. Liabilities associated with groups of assets held for sale	193,808	-
100. Other liabilities	474,579	438,198
110. Employee termination indemnities	59,417	65,769
120. Allowances for risks and charges:	165,240	106,171
a) post-employment benefits	34,410	37,179
b) other allowances	130,830	68,992
140. Valuation reserves	(140,633)	(158,100)
170. Reserves	(684,857)	(392,732)
180. Share premium reserve	628,364	175,954
190. Share capital	2,845,857	2,791,422
200. Treasury shares	(15,572)	(15,572)
210. Non-controlling interests (+/-)	24,125	29,044
220. Net profit (loss) for the year (+/-)	(388,435)	(291,737)
Total liabilities and shareholders' equity	24,919,704	26,111,004

(EUR/000)

CONSOLIDATED INCOME STATEMENT

	31/12/2017	31/12/2016 (*)
10. Interest and similar income	464,312	538,844
20. Interest and similar expense	(230,699)	(279,848)
30. Net Interest Income	233,613	258,996
40. Fee and commission income	270,850	274,220
50. Fee and commission expense	(31,631)	(34,898)
60. Net fee and commission income	239,219	239,322
70. Dividends and similar income	10,661	14,077
80. Net profit (loss) from trading	4,151	18,459
90. Net profit (loss) from hedging	(430)	(2,384)
100. Profits (losses) on disposal or repurchase of:	(104,309)	48,810
a) loans	(321,469)	(3)
b) financial assets available for sale	(7,982)	40,302
d) financial liabilities	225,142	8,511
110. Profits (losses) on financial assets/liabilities designated at fair value	(1,573)	(3,993)
120. Net interest and other banking income	381,332	573,287
130. Net losses/recoveries on impairment of:	(438,724)	(467,917)
a) loans	(427,501)	(469,797)
b) financial assets available for sale	(15,375)	(7,563)
d) other financial activities	4,152	9,443
140. Net income from banking activities	(57,392)	105,370
170. Net income from banking and insurance activities	(57,392)	105,370
180. Administrative expenses	(622,511)	(572,155)
a) personnel expenses	(358,743)	(295,757)
b) other administrative expenses	(263,768)	(276,398)
190. Net provisions for risks and charges	(24,224)	(20,745)
200. Net adjustments to/recoveries on property and equipment	(14,661)	(26,468)
210. Net adjustments to/recoveries on intangible assets	(36,692)	(24,105)
220. Other operating income/expense	71,514	87,919
230. Operating expenses	(626,574)	(555,554)
240. Profits (losses) on equity investments	9,982	6,596
260. Impairment on goodwill	-	(19,942)
270. Profits (losses) on disposal of investments	85,266	(149)
280. Profit (loss) before tax from continuing operations	(588,718)	(463,679)
290. Taxes on income from continuing operations	169,284	142,221
300. Profit (loss) after tax from continuing operations	(419,434)	(321,458)
310. Profit (loss) after tax from discontinued operations	26,070	25,390
320. Net profit (loss) for the year	(393,364)	(296,068)
330. Non-controlling interests	(4,929)	(4,331)
340. Net profit (loss) for the year attributable to the Parent Company	(388,435)	(291,737)

Earnings Per Share (in EUR)		
- Basic	-0.072	-0.352
- Diluted	-0.072	-0.352

(EUR/000)

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

		2017	2016 (*)
10	PROFIT (LOSS) FOR THE YEAR	(393,364)	(296,068)
	Other comprehensive income after tax not reversed in profit or loss		
40	Actuarial profits (loss) on defined benefit plans	(47)	(2,530)
60	Share of valuation reserves of equity investments valued at equity	89	62
	Other comprehensive income after tax reversed in profit or loss		
90	Cash flow hedges	16,754	18,604
100	Financial assets available for sale	681	(20,904)
110	Non-current assets classified as held for sale	-	62
130	Total other comprehensive income after tax	(17,477)	(4,706)
140	COMPREHENSIVE INCOME (Item 10+130)	(375,887)	(300,774)
150	Consolidated comprehensive income attributable to non-controlling interests	(4,919)	(4,373)
160	Consolidated comprehensive income attributable to the Parent Company	(370,968)	(296,401)

(EUR/000)

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

	Amounts as at 31/12/2016	Change in opening balances	Amounts as at 01/01/2017	Allocation of profit (loss) from prior period		Changes in the year									Group shareholders' equity as at 31/12/2017	Non-controlling interests as at 31/12/2017
							Transactions on shareholders' equity									
				Reserves	Dividends and other payout	Changes in reserves	Issuance of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the year		
Share capital:	2,819,814	-	2,819,814	-	-	-	54,435	-	-	-	-	-	-	-	2,845,857	28,392
a) ordinary shares	2,819,728	-	2,819,728	-	-	-	54,520	-	-	-	-	-	-	-	2,845,856	28,392
b) other shares	86	-	86	-	-	-	(85)	-	-	-	-	-	-	-	1	-
Share premium reserve	182,127		182,127	(4,326)	-	-	452,410	-	-	-	-	-	-	-	628,364	1,847
Reserves:	(393,786)	-	(393,786)	(291,742)	-	(388)		-		-		-	-	-	(684,857)	(1,059)
a) from profits	(445,058)	-	(445,058)	(291,742)	-	(388)	-	-	-	-		-	-	-	(736,129)	(1,059)
b) other	51,272		51,272	-	-	-	-	-	-	-	-	-	-	-	51,272	-
Valuation reserves	(158,236)	-	(158,236)	-	-	-	-	-				-	-	17,477	(140,633)	(126)
Equity instruments	-	-	-	-	-	-	-	-	-	-		-	-	-	-	-
Treasury shares	(15,572)	-	(15,572)	-	-	-	-	-	-	-	-	-	-	-	(15,572)	-
Profit (loss) for the year	(296,068)	-	(296,068)	296,068	-	-	-	-	-	-	-	-	-	(393,364)	(388,435)	(4,929)
Group shareholders' equity	2,109,235	-	2,109,235	-	-	(388)	506,845	-		-	-	-	-	(370,968)	2,244,724	X
Non-controlling interests	29,044	-	29,044	-	-	-	-	-	-	-	-	-	-	(4,919)	X	24,125

(EUR/000)

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

	Amounts as at 31/12/2015	Change in opening balances	Amounts as at 01/01/2016	Allocation of profit (loss) from prior year		Changes in the year									Group shareholders' equity as at 31/12/2016	Non-controlling interests as at 31/12/2016
							Transactions on shareholders' equity									
				Reserves	Dividends and other payout	Changes in reserves	Issuance of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Comprehensive income for the year		
Share capital:	2,819,796	-	2,819,796	-	-	-	18	-	-	-	-	-	-	-	2,791,422	28,392
a) ordinary shares	2,819,710	-	2,819,710	-	-	-	18	-	-	-	-	-	-	-	2,791,336	28,392
b) other shares	86	-	86	-	-	-	-	-	-	-	-	-	-	-	86	-
Share premium reserve	820,640		820,640	(2,518)	-	(635,995)	-	-	-	-	-	-	-	-	175,954	6,173
Reserves:	(857,548)	-	(857,548)	(127,623)	-	591,385		-		-		-	-	-	(392,732)	(1,054)
a) from profits	(908,973)	-	(908,973)	(127,470)	-	591,385	-	-	-	-		-	-	-	(444,004)	(1,054)
b) other	51,425		51,425	(153)	-	-	-	-	-	-	-	-	-	-	51,272	-
Valuation reserves	(198,111)	-	(198,111)	-	-	44,581	-	-				-	-	(4,706)	(158,100)	(136)
Equity instruments	-	-	-	-	-	-	-	-	-	-		-	-	-	-	-
Treasury shares	(15,572)	-	(15,572)	-	-	-	-	-	-	-	-	-	-	-	(15,572)	-
Profit (loss) for the year	(130,141)	-	(130,141)	130,141	-	-	-	-	-	-	-	-	-	(296,068)	(291,737)	(4,331)
Group shareholders' equity	2,405,666	-	2,405,666	-	-	(30)	-	-		-	-	-	-	(296,401)	2,109,235	X
Non-controlling interests	33,398	-	33,398	-	-	1	18	-	-	-	-	-	-	(4,373)	X	29,044

(EUR/000)

DIRECT METHOD

	Amount	
A. OPERATIONS	31/12/2017	31/12/2016 (*)
1. Cash flow from (used in) operations	(57,871)	22,219
- interest income received (+)	444,207	527,360
- interest expense paid (-)	(270,479)	(301,076)
- dividends and similar income (+)	10,661	14,077
- net fees and commissions (+/-)	244,146	244,157
- personnel costs (-)	(298,401)	(301,415)
- net insurance premiums collected	-	-
- other insurance revenues and expenses (-)	-	-
- other costs (-)	(293,308)	(301,828)
- other income (+)	126,418	150,247
- tax and duties (-)	(46,924)	(34,417)
- costs/revenues from groups of assets held for sale after tax (+/-)	25,809	25,114
2. Cash flow from (used in) financial assets	531,067	3,748,444
- financial assets held for trading	5,762	7,879
- financial assets designated at fair value	-	-
- financial assets available for sale	246,086	1,486,624
- loans to customers	1,305,468	2,708,551
- loans to banks: on demand	90,478	46,937
- loans to banks: other	(1,217,250)	(700,809)
- other assets	100,523	199,262
3. Cash flow from (used in) financial liabilities	(951,966)	(3,775,596)
- due to banks: on demand	126,945	(47,472)
- due to banks: other	897,931	649,280
- due to customers	(1,084,565)	(1,821,439)
- securities issued	(975,788)	(1,899,780)
- financial liabilities held for trading	(7,603)	3,135
- financial liabilities designated at fair value	(110,003)	(101,221)
- other liabilities	201,117	(558,099)
Net cash flow from (used in) operations	(478,770)	(4,933)
B. INVESTMENT ACTIVITIES		
1. Cash flow from	16,400	5,569
- sale of equity investments	-	-
- dividends collected on equity investments	5,361	4,959
- sale/reimbursement of financial assets held to maturity	-	-
- sale of property and equipment	11,039	610
- sale of intangible assets	-	-
- sale of subsidiaries and business branches	-	-
2. Cash flow used in	(31,066)	(27,637)
- purchase of equity investments	-	-
- purchase of financial assets held to maturity	-	-
- purchase of property and equipment	(14,415)	(4,487)
- purchase on intangible assets	(16,651)	(23,149)
- purchase of subsidiaries and business branches	-	(1)
Net cash flow from (used in) investment activities	(14,666)	(22,068)
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	492,608	18
- issue/purchase of equity instruments	-	-
- dividend distribution and other purposes	-	-
Net cash flow from (used in) funding activities	492,608	18
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(828)	(26,983)

KEY: (+) from; (-) used in
EUR/000

RECONCILIATION

Items	Amount	
	31/12/2017	31/12/2016
Cash and cash equivalents at the beginning of the year	297,412	324,395
Net increase (decrease) in cash and cash equivalents during the year	(828)	(26,983)
Cash and cash equivalents: effect of changes in exchange rates		
Cash and cash equivalents at the end of the year	296,584	297,412

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

It should be noted that the total cash and cash equivalents at the end of the financial year include the amount of EUR 3 thousand referring to the company held for sale.

CONSOLIDATED EXPLANATORY NOTES

Restatement of prior period balances in compliance with the provisions of IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations)

Restatement of balances of the prior balances in compliance with the provisions of IFRS 5 (International Financial Reporting Standard, non-current assets held for sale and discontinued operations)

This chapter provides a detailed description of the restatement of the income statement, the statement of comprehensive income and the cash flow statement for the year ended 31 December 2016, made following the classification between the groups of assets held for sale by Creditis Servizi Finanziari S.p.A.

CONSOLIDATED INCOME STATEMENT

		31/12/2016	Application of IFRS 5	31/12/2016 RESTATED
10 -	INTEREST AND SIMILAR INCOME	580,521	(41,677)	538,844
20 -	INTEREST AND SIMILAR EXPENSE	(281,006)	1,158	(279,848)
30 -	**NET INTEREST INCOME**	**299,515**	**(40,519)**	**258,996**
40 -	FEE AND COMMISSION INCOME	276,730	(2,510)	274,220
50 -	FEE AND COMMISSION EXPENSE	(35,675)	777	(34,898)
60 -	**NET FEE AND COMMISSION INCOME**	**241,055**	**(1,733)**	**239,322**
70 -	DIVIDENDS AND SIMILAR INCOME	14,077	-	14,077
80 -	NET PROFIT (LOSS) FROM TRADING	18,459	-	18,459
90 -	NET PROFIT (LOSS) FROM HEDGING	(2,384)	-	(2,384)
100 -	PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	48,810	-	48,810
	a) loans	*(3)*	-	*(3)*
	b) financial assets available for sale	*40,302*	-	*40,302*
	d) financial liabilities	*8,511*	-	*8,511*
110 -	PROFITS (LOSSES) ON FINACIAL ASSETS/LIABILITIES DESIGNATED AT FAIR VALUE	(3,993)	-	(3,993)
120 -	**NET INTEREST AND OTHER BANKING INCOME**	**615,539**	**(42,252)**	**573,287**
130 -	NET LOSSES/RECOVERIES ON IMPAIRMENT OF:	(471,136)	3,219	(467,917)
	a) loans	*(473,016)*	3,219	*(469,797)*
	b) financial assets available for sale	*(7,563)*	-	*(7,563)*
	d) other financial activities	*9,443*	-	*9,443*
140 -	**NET INCOME FROM BANKING ACTIVITIES**	**144,403**	**(39,033)**	**105,370**
170 -	**NET INCOME FROM BANKING AND INSURANCE ACTIVITIES**	**144,403**	**(39,033)**	**105,370**
180 -	ADMINISTRATIVE EXPENSES:	(578,180)	6,025	(572,155)
	a) personnel expenses	*(296,072)*	*315*	*(295,757)*
	b) other administrative expenses	*(282,108)*	*5,710*	*(276,398)*
190 -	NET PROVISIONS FOR RISKS AND CHARGES	(21,176)	431	(20,745)
200 -	NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT	(26,501)	33	(26,468)
210 -	NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS	(24,617)	512	(24,105)
220 -	OTHER OPERATING INCOME/EXPENSE	88,661	(742)	87,919
230 -	**OPERATING EXPENSES**	**(561,813)**	**6,259**	**(555,554)**
240 -	PROFITS (LOSSES) ON EQUITY INVESTMENTS	6,596	-	6,596
260 -	IMPAIRMENT ON GOODWILL	(19,942)	-	(19,942)
270 -	PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS	(149)	-	(149)
280 -	**PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS**	**(430,905)**	**(32,774)**	**(463,679)**
290 -	TAXES ON INCOME FROM CONTINUING OPERATIONS	134,837	7,384	142,221
300 -	**PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS**	**(296,068)**	**(25,390)**	**(321,458)**
310 -	PROFIT (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS	-	25,390	25,390
320 -	**NET PROFIT (LOSS) FOR THE YEAR**	**(296,068)**	**-**	**(296,068)**
330 -	NON-CONTROLLING INTERESTS	(4,331)	-	(4,331)
340 -	**NET PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO THE PARENT COMPANY**	**(291,737)**	**-**	**(291,737)**

(EUR/000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		31/12/2016	Application of IFRS 5	31/12/2016 RESTATED
10	**PROFIT (LOSS) FOR THE YEAR**	**(296,068)**	**-**	**(296,068)**
	Other comprehensive income after tax not reversed in profit or loss			
40	Actuarial profits (losses) on defined benefit plans	(2,530)	-	(2,530)
60	Share of valuation reserves of equity investments valued at equity	62	-	62
	Other comprehensive income after tax reversed in profit or loss			
90	Cash flow hedges	18,604	-	18,604
100	Financial assets available for sale	(20,842)	(62)	(20,904)
110	Non-current assets classified as held for sale	-	62	62
130	**Total other comprehensive income after tax**	**(4,706)**	**-**	**(4,706)**
140	**COMPREHENSIVE INCOME (Item 10+130)**	**(300,774)**	**-**	**(300,774)**
150	Consolidated comprehensive income attributable to non-controlling interests	(4,373)	-	(4,373)
160	**Consolidated comprehensive income attributable to the Parent Company**	**(296,401)**	**-**	**(296,401)**

(EUR/000)

CONSOLIDATED STATEMENT OF CASH FLOWS

A. OPERATIONS	31/12/2016	Application of IFRS5	31/12/2016 RESTATED
1. Cash flow from (used in) operations	**22,219**	**-**	**22,219**
- interest income received (+)	565,043	(37,683)	527,360
- interest expense paid (-)	(302,235)	1,159	(301,076)
- dividend and similar income (+)	14,077	-	14,077
- net fees and commissions (+/-)	246,314	(2,157)	244,157
- personnel costs (-)	(300,081)	(1,334)	(301,415)
- net insurance premiums collected	-	-	-
- other insurance revenues and expenses (-)	-	-	-
- other costs (-)	(309,917)	8,089	(301,828)
- other income (+)	150,392	(145)	150,247
- tax and duties (-)	(41,374)	6,957	(34,417)
- costs/revenues from groups of assets held for sale after tax (+/-)		25,114	25,114
2. Cash flow from (used in) financial assets	**3,748,444**	**-**	**3,748,444**
- financial assets held for trading	7,879	-	7,879
- financial assets designated at fair value	-	-	-
- financial assets available for sale	1,486,624	-	1,486,624
- loans to customers	2,708,551	-	2,708,551
- loans to banks: on demand	46,937	-	46,937
- loans to banks: other	(700,809)	-	(700,809)
- other assets	199,262	-	199,262
3. Cash flow from (used in) financial liabilities	**(3,775,596)**	**-**	**(3,775,596)**
- due to banks: on demand	(47,472)	-	(47,472)
- due to banks: other	649,280	-	649,280
- due to customers	(1,821,439)	-	(1,821,439)
- securities issued	(1,899,780)	-	(1,899,780)
- financial liabilities held for trading	3,135	-	3,135
- financial liabilities designated at fair value	(101,221)	-	(101,221)
- other liabilities	(558,099)	-	(558,099)
Net cash flow from (used in) operations	**(4,933)**	**-**	**(4,933)**
B. INVESTMENT ACTIVITIES		-	
1. Cash flow from	**5,569**	**-**	**5,569**
- sale of equity investments	-	-	-
- dividends collected on equity investments	4,959	-	4,959
- sale/reimbursement of financial assets held to maturity	-	-	-
- sale of property and equipment	610	-	610
- sale of intangible assets	-	-	-
- sale of subsidiaries and business branches	-	-	-
2. Cash flow used in	**(27,637)**	**-**	**(27,637)**
- purchase of equity investments	-	-	-
- purchase of financial assets held to maturity	-	-	-
- purchase of property and equipment	(4,487)	-	(4,487)
- purchase on intangible assets	(23,149)	-	(23,149)
- purchase of subsidiaries and business branches	(1)	-	(1)
Net cash flow from (used in) investment activities	**(22,068)**	**-**	**(22,068)**
C. FUNDING ACTIVITIES		-	
- issue/purchase of treasury shares	18	-	18
- issue/purchase of equity instruments	-	-	-
- distribution of dividends and other purposes	-	-	-
Net cash flow from (used in) funding activities	**18**	**-**	**18**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**(26,983)**	**-**	**(26,983)**

KEY: (+) from; (-) used in

EUR/000

Part A

ACCOUNTING POLICIES

A.1 – INTRODUCTION

SECTION 1
Statement of compliance with international accounting standards

The Consolidated Financial Statements of the Banca Carige Group, approved by the Board of Directors during its meeting of 6 March 2018, were prepared in accordance with the International Accounting Principles IAS/IFRSs and related interpretations (SIC/IFRIC) as issued by the International Accounting Standards Board (IASB), endorsed by the European Commission and effective as at the close of these Financial Statements. Please refer to the Annexes section of the Financial Statements for a list of the international accounting principles and related interpretations (SIC/IFRIC) endorsed and effective for the Financial Statements as at 31 December 2017.

In 2017, the review and integration of international accounting standards, interpretations or amendments continued, which partially apply to the financial statements for the year ended 31 December 2017.
In particular, the main items of information deriving from changes to the international accounting standards (IAS/IFRS) and which are applicable as of these Financial Statements, although with no significant impact on the accounts, include:
- Amendments to IAS 7 – "Disclosure Initiative": Regulation (EU) 1990/2017 of 06/11/2017).
- Amendments to IAS 12 – "Income Taxes": Regulation (EU) 1989/2017 of 06/11/2017).

It is also noted that, since the beginning of financial year 2017, the International Accounting Standards Board (IASB) has published the following documents:
- IFRIC 23: "Uncertainty over Income Tax Treatments";
- IFRS 17: "Insurance Contracts".
- Amendments to IFRS 9 "Financial Instruments";
- Amendments to IAS 28 "Investments in Associates and Joint Ventures";
- "Annual Improvements to IFRS Standards: 2015–2017 Cycle".

REGULATORY UPDATES
Finally, reported below is an update on the progress status and on the analyses carried out by the Group to assess the effects resulting from the application of the new international accounting standards, IFRS 9, IFRS 15 and IFRS 16.

IFRS 9 "FINANCIAL INSTRUMENTS"
The new accounting principle IFRS 9, published by the IASB in July 2014 and endorsed by the European Commission with Regulation no. 2067/2016 shall apply for periods beginning on or after 1 January 2018. With the transition to IFRS 9, the process of reform of IAS 39, initiated by the IASB in 2008 as requested by the G20 and which was divided into the three phases "Classification and measurement", "Impairment" and "Hedge accounting", was completed; with reference to "Hedge

accounting", the revision of the new rules for the accounting of hedges at the portfolio level (known as "macro hedge accounting") remains to be completed, for which the IASB has decided to launch a separate project (not yet finalised).

In summary, the main innovations introduced by IFRS 9 are as follows:

i. the rules for the classification and measurement of financial assets are based on the bank's business model and on the characteristics of the contractual financial flows of the instruments (according to the "Solely Payments of Principal and Interest – SPPI" criterion), which may imply the use of different methods of classification and valuation of financial instruments from those applied under IAS 39 (amortised cost, fair value with changes recognised in profit or loss, fair value with changes recognised in an equity reserve - Other Comprehensive Income);
ii. a new accounting model for the recognition of the impairment loan losses is introduced, based on an approach aimed at estimating expected future losses ("expected credit losses - ECL") instead of losses already incurred ("incurred losses"), as per the current IAS 39. The IFRS 9 impairment model requires that exposures be classified into three separate "stages" which are reflective of the different default patterns for credit quality:
    - Stage 1: financial instruments that have not undergone significant increases in credit risk since initial recognition. The expected loss is measured over a 12-month period;
    - Stage 2: financial instruments that have undergone significant increases in credit risk since initial recognition. The expected loss is measured over the instrument's remaining lifetime;
    - Stage 3: impaired financial assets for which there is objective evidence of loss ("default") as at the reporting date. The expected loss is measured over the instrument's remaining lifetime;
iii. with reference to financial liabilities issued by the bank and designated at fair value through profit or loss, the amount of change in the fair value that is attributable to changes in their credit risk are presented in other comprehensive income rather than in profit or loss, as instead provided for by principle IAS;
iv. amendments are introduced to the "hedge accounting" requirements (micro hedges) relating to the methods for designating a hedging relationship and ascertaining its effectiveness, in order to better align the hedge accounting outcome and the risk management policies.

It should be noted that IFRS 9 provides for the possibility of using the option to continue to apply the hedge accounting requirements of IAS 39 until the macro hedge accounting project is completed by the IASB. The Banca Carige Group will make use of this option.

The application of IFRS9, especially with reference to the ECL approach, will lead, with respect to IAS39, to greater recourse to complex valuation models and, especially, an approach increasingly based on the use of parameters that incorporate the forecasts of future economic conditions.

With reference to the new classification, measurement and impairment rules, the Banca Carige Group, in consideration of the innovations introduced by IFRS 9, which reflect both the business areas and the organisational and reporting areas, has launched a specific project to analyse and define the main qualitative and quantitative impacts, as well as to identify and implement the application and organisational measures required for the standard to be effectively adopted by the Group.

In 2017, the Group completed the following project phases:

— "Assessment" phase, the objective of which was to analyse the main business areas affected by the adoption of the new principle and the definition of the “business macro requirement” necessary for the transition to the new accounting principle;

— “Design & Implementation” phase, during which the main interpretative and accounting choices were selected, the user requirements were issued, the valuation models impacted by the accounting principle were defined, the financial instruments in the portfolio were analysed, the information system developments and appropriate adjustments to internal processes and internal regulations were initiated. This second phase of the project was organised into specific workshops dedicated to “classification and measurement”, “impairment” and “financial reporting process”.

The entire project was developed by involving the Bank’s competent units, under the Top Management’s active supervision and guidance.
Below is a summary of the progress status and main results for the various areas of activity.

Classification and measurement

The Group has defined the overall interpretative aspects and the requirements for the necessary implementation measures; IT implementation activities and alignment of the processes and regulations affected by the principle are being completed.
The execution of the “SPPI Test” and the definition of the “Business Model” were finalised on the loans and debt securities portfolios in order to identify the correct classification at the time of the first adoption of IFRS 9 (“First-Time Adoption – FTA”) and, consequently, the related assessment at amortised cost rather than at fair value. In addition, the analyses were completed over the equity investments and the units of UCITS currently classified as financial assets available for sale, with a view to defining the new accounting category.

Impairment

The Group has defined appropriate methodologies for both calculating impairment losses according to the new expected loss model, as well as the methods for identifying the significant increase in credit risk so as to correctly allocate the exposures to the three stages recognised by the principle.
In particular:

— the models and methodologies for estimating the “expected credit losses” start from the parameters previously defined for management purposes based on the Basel framework (PD – probability of default, LGD – loss given default, EAD – exposure at default) appropriately recalibrated at “point in time” and incorporate the forecasts of future macroeconomic scenarios (i.e. “forward looking information”).
  The impairment models also include prospective sales scenarios on an overall identified portfolio of gross non-performing loans with a high probability of sale, in line with the provisions of the 2017-2020 Business Plan and the aspects currently being examined by the Board of Directors, in the context of the updating of the NPE Strategy, an update requested by the ECB to be completed by the end of March;
— for the purpose of determining significant increases in the credit risk of exposures for their allocation to the three stages, the Group has defined the use of absolute qualitative criteria and relative quantitative criteria. Specifically, the Group has defined:
  - (absolute) qualitative criteria:
    a) the use of the “Low Credit Risk Exemption” for debt securities that have an updated rating included in the “investment grade” scope;
    b) for loans, the hypothesis of not using the “rebuttable presumption”, automatically classifying more than 30 days past due positions in Stage 2;

c) for loans, the automatic classification of “forborne” positions in Stage 2;
d) for loans, using performance monitoring indicators for the classification of some positions in Stage 2.

- (relative) quantitative criteria: comparing the degree of risk of each position at initial recognition and at reporting date (comparing Probability of Default curves).

Financial Reporting Process

Application and organisational measures are being finalised to both support the introduction of the new accounting standard and guarantee that the related disclosures are prepared, as indicated in the new FINREP version and in Circular no. 262/2005 "Bank's Financial Statements: layouts and preparation” of the Bank of Italy. As of the second half of 2017, the Banca Carige Group has also initiated activities aimed at carrying out quantitative simulations, adopting a modular approach in line with information available and related application software in use.

Main quantitative impacts

With reference to the adoption of the “Impairment” and “Classification and Measurement” rules of IFRS 9 applied to financial instruments, the quantitative effects, estimated at the outset, amount, at the first application, to approximately EUR 360 mln, corresponding to an estimated impact of -210 pb on the “fully loaded” CET1 ratio.

This negative effect is mainly due to the combined requirement of using an expected loss on “lifetime” loans for the positions allocated to Stage 2 and the introduction of sales scenarios in the calculation of the impairment loan losses allocated to Stage 3.

Taking into account the Bank's intention to adopt the phase-in regime provided for by EU Regulation 2017/2395, which enables the dilution, over 5 years, of own funds resulting from the transition to IFRS 9, there is an overall effect resulting from the entry into force of IFRS 9 on the CET1 ratio which can be estimated, on first approximation, at +12 pb.

IFRS 15 “REVENUE FROM CONTRACTS WITH CUSTOMERS”

The new accounting principle IFRS 15 published by the IASB in May 2014 (subsequently amended in September 2015) and endorsed by the European Commission with Regulation no. 2016/1905 will be effective as of 1 January 2018.

IFRS 15 introduces new requirements for an entity to recognise, in the income statement, revenue representing the transfer of promised goods or services to customers; in particular, this principle is delivered in a five-step model framework to:

1) identify the contract(s) with a customer;
2) identify the performance obligations in the contract;
3) determine the transaction price;
4) allocate the transaction price to the performance obligations in the contract;
5) recognise revenue when (or as) the entity satisfies a performance obligation.

The principle also provides specific guidelines of the accounting of incremental costs incurred for obtaining or fulfilling a contract, requiring that the Bank must recognise them as assets, in the event of specific conditions (e.g. if the costs are expected to be recovered).

Finally, the principle provides other guidelines on the application of the model’s general requirements to specific elements, such as, for example, variable consideration, sales with a right of return, relationship between agent and principal and licensing.

Application of this guidance will require the exercise of judgement of the impact in terms of accounting methods, business practices and possible effects on underlying systems and processes. To this end, the Group launched a specific project in the final quarter of 2017 in order to:

- analyse the accounting policies currently in use at the Group entity for the recognition of revenues from sales of goods or services and to identify any impacts resulting from the application of the new accounting principle;
- identify the main areas of assumption of "accounting policy election" by the Bank;
- analyse the possible impacts in terms of accounting rules and financial reporting, business strategies and operational processes.

No significant impacts associated with the introduction of the new accounting principle emerged from the analyses conducted. The necessary organisational implementation activities are in progress.

IFRS 16 "LEASES"

The new accounting principle IFRS 16, published by the IASB in January 2016 and endorsed by the European Commission with Regulation no. 2017/1986 will be effective for periods beginning on or after 1 January 2019.

During the second quarter of 2018, the Group expects to carry out an assessment of the qualitative and quantitative impacts resulting from the introduction of the new accounting principle, in terms of accounting and business methodologies, as well as the possible effects on the Group's systems and operational processes.

SECTION 2
Preparation criteria

The Consolidated Financial Statements refer to the Parent Company Banca Carige and other Group companies, as defined in the terms indicated in Section 3 - Scope and methods of consolidation, which have adopted the accounting standards indicated in Part A.2 concerning the main items of the accounts.
The Banca Carige Group Consolidated Financial Statements were prepared in accordance with the general principles of IAS 1 and guidance contained in Bank of Italy Circular no. 262 of 22 December 2005, 4th update of 15 December 2015[1]. More specifically:

- Consolidated Balance Sheet, Consolidated Income Statement and Consolidated Explanatory Notes.

With reference to the Balance Sheet and Income Statement, no accounts were recognised if there was no amount for either this or the previous financial reporting year.
With regard to the Explanatory Notes, the tables were compiled only for the applicable items. In the Income Statement (Statements and Explanatory Notes) revenues are indicated without a +/- sign, whereas costs are indicated in brackets.

- Consolidated Statement of Comprehensive Income

In addition to the profit for the year, the statement of comprehensive income presents other profit components, split into items with and without reversal to profit or loss. No accounts were recognised in this statement if there was no amount for either this or the previous financial year; negative amounts are indicated in brackets.

- Statement of Changes in Consolidated Shareholders' Equity

The Statement of changes in shareholders' equity illustrates the breakdown and changes in shareholders' equity for the current and previous years.
The items are broken down into the Group's and non-controlling interests' shares of changes in shareholders' equity.

- Consolidated Statement of Cash Flows

The Statement of Cash Flows was prepared using the direct method.

- Reporting currency and rounding

The Financial Statements and Explanatory Notes are expressed in thousands of euros.
In rounding off, the amount of items, sub-items and "of which" equal to or lower than EUR 500 are ignored; amounts greater than EUR 500 are rounded up to the nearest thousand. The rounded-off figures of each item are obtained by summing the rounded-off sub-items. The algebraic sum of differences from these roundings is shown under "Other assets/liabilities" in the Balance sheet and under "Other operating income/expenses" in the income statement.
In rounding off, the amounts in the Explanatory Notes equal to or lower than EUR 500 are ignored;

[1] On 22 December 2017, the fifth update to Circular 262 of 22 December 2005 was published, which involves a full review of the Circular. This update shall apply from the Financial Statements for the year just ended or the current Financial Statements for the year ending 31 December 2018.

amounts greater than EUR 500 are rounded up to the nearest thousand. Rounding off of the figures contained in the Explanatory Notes should in any case be performed in such a way as to ensure consistency with the amounts presented in the Balance sheet and Income statement.

- Going concern

During the final quarter of the year, the Bank, as provided for by the 2017-2020 Business Plan, carried out Capital Increase transactions and a liability management exercise, as well as the sale of the Milan property. Processes related to the further sale of assets, such as the sale of the consumer credit company Creditis, the NPL management platform and the sale of the merchant business book branch were also initiated and, in some cases, almost completed.

The successful completion of these transactions, which restored the capital ratios to the levels required by the ECB with the Supervisory Review and Evaluation Process (SREP) Decision of December 2016 for financial year 2017, represented the basis for the Directors' going concern assessment.

During 2017, the sale of a non-performing loans portfolio was also carried out for a gross value of approximately EUR 940 mln by means of a securitisation assisted by the public guarantee (GACS), as was the sale of a non-performing loans portfolio for a gross value of approximately EUR 1,200 mln, both contributing to the improvement of asset quality.

With reference to the interventions on operating costs, in 2017, an agreement was reached with the Trade Unions for use of a "Solidarity Fund", which is an essential action for the Bank's structural efficiency.

With reference to the requirements of IAS 1 and guidance provided in Document no. 2 of 6 February 2009, jointly issued by the Bank of Italy, Consob and ISVAP as subsequently updated, the directors carefully assessed the going concern assumption.

Following this assessment and taking into account the higher capital ratios required for financial year 2018 by prudential regulations, the Group has reasonable expectations to continue its operating existence s in the foreseeable future, mainly based on the:

- implementation of the actions included in the 2017-2020 Business Plan, some of which have already been completed (in particular, the Capital Increase and the Liability Management Exercise), approved by the Board of Directors on 13 September 2017;
- completion of the aforementioned asset disposal set out in the Plan;
- issuance of a subordinated bond, included in the Group's funding plan approved by the Board of Directors on 9 February 2018, for an amount of EUR 350 (or EUR 500) mln and for which the necessary operational activities have commenced.

The implementation of the aforementioned actions reveals that Group also has the forward-looking ability to comply with the prudential Own Funds and Liquidity requirements imposed by the ECB within the SREP scope, being able to absorb the impacts deriving from the achievement of the objectives identified in terms of reduction of non-performing loans and minimum NPL coverage levels required.

Despite the uncertainties associated with the current conditions, the Financial Statements were thus prepared based on the going concern assumption.

- Accrual basis of accounting

Expenses and revenues are recognised, regardless of their monetary settlement date, according to the accrual and matching principles.

- Consistency of presentation

Presentation and classification of items are kept consistent from one year to another to ensure comparability unless changes are required by an IFRS or interpretation or it is clear that another presentation or classification would be more appropriate for the reliable and material presentation of information. When the presentation or classification of items is changed, the corresponding amounts are restated accordingly, unless this is not feasible, and a description of the nature and reasons for the restatement is given.

- Materiality and aggregation

Each material class of similar items was presented separately in the Financial statements. Items of a different nature or with different allocation were recognised separately, unless they were considered irrelevant.

- Netting

Assets, liabilities, costs and revenues are not netted, unless required or permitted by an international accounting standard or interpretation or if this is expressly required by the financial statements in use for banks.

- Comparative figures

Comparative information is provided for the previous period for all figures recorded in the financial statements based on the provisions of IAS 1.

Additional information is also provided when considered appropriate. The Financial statements also comply with the articles of the Italian Civil Code and corresponding provisions of the Consolidated Law on Finance (TUF) applicable to reporting obligations for listed companies (Article 2428, Italian Civil Code), auditing (Article 2409-bis, Italian Civil Code) and publication of financial statements (Article 2435, Italian Civil Code).

ESTIMATES AND ASSUMPTIONS IN THE PREPARATION OF THE BANCA CARIGE GROUP'S FINANCIAL STATEMENTS AND RELATED UNCERTAINTIES

Preparation of the Consolidated Financial Statements requires the use of estimates and assumptions for the calculation of certain cost and revenue components and for the valuation of assets and liabilities.

Estimates and assumptions are more likely to be used for the fair value measurement of amounts recognised in relation to loans to customers, financial assets available for sale, intangible fixed assets and the quantification of provisions for personnel, provisions for risks and charges, as well as the assessment of tax items.

Loans were classified according to strict guidelines which are reflective of the consequences of the negative developments in the economic environment; loan-related valuations were estimated on the basis of evidence emerging from the monitoring of existing relations with borrowers and their economic-financial situation.

It should be noted that an extension or worsening of the current economic-financial crisis may cause a further deterioration of the borrowers and issuers' financial conditions, which may translate into higher losses on loans granted or on financial assets purchased than those currently estimated and accordingly considered during preparation of these Consolidated Financial Statements.

As regards the forthcoming sale of unlikely-to-pay exposures ("UTPs") provided for by the Business Plan and the deconsolidation currently under examination of a further portfolio of bad loans up to a gross carrying amount of EUR 1 bn, the Group has applied, for the purposes of assessing the loans as at 31 December 2017, the criteria provided for by its accounting models, which are based on the ordinary debt recovery strategy, considering, specifically, the definition of the scope of sale (still in progress), the need for further analyses on the structuring thereof, as well as the absence of binding offers and any further resolutions by the Board of Directors.

During preparation of these Consolidated Financial Statements, tests were performed to determine any impairment of available-for-sale (AFS) securities through an analysis aimed at assessing whether there is any indication of their impairment and determining their depreciation, if necessary.

In 2017, net impairment losses on securities available for sale were recorded for EUR 15.4 mln, of which EUR 10.6 mln relating to stakes held in the Atlante Fund, EUR 2.4 mln relating to indirect investments in banks put in resolution under the FITD Voluntary Scheme (Cassa di Risparmio di Cesena, Banca CARIM - Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato) and EUR 2.4 mln relating to other equities.

With reference to intangible fixed assets, the Group - based on the results of the negotiations initiated under the Information System Outsourcing Project, which showed indications of the software having a lower value in use than its carrying amount - identified an external indicator that made it necessary to verify whether a reduction in the carrying amount of the software existed or not at the end of the year. In order to identify the residual value attributable to the software that is not going to be transferred to the new legal entity provided for within the scope of the aforementioned project, the Group has used the support of external consultants who have estimated the value of the specific software application scope recognised in the Carige Group accounting books as at 31 December 2017. This assessment was carried out by applying a specific model used in software engineering, aimed at determining the cost of reconstructing the software used by the Group and taking into account its amortisation, over time. This activity involved the write-down of the book value of the aforementioned assets for approximately EUR 15 mln.

With regard to quantification of the provisions for personnel and for risks and charges, an assessment is being made to estimate the amount, if due, and the timing of any potential expenditure connected with the fulfilment of obligations deemed probable to occur. In accordance with the provisions of IAS 37, the Group discloses in its Financial Statements those lawsuits which are deemed to give rise to a "likely" obligation.

Considering the significant amount of deferred tax assets recognised under the assets in the Financial Statements and, specifically, deferred tax assets that cannot be converted into tax credits pursuant to Law 214/2011, the valuation process underlying their recognition which was put in place by the directors is important. This process is affected by the use of assumptions and estimates, essentially associated with the determination of taxable income, the expected recovery time frame and the correct interpretation of the tax legislation. The Bank has carried out an analysis, partly with the aid of external consultants, aimed at verifying whether the forecasts of future profitability are such as to guarantee their reabsorption and justify their recognition and retention in the financial statements (known as the “probability test”) for which reference is made to the content of part B of the Explanatory Notes– Assets, - Section 14, Item 7 – Other Information).

SECTION 3
Scope and methods of consolidation

1. Equity investments in wholly owned subsidiaries

The scope of consolidation has changed -with respect to that used for preparation of the Financial Statements for the year ended 31 December 2016- to include Carige REOCO S.p.A. (a newly incorporated real estate company, 100% owned by Banca Carige).

1. Equity investments in wholly owned subsidiaries

Company name	Operating office	Registered office	Type of relationship (1)	Shareholding relationship		Voting rights (2) (3)	
				held by	% held	Actual %	Potential %
A. Companies							
A.1 Consolidated line-by-line							
Banking Group							
1. Banca Carige S.p.A.	Genoa	Genoa					
2. Banca del Monte di Lucca SpA	Lucca	Lucca	1	A1.1	60.00		
3. Banca Cesare Ponti S.p.A.	Milan	Milan	1	A1.1	100.00		
4. Creditis Servizi Finanziari S.p.A	Genoa	Genoa	1	A1.1	100.00		
5. Centro Fiduciario C.F. S.p.A.	Genoa	Genoa	1	A1.1	96.95		
6. Argo Mortgage 2 S.r.l.	Genoa	Genoa	1	A1.1	60.00		
7. Carige Covered Bond S.r.l.	Genoa	Genoa	1	A1.1	60.00		
8. Carige Covered Bond 2 S.r.l.	Genoa	Genoa	1	A1.1	60.00		
9. Lanterna Finance S.r.l. (4)	Genoa	Genoa	4	A1.1	5.00		
10.Lanterna Consumer S.r.l. (4)	Genoa	Genoa	4	A1.1	5.00		
11.Lanterna Lease S.r.l. (4)	Genoa	Genoa	4	A1.1	5.00		
12.Carige Reoco S.p.A.	Genoa	Genoa	1	A1.1	100.00		

Key
(1) Type of relationship:
1 = majority of voting rights at ordinary shareholders' meetings
2 = dominant influence at ordinary shareholders' meetings
3 = agreements with other shareholders
4 = other forms of control
5 = unified management pursuant to art. 26, paragraph 1 of Legislative Decree 87/92
6 = unified management pursuant to art. 26, paragraph 2 of Legislative Decree 87/92

As regards the scope of business, subsidiaries can be divided into banking institutions (Banca Carige S.p.A, Banca del Monte di Lucca S.p.A, Banca Cesare Ponti S.p.A.), consumer credit companies (Creditis Servizi Finanziari SpA), trust companies (Centro Fiduciario C.F. SpA.), special-purpose vehicles for securitisations (Argo Mortgage 2 S.r.l., Lanterna Finance S.r.l., Lanterna Consumer S.r.l. and Lanterna Lease S.r.l.), and the special-purpose vehicles for the issuance of covered bonds (Carige Covered Bond Srl and Carige Covered Bond 2 Srl) and an instrumental company (Carige Reoco S.p.A.).

It is noted that the special-purpose vehicles Argo Mortgage 2 S.r.l., Lanterna Finance S.r.l., Carige Covered Bond S.r.l. and Carige Covered Bond 2 S.r.l. were all consolidated line by line. The assets were not derecognised from the financial statements of the respective transferors under either the securitisations or disposals for the issuance of covered bonds, as all connected risks and rewards were substantially retained by the Group.

These Consolidated Financial Statements were prepared using the reporting packages as at 31 December 2017 made available by the Parent Company and the other consolidated entities, as approved by their respective governing bodies and drafted according to the IASs/IFRSs approved and effective as at the reporting date, according to guidance provided by the Parent Company.

2. Significant judgements and assumptions in determining the scope of consolidation

According to the IASs/IFRSs, the scope of consolidation includes all directly or indirectly controlled entities.

The concept of control applied is that outlined in IFRS 10 - Consolidated Financial Statements. The companies that were considered to be subsidiaries and therefore included in the scope of line by line consolidation are all those companies in which the Parent Company has all of the following elements:

- control over the entity in which the investment is held, or sufficient rights that give it the ability to direct the investee's activities;
- exposure to positive or negative variable returns, deriving from its involvement with the investee, that vary as a result of the investee’s performance;
- the ability to use its power over the investee to affect the amount of its returns.

All subsidiaries were included in the scope of consolidation. Excluded from the scope of consolidation, however, were non-investees for which shares with voting rights were received on pledge, inasmuch as the guarantee obtained was intended as a credit protection instrument and not as an instrument to exercise influence over the companies in question.

The special-purpose vehicles Lanterna Finance S.r.l., Lanterna Consumer S.r.l and Lanterna Lease S.r.l., set up to carry out securitisation transactions, were considered to be subsidiaries and were thus included in the scope of consolidation, although they are only 5% owned.

At the reporting date, no jointly controlled companies were identified, to which IFRS 11 - Joint Arrangements applies.

3. Equity investments in wholly-owned subsidiaries with significant non-controlling interests

3.1 Non-controlling interests, availability of votes of non-controlling interests and dividends distributed to non-controlling interests

Company name	Non-controlling interests %	Voting rights held by non-controlling interests % (1)	Dividends paid to non-controlling interests
1. Banca del Monte Lucca SpA	40.00	40.00	-

(1) Votes available at ordinary shareholders' meeting

3.2 Significant non-controlling interests: accounting information

Company Name	Total assets	Cash and cash equivalents	Financial assets	Tangible and intangible assets	Financial liabilities	Shareholders' equity	Net Interest Income	Net interest and other banking income	Operating expenses	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Net Profit (Loss) (1)	Other comprehensive income after tax (2)	Total comprehensive income (3)=(1)+(2)
Banca del Monte Lucca SpA	817,198	8,540	733,595	18,899	737,120	60,258	9,977	7,834	(19,118)	(17,344)	(12,311)	-	(12,311)	24	(12,287)

4. Significant restrictions

As regards the requirements of paragraph 13 of IFRS 12, it is noted that no material or legal restrictions or constraints exist that may hinder the prompt transfer of capital resources within the Group. The only existing constraints are the ones that can be traced to (i) regulatory provisions, which may require a minimum amount of own funds or a Liquidity Coverage Ratio (LCR) to be held, and a ban on dividend pay-out, and (ii) the Italian Civil Code provisions on reserves and profit distribution.

5. Other information

Investments in associates, i.e. companies subject to significant influence, were measured at equity.

Equity investments in companies subject to significant influence (consolidated using the equity method)

Company name	Operating office	Registered office	Shareholding relationship		Voting rights	
			held by	% held	Actual %	Potential %
A. Companies consolidated at equity						
1. Autostrada dei Fiori S.p.A.	Savona	Savona	Banca Carige S.p.A.	20.62		

With reference to Autostrada dei Fiori SpA, it is noted that the latest reporting package as at 31 December 2017 was used, as approved by its Board of Directors pursuant to the IAS/IFRS accounting standards. The consolidated Income Statement thus reflects the subsidiary's 15-month results from 30 September 2016 (reporting date for the Reporting package used to prepare the 2016 Consolidated Financial Statements) to 31 December 2017.

With reference to companies over which the Group exerts significant influence, measurement at cost was maintained for companies that are not considered value-relevant, in accordance with the general principles set out in the framework.

Equity investments in companies subject to significant influence excluded from the equity method

Company name	Operating office	Registered office	Shareholding relationship		Voting rights	
			held by	% held	Actual %	Potential %
1. Nuova Erzelli S.r.l.	Genoa	Genoa	Banca Carige S.p.A.	40.00		

Illustrated below are the characteristics of the two consolidation methods adopted.

Line-by-line consolidation

Financial Statements, prepared using line-by-line consolidation, reflect the capital, economic and financial position of the Group, intended as one business entity. For this purpose four operational steps are required:

- standardise the accounting policies applied within the scope of consolidation, introducing adjustments as necessary, should a member of the Group have adopted principles other than those used in the consolidated financial statements for similar transactions and events under similar circumstances;
- aggregate the financial statements of the Parent Company and its subsidiaries line by line. The corresponding values of assets, liabilities, shareholders' equity, revenues and expenses are then summed up;
- offset the value of investments in subsidiaries against the corresponding portion of shareholders' equity for those companies as at the date of their first-time recognition in the consolidated financial statements. At the acquisition date, the fair values of all assets and liabilities acquired are measured and goodwill is determined as required by IFRS 3. Being an intangible asset with an indefinite useful life, goodwill is not amortised: however, its carrying amount is tested for impairment annually or whenever there is an indication that it may have incurred a long-lasting loss in value to verify that its recoverable value remains higher. Negative differences are recognised in the Income Statement. The minority interest share of shareholders' equity and profit (loss) is recognised as a separate item;
- cancel significant intra-group balance-sheet and profit and loss entries between companies subject to line-by-line consolidation.

Consolidation at equity

Through the equity method, an investment is initially recognised at cost and then adjusted according to changes in the investor's share of the investee's shareholders' equity. The portion of changes in shareholders' equity resulting from gains or losses of the investee is recognised to "Gains (losses) on investments in associates and companies subject to joint control" in the Income Statement. The shares of changes in shareholders' equity indicated in the balance sheet of the investee without passing through profit or loss are instead recognised directly to Reserves.

The difference between the cost of the investment and the share of shareholders' equity acquired is treated using a similar approach to line-by-line consolidation, except that if there is a positive residual difference (goodwill), it is not recognised to its own separate item among intangible assets, and therefore tested separately for impairment, but remains posted under Equity Investments.

The entire book value of the investment is tested for impairment by comparing its recoverable value and its carrying amount if there is evidence that the value of the investment has decreased. Any intra-group gains or losses are cancelled.

SECTION 4
Subsequent events

On 25 January 2018, Statutory Auditor Maddalena Costa resigned from office; on the same date, Alternate Auditor Francesca De Gregori took over the position of Statutory Auditor, with expiry of the mandate as at the next Shareholders' Meeting.
On 2 February 2018, the Board of Directors of Banca Carige approved the outsourcing project to IBM Italia S.p.A. of the Group information system and the consequent state of the authorisation process at the ECB (notification sent thereto on 6 February 2018). The latter also approved the guidelines of the 2018 Budget, with a focus on the Bank's ordinary business to return to profitability. The targets set by the 2017-2020 Industrial Plan were confirmed, with particular attention to the reduction in the cost/income ratio, as an important target to be pursued in the next three years.
The Board also resolved, within the scope of the Parent Company's management and coordination activity, on the absence of interest in maintaining a presence in the production of trust services, informing Centro Fiduciario S.p.A., on 6 February 2018, by means of a notification from the CEO.
On 5 February 2018, the Extraordinary Shareholders' Meeting of Carige REOCO S.p.A. resolved to confer upon the Board of Directors, pursuant of Article 2443 of the Italian Civil Code, the power, to be exercised by and no later than 31 March 2019, in increase the share capital by payment, in divisible form, with the right of option, in one or more tranches, even for individual tranches, by issuing new ordinary shares with no par value and with regular dividend, for a total maximum amount to EUR 19.5 mln, attributing, thereto, every power necessary to execute the transaction. Consequently, the Extraordinary Shareholders' Meeting resolved to amend Article 5 of the Articles of Association, relating to Capital.
The Board of Directors of Banca Cesare Ponti and Banca del Monte di Lucca, as part of the management and coordination activities carried out by the Parent Company, in their meeting of 5 February 2018, approved the change of outsourcer of the Information System, identifying, to this end, NewCo, subsidiary of IBM Italia S.p.A. and partially owned by the Parent Company Banca Carige S.p.A..
On 6 February 2018, the Board of Directors of the Trustee resolved to put in place all necessary and/or appropriate actions to achieve the termination of fiduciary relationships, possibly by 31 March 2018, also terminating the fiduciary mandates currently in place.
On 20 February 2018, the Board of Directors of Banca Carige, in relation to the sale of the merchant book provided for as part of the equity strengthening manoeuvre approved on 3 July 2017, resolved to approve, taking into account the indications that emerged during the Board debate, the structure of the merchant acquiring business sale transaction, in order to proceed with the definition and signing of agreements, conferring a mandate upon the CEO and Chief Financial Officer to carry out all the necessary actions to finalise the transaction.
The Board of Directors of Banca Cesare Ponti and Banca del Monte di Lucca, as part of the management and coordination activity carried out by the Parent Company, in their meetings, respectively, on 23 and 28 February 2018, approved the outsourcing to Credito Fondiario S.p.A. of the non-performing loans management and recovery activities.

SECTION 5
Other information

National tax consolidation option

The Carige Group adopted the so-called "national tax consolidation" option, as regulated by Articles 117-129 of the Consolidated Law on Income Tax (*Testo Unico delle Imposte sui Redditi* - "TUIR") that was introduced in the Italian tax legislation by Legislative Decree No. 344/2003. It consists of an optional treatment, whereby the total net income or the tax loss of each subsidiary participating in the tax consolidation - together with the withheld amounts, the deductions and tax credits - are transferred to the parent company, for which a single taxable income or a single reportable tax loss is determined (resulting from the algebraic sum of its own income/losses and of those of the participating subsidiaries) and, consequently, a single tax payable/receivable is calculated.

By virtue of this option, the Parent Company Banca Carige, the other banks of the Group, Creditis Servizi Finanziari S.p.A. and Carige Reoco S.p.A., which adhered to the "national tax consolidation", determine their own tax burden and the corresponding taxable income is transferred to the Parent Company.

Auditing

The Consolidated Financial Statements are audited by EY S.p.A., in accordance with the Banca Carige Shareholders' Meeting Resolution of 29 April 2011, which appointed this company for the years from 2012 through 2020.

A.2 – MAIN ITEMS OF THE ACCOUNTS

For the different items in the Balance Sheet, this section illustrates the criteria adopted for the classification, recognition, measurement, cancellation and reporting of income components.

1. FINANCIAL ASSETS HELD FOR TRADING

Classification criteria

A financial asset or financial liability is classified as held for trading if it is:

a) acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
c) a derivative contract (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

The category of financial assets held for trading includes debt securities, equity instruments and the positive values of derivative contracts held for trading (negative values are posted to the item "Financial liabilities held for trading").

A derivative is a financial instrument or other contract with all three of the following characteristics:

a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract;

b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

c) it is settled at a future date.

Derivatives held for trading include those which are operationally linked to financial assets and/or liabilities carried at fair value (subject to the fair value option) or classified as held for trading with settlement of spreads or margins expected to take place on different maturities ("multiflow" contracts) and derivatives embedded in complex financial instruments, which were recognised separately because:

- their economic characteristics and risks are not closely related to the economic characteristics and risks of the host contracts;
- the embedded instruments meet the definition of a derivative contract;
- hybrid instruments are not measured at fair value, with related changes in fair value recognised in profit or loss.

Reclassification out of other classes of financial instruments is not possible.
Reclassification to other classes of financial instruments:

1) is not permitted for derivative contracts;
2) limited to non-derivative financial assets - to assets held for sale and assets held to maturity: the reclassification is possible if the financial asset to be reclassified:
   - is no longer held for the purpose of selling or repurchasing it in the near term;
   - no longer meets the definition of a loan or receivable at the date of reclassification
   - "rare circumstances" apply, which should be understood as circumstances arising from one single event that is unusual and highly unlikely to recur in the near term
3) non-derivative financial assets - to Loans and Receivables: the reclassification is possible if the financial asset to be reclassified:

   the financial asset intended to be reclassified:
   - is no longer held for the purpose of selling or repurchasing it in the near term;
   - meets the definition of a loan or receivable at the date of reclassification;
   - the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

The reclassified financial asset is recognised to the new category at its fair value as at the reclassification date. Any gain or loss already recognised in the Income Statement (including any capital gains or losses from measurement) shall not be reversed. The fair value of the financial asset as at the reclassification date becomes its new cost or amortised cost and the effective rate of return to be used for recognising interest in profit or loss must be calculated from that moment on.

Recognition criteria

Financial assets held for trading are initially recognised at fair value, usually for an amount equal to the price paid, less transaction costs or proceeds that are directly attributable to the financial asset, which are recognised directly in profit or loss.

Debt securities, equity instruments and units in UCITS (Undertakings for Collective Investment in

Transferable Securities) are recognised at settlement date; any changes in fair value occurring between the trade date and settlement date are recognised in profit or loss.
Derivative contracts are recognised at the date when they are entered into.

Assessment criteria

After initial recognition, financial assets held for trading are designated at fair value, with changes in fair value recognised in the Income Statement.

The criteria adopted for measuring the fair value of financial instruments are reported in Section A.4, "Information on Fair value".

Transactions in derivative settled through central clearing platforms, are subject to netting of positive and negative values under IAS 32, applying the conventional criteria described in Circular 262/2005, when both of the following requirements are met:

a) an entity has a legally enforceable right to set off the recognised amounts; and

b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt securities and units in UCITS that are not quoted in an active market and whose fair value cannot be reliably measured, are measured at cost.

Derecognition criteria

Financial assets held for trading are derecognised when they are sold, substantially transferring all related risks and rewards, or when the contractual rights to the cash flows from the financial assets expire.

Criteria for the recognition of income

Interest income on debt securities, as well as spreads and margins on derivatives operationally linked to financial assets and/or liabilities carried at fair value (subject to the fair value option) or classified as held for trading with settlement of spreads or margins expected to take place on different maturities ("multiflow" contracts) are recognised on an accrual basis under the sub-items of interest income.

Dividends are recognised on an accrual basis with reference to the date of the resolution adopted for the payout by the Shareholders' Meeting and are posted to the item "Dividends and similar income".

Gains and losses from trading and capital gains and losses arising from fair value measurement are recognised through profit or loss in the period in which they arise and are posted to the item "Net profit (loss) from trading", except for the profit or loss components of financial derivative contracts linked to the fair value option which are posted to the item "Net profit (loss) from financial assets and liabilities designated at fair value".

2. FINANCIAL ASSETS AVAILABLE FOR SALE

Classification criteria

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

More specifically, this category includes:

- o equity investments that are not managed for trading and do not qualify as interests in subsidiaries, associates and joint ventures;
- o private equity funds and similar;
- o equity instruments acquired for non-performing loan restructuring transactions;
- o equity instruments in connection with contributions paid to the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD) for actions concerning the acquisition of investments.

Reclassification out of the other categories of financial assets is allowed in the following cases:

- o out of financial assets held for trading: if the financial asset to be reclassified:
    - is no longer held for the purpose of selling or repurchasing it in the near term;
    - does not meet the definition of a loan or receivable at the date of reclassification;
    - "rare circumstances" apply, which should be understood as circumstances arising from one single event that is unusual and highly unlikely to recur in the near term
- o out of financial assets held to maturity: if there is a change in intention or ability to hold the asset until maturity, if the fair value becomes available or if the asset is sold or a significant reclassification occurs (a.k.a the "tainting provision").

For transfers out of the HFT category, the reclassified financial asset is recognised to the new category at its fair value as at the reclassification date. Any gain or loss already recognised in the Income Statement (including any capital gains or losses from measurement) shall not be reversed. The fair value of the financial asset as at the reclassification date becomes its new cost or amortised cost and the effective rate of return to be used for recognising interest in profit or loss must be calculated from that moment on.

For transfers out of the HTM category, the value of the financial instrument is adjusted to its fair value as at the date of transfer, and the difference between the asset's carrying amount and fair value as at the date of transfer is posted to the AFS reserve and retained until the asset is derecognised.

Reclassification to the other categories of financial assets is allowed in the following cases:

- o to Loans and Receivables: if the financial asset to be reclassified meets the definition of a loan or receivable at the date of reclassification and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.
- o to financial assets held to maturity: if there is a change in intention or ability to hold the asset until maturity, if a reliable measure of fair value is no longer available or if the two-year "tainting period" has passed.

For reclassification out of the AFS category also, the reclassified financial asset is recognised to the new category at its fair value as at the reclassification date; this value represents the amortised cost of the instrument and interest is recognised in profit or loss according to the effective rate of return calculated on the date of reclassification. Gains or losses previously recognised in the valuation reserve for AFS securities, if referring to an instrument with a predetermined maturity, are amortised on a straight line basis according to the amortised cost method, whilst instruments without a predetermined maturity are suspended in the reserve until their sale or maturity.

Recognition criteria

Financial assets available for sale are initially recognised at fair value, usually for an amount equal

to the price paid, plus transaction costs or proceeds that are directly attributable to the financial asset.
Transaction costs and proceeds directly attributable to the initial recognition of financial assets available for sale are incremental costs directly attributable to the acquisition, issue or disposal of the financial assets which can be immediately determined as at that date; transaction costs do not include costs which, although having the same characteristics, may be subject to repayment by the counterparty or included under normal internal administrative costs.
Any changes in fair value occurring between the trade date and settlement date are posted to an equity reserve.

Derecognition criteria
Financial assets available for sale are derecognised when they are sold, substantially transferring all related risks and rewards, or when the contractual rights to the cash flows from the financial assets expire.

Revenue recognition and measurement criteria
In the absence of long-term losses in value, the subsequent measurement of financial assets available for sale is carried out at fair value, with changes in fair value recognised in equity.
The criteria adopted for measuring the fair value of financial instruments are reported in Section A.4, "Information on Fair value".
Debt securities and units in UCITS that are not quoted in an active market and whose fair value cannot be reliably measured, are measured at cost.
At the end of each annual or interim reporting period, an assessment is made to verify whether there is a loss event that has an impact on the estimated future cash flows of the financial assets (impairment). If any such evidence exists, the impairment loss, measured as the difference between its initial purchase price and fair value, is posted to "Net impairment losses/reversals - financial assets available for sale" in profit or loss, with the equity reserve previously created for said assets being zeroed out.
If the reasons for long-term impairment cease to apply as a result of events occurring after the impairment was recognised:
- for debt securities: the previously recognised impairment loss shall be reversed to the item "Net impairment losses/reversals - financial assets available for sale" in profit or loss up to the carrying amount, whereas any surplus is recognised in equity;
- for equity securities and units in UCITS (other than those measured at cost for which the loss will not be recovered): the amount shall be posted to an equity reserve.

For additional information about the procedures for determining the impairment of securities in the portfolio, please see specific paragraph in Section "17 - Other Information".

Interest income on debt securities is recognised on an accrual basis using the effective interest method as "Interest and similar income".
Dividends are recognised on an accrual basis with reference to the date of the resolution adopted for the payout by the Shareholders' Meeting and are posted to the item "Dividends and similar income".
Gains and losses from disposal of available-for-sale financial assets are recognised through profit or loss in the period in which they arise and are posted to the item "Gains (losses) from disposal/repurchase - available-for-sale financial assets", which includes what is known as the

recycle of the equity reserve to profit or loss.

3. FINANCIAL ASSETS HELD TO MATURITY

The Banca Carige Group does not have any held-to-maturity financial assets.

4. LOANS, GUARANTEES ISSUED AND COMMITMENTS

Classification criteria

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

An interest acquired in a pool of assets that are not loans or receivables (for example, an interest in a mutual fund or a similar fund) is not a loan or receivable.

Classified in this category are loans and receivables, either granted directly or purchased from third parties, concerning loans to banks and customers, debt securities, repurchase agreements, and receivables originating from financial leases or factoring arrangements.

Reclassification to other classes of financial instruments is not possible.

Reclassification out of the other categories of financial assets is allowed in the following cases:

- out of financial assets held for trading: if the financial asset to be reclassified:
  - is no longer held for the purpose of selling or repurchasing it in the near term;
  - meets the definition of a loan or receivable at the date of reclassification;
  - the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.
- out of financial assets available for sale: if the financial asset to be reclassified:
  - meets the definition of a loan or receivable at the date of reclassification;
  - the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

For transfers from the HFT category, the reclassified financial asset is recognised to the L&R category at its fair value as at the reclassification date. Any gain or loss already recognised in the Income Statement (including any capital gains or losses from measurement) shall not be reversed. The fair value of the financial asset as at the reclassification date becomes its new cost or amortised cost and the effective rate of return to be used for recognising interest in profit or loss must be calculated from that moment on.

Similarly, for reclassification from the AFS category, the reclassified financial asset is recognised to the L&R category at its fair value as at the reclassification date; this value represents the amortised cost of the instrument and interest is recognised in profit or loss according to the effective rate of return calculated on the date of reclassification. Gains or losses previously recognised in the valuation reserve for AFS securities, if referring to an instrument with a predetermined maturity, are amortised on a straight line basis according to the amortised cost method, whilst instruments without a predetermined maturity are suspended in the reserve until their sale or maturity.

Recognition criteria

Loans and receivables are initially recognised when the bank becomes a party to the contractual provisions of the instrument and thus acquires the unconditional right to receive payment of the amounts under the contract. Debt securities are recognised on the date on which settlement takes place. Financial assets which are assumed to be granted or issued at market interest rates, are initially recognised at their fair value (corresponding to the amount granted or subscription price) plus any directly attributable transaction costs.

Transaction costs and proceeds directly attributable to the initial recognition of Loans and Receivables are incremental costs directly attributable to the acquisition, issue or disposal of the financial assets which can be immediately determined as at that date; transaction costs do not include costs which, although having the same characteristics, may be subject to repayment by the counterparty or included under normal internal administrative costs.

If loans bearing an off-market or zero interest rate are originated, the contractual cash flows are discounted at the financial instrument's original market interest rate in place at the date of initial recognition with the difference between the amount granted or underwritten (plus directly attributable transaction costs or proceeds) being posted in profit or loss to the relevant profit or loss item depending on the underlying; if the difference is attributable to the financial difficulty of the borrower or other hardly identifiable specific events, an impairment loss is recognised.

Assessment criteria

After initial recognition, Loans and Receivables are measured at amortised cost, using the effective interest method.

The amortised cost is the amount measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost and of allocating the interest income or interest expense over the relevant period; the effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, including both directly attributable transaction costs and revenues and all fees paid or received between parties to the contract, so as to exactly obtain the initial recognition value.

The estimate of cash flows and the expected life of a financial instrument shall consider all the relevant contractual terms (for example, prepayment, extension, call and similar options), but shall not consider the expected credit losses.

If interest rates and transaction costs vary according to market parameters, the financial asset's effective interest rate shall be periodically redetermined in accordance with the variation in the contractual rate and related future cash flows.

The original effective interest rate may not be modified, not even when the contractual terms are renegotiated or modified due to the financial difficulty of the borrower; on the contrary, a variation due to circumstances other than the financial difficulty of the borrower, such as legal requirements, entails the consequent revision of the original effective interest rate. The amortised cost method is not applied to short-term loans (with term to maturity up to 12 months), loans with an indefinite life or revolving inasmuch as the effects of application of discounted cash flows are deemed negligible. These types of loans and receivables are therefore measured at their historical cost.

At the end of each annual or interim reporting period, a review of the loan book is made to identify the exposures which, following events occurring after their recognition, may show objective evidence of loss events that have an impact on the future cash flows that can be reliably estimated (impairment).

For a description of the impairment testing methods for securities, please see "Section 17 - Other information".

Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

a) significant financial difficulty of the issuer or debtor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the lender, for reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    i. adverse changes in the payment status of borrowers in the group;
    ii national or local economic conditions that correlate with defaults on the assets in the group.

The analytical assessment (i.e. per individual exposure) is required when one of the following conditions applies:

- the amount of the individual loan or receivable is significant;
- evidence of the impairment is available at the individual exposure level;
- the expected loss on the exposure has already been measured.

Loans and receivables which should be individually assessed and did not show any objective evidence of impairment, and loans and receivables which should not be individually assessed, are assessed on a collective basis.

Loans and receivables showing evidence of impairment, which are assessed individually, include the non-performing loans classified as Bad Loans and Unlikely-To-Pay exposures, as defined in the Supervisory Regulations[2]. Owing to their specific characteristics, non-performing past-due loans and/or overdrafts (hereinafter "Past Due" exposures) are collectively assessed, in a way similar to the exposures included in the performing loan portfolio.

All significant loans and receivables classified as Performing exposures or as non-performing (Past

[2] The definitions are contained in the paragraph "Credit Quality" of the General Warnings for the compilation of the "Accounting Matrix" (Circular of Bank of Italy no. 272/2008) and are referred to in Circular of Bank of Italy no. 262/2005 "The Bank Financial Statements: Statements and compilation rules".

Due) exposures during the usual course of business are subject to a preliminary assessment to determine whether the requirements are met for them to be classified under one of the non-performing loan categories to which collective assessment applies or whether they should be collectively assessed, having determined that no objective evidence of impairment exists.
As part of the individual assessment, two different assessment approaches are possible:

- a "manual" individual assessment, carried out on exposures exceeding a quantitative materiality threshold set out in the internal regulations, by analysts of the units in charge who determine the expected future cash flows and the time frame required for their collection. This test takes into account the type, value and enforceability of any guarantees in support of the loan.
- an "automated" individual assessment, carried out on exposures which are below a quantitative materiality threshold set out in the internal regulations or which were not subject to manual assessment before. For these exposures, the assessment is still performed on an individual basis, but is automated, with amounts expected to be recovered being determined through mechanisms based on the evidence of loss contained in the Group's historical archives in relation to different combinations of guarantees, exposures and type of borrowers.

Loans and receivables for which no objective evidence of impairment is individually assessed, are assessed on a collective basis by homogeneous categories in terms of credit risk, with loss rates being estimated by taking account of the time series of losses incurred by each group.

Impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (the discounted recoverable value), and are recognised in profit or loss. For floating-rate loans and receivables, changes in the estimation of future cash flows to reflect the movements in the market rates of interest has the effect of altering the effective interest rate.
If the terms of an existing loan or receivable are renegotiated or otherwise modified due to the financial difficulty of the borrower or the lender, the amount of the loss is measured using the original interest rate effective before the terms were modified.
For financial assets purchased with a large discount that reflects losses on receivables that have already occurred,
it is necessary to include such losses in the estimate for future cash flows in order to determine the effective interest rate.
Any increases in value (reversals) occurring in a subsequent period shall be recognised in profit or loss, for an amount not exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed, provided the increase can be objectively related to an event occurring after the prior impairment loss was recognised.

The provisions for guarantees issued and commitments with third parties are calculated on an individual and collective basis by applying the same criteria as adopted for on-balance-sheet loans. The assessment of risks and charges, with a view to estimating the expenditure required to settle obligations, is made according to the criteria of IAS 37 and its related provision is posted to the balance sheet item "Other Liabilities", as set forth by Bank of Italy's Circular no. 262/2005.

Derecognition criteria

Loans and receivables are derecognised when they are sold, substantially transferring all related risks and rewards, or when the contractual rights to their cash flows expire, or when the loan or

receivable is considered fully or partially irrecoverable.
In this regard, IAS 39[3] specifies that:

- o the exchange between two debt instruments with substantially different contractual terms must be accounted for as a repayment of the original item and a recognition of a new financial instrument;
- o Similarly, a substantial modification of the terms of an existing financial asset or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial asset and the recognition of a new financial asset;
- o the terms are considered as substantially different if the discounted present value of the cash flows under the new terms, discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the cash flows of the original financial asset.
- o The difference between the carrying amount of the extinguished financial asset and the fair value of the new asset, shall be recognised in profit or loss.

IFRIC 19 provides the following guidance to address the accounting treatment of a financial liability settled, in full or in part, by equity instruments issued by the debtor:

- o the equity instruments issued cause the derecognition of the financial liability;
- o the value of the equity instrument is 'consideration paid' to extinguish the financial liability;
- o the equity instrument issued should be measured at its fair value;
- o The difference between the carrying amount of the derecognised liability and the initial value of the equity instrument should be recognised in the income statement.

For securitisations, retained securitisations and disposal transactions structured for the purpose of issuing Group-originated covered bonds, the assets were not derecognised from the financial statements of the transferring entities because the originator substantially retains all the risks and rewards in all of these transactions.
Securities subscribed for by third parties are posted in the Liabilities to the item "Debt securities in issue". Liquidity deposited by the special-purpose vehicles with entities outside the Group is posted to the item "Loans to banks" of the Assets.

Criteria for the recognition of income

Interest and similar income relating to loans and receivables is recognised on an accrual basis as "Interest and similar income", using the effective interest method for loans and receivables other than short-term receivables (with term to maturity up to 12 months), with an indefinite life or revolving.
Gains and losses from disposal of loans and receivables are recognised through profit or loss in the period in which they arise and are posted to the item "Gains (losses) from disposal/repurchase - L&R".
Losses and reversals on loans, guarantees issued and commitments are posted in profit or loss to "Net losses/reversals on impairment of loans" and include recoveries associated with time value.
The adjustments and write-backs on impaired loans are represented, as specified by Bank of Italy Circular no. 262/2005, as "Specific Value Adjustments and Write-Backs".

[3] Specifically, paragraphs 26, 39, 40, 41 and AG62 (and paragraphs 39, 40, 41 and AG62 refer to financial liabilities but have been deemed analogously applicable to financial assets).

5. FINANCIAL ASSETS ASSESSED AT FAIR VALUE

The Banca Carige Group does not have any financial assets assessed at fair value.

6. HEDGING DERIVATIVES

Classification criteria

The aim of risk hedging transactions is to neutralise potential losses on a given element or group of elements (hedged item) attributable to a specified risk, through profits achieved on a different element or group of elements (hedging instrument) should the risk-related event actually occur.

The types of hedging under IAS 39 include:

- fair value hedge: a hedge of the exposure to adverse changes in fair value of financial assets and liabilities that is attributable to a particular risk;
- cash flow hedge: a hedge of the exposure to adverse variability in expected future cash flows that is attributable to a financial asset or liability or a highly probable forecast transaction.
- hedge of a net investment in a foreign operation: a hedge of the exposure to adverse variability in expected future cash flows of a foreign currency operation.

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item, the nature of the risk being hedged and the criteria to assess the hedging instrument's effectiveness;
- the hedge is expected to be "highly effective" i.e. changes in the hedged item's fair value or cash flows are expected to be almost completely offset by corresponding changes in the hedging instrument. This offsetting effect is expected to be achieved consistently with the originally documented risk management strategy (for that particular hedging relationship). Furthermore, the effectiveness of the hedge (and, therefore, the related fair value) must be reliably measured;
- The effectiveness of the hedge is assessed at inception and on an ongoing basis throughout the financial reporting periods for which the hedge was designated. A hedge is regarded as highly effective if, at the inception of the hedge and in subsequent periods, changes in the hedged item's fair value or cash flows are expected to be almost completely offset by corresponding changes in the hedging instrument, and if the actual results of the hedge demonstrate that it was effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, within a range of 80-125 per cent;
- Effectiveness is assessed at the time the annual or interim financial statements are prepared;
- In the event of a hedge of forecast transactions, the finalisation of the transaction must be highly probable.

Only instruments that involve a party external to the reporting entity can be designated as hedging instruments.

The following types of hedges are considered by the Group, which uses only derivative contracts as hedging instruments:

- fair value hedges: used to hedge interest rate risk for specific, individually identifiable items - such as loans to customers, securities classified under assets available for sale, bond loans- and

to hedge foreign exchange risk;
- o cash flow hedges: used to hedge exposure to variability in future cash flows that are attributable to items in the financial statements or forecast transactions involving portfolios of liabilities (in which the individual elements are not identified) and specifically identified individual elements, such as bond loans.

Recognition criteria

Hedging derivatives are initially recognised at fair value, usually for an amount equal to the price paid, less transaction costs or proceeds that are directly attributable to the financial asset, which are recognised directly in profit or loss.

Assessment criteria

After initial recognition, hedging derivatives are designated at fair value.

The criteria adopted for measuring the fair value of financial instruments are reported in Section A.4, "Information on Fair value".

Transactions in derivative settled through central clearing platforms, are subject to netting of positive and negative values under IAS 32, applying the conventional criteria described in Circular 262/2005, when both of the following requirements are met:

a) an entity has a legally enforceable right to set off the recognised amounts; and

b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

For fair value hedges, changes in fair value attributable to both derivative contracts and to the hedged risks of each hedged instrument are recognised in profit or loss as "Net profit (loss) from hedging".

The Bank availed itself of the option of discontinuing the hedge accounting amortisation of the adjustment to the hedged item until the hedging relationship remains effective. For cash flow hedges, only derivative contracts are accounted for: If the hedging relationship is 100% effective, the change in the fair value of the derivative contract is accounted for as an offsetting entry to movements in the cash flow hedge valuation reserve, whereas, if the hedging relationship is totally or partly ineffective, the share of fair value associated with the ineffective portion is recognised in profit or loss as "Net profit (loss) from trading".

More specifically:

- o the share of profit or loss associated with the hedging derivative that, in absolute amounts, equals the change in fair value of the expected future cash flows on the hedged items is recognised in equity; any share of profit or loss associated with the hedging derivative that, in absolute amounts, exceeds the change in fair value of the expected future cash flows on the hedged items is immediately recognised in profit or loss ("over-hedging");
- o if the cumulative gain or loss on the hedged item exceeds the cumulative gain or loss on the hedging instrument ("under-hedging"), the change in the derivative's fair value is recognised in equity;
- o the equity reserve is "released" to profit or loss in the period (or periods) in which movements of hedged items are registered in the income statement (for example when amortisation, interest or capital losses are booked). However, if it is expected that all loss, or a part thereof, recognised as shareholders' equity is not recovered in one or more future financial years, it must be recognised as a reclassification adjustment in the Income Statement.

Derecognition criteria

For fair value hedges, an entity shall discontinue prospectively the hedge accounting if:

a) the hedging instrument expires or is sold, terminated or exercised;
b) the hedge no longer meets the criteria for hedge accounting described above;
c) the entity revokes the designation.

If the hedged financial instruments are assets or liabilities which are carried at amortised cost, the cumulative change in fair value identified in prior periods is recognised in profit or loss as "Interest" using the effective interest method.

For cash flow hedges, an entity shall discontinue prospectively the hedge accounting if:

a) the hedging instrument expires or is sold, terminated or exercised.
b) In this case, the cumulative gain or loss on the hedging instrument that has been recognised in equity from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs;
c) the hedge no longer meets the criteria for hedge accounting described above; In this case, the cumulative gain or loss on the hedging instrument that has been recognised in equity from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs;
d) the forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that has been recognised in equity from the period when the hedge was effective, shall be reclassified from equity to profit or loss as "Net profit (loss) from trading";
e) the entity revokes the designation. For hedges of a forecast transaction, the cumulative gain or loss on the hedging instrument that has been recognised in equity from the period when the hedge was effective, shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur. If the transaction is no longer expected to occur, the cumulative gain (or loss) that had been recognised in equity shall be reclassified from equity to profit or loss as "Net profit (loss) from trading".

Criteria for the recognition of income

Recognised as "Interest and similar income" and "Interest and similar expense" are the spreads and margins accrued over hedging derivative contracts (with the items 'Interest' also including interest relating to the hedged financial instruments).

For fair value hedges, the gains or losses from measuring the derivative contracts and hedged items are recognised in profit or loss for the period in which they arise and are posted to "Net profit (loss) from trading".

For cash flow hedges, the amounts of valuation reserves that are recycled to profit or loss when forecast transactions are no longer considered probable or when losses allocated to such reserves are expected not to be recovered, are recognised in profit or loss as "Net profit (loss) from trading".

7. EQUITY INVESTMENTS

Classification criteria

This category includes investments in associates, i.e. Entities over which an investor has significant influence.

It is presumed that a company is subject to significant influence when at least 20% of the voting

rights are held and, in any event, in cases in which the power to participate in the company's management and financial decisions, in relation to specific agreements ("shareholders' agreements"), with the purpose of ensuring representation in the management bodies and safeguarding the unitary nature of the management, without, however, configuring situations of corporate control.
Similarly classified under this item are any investments in subsidiaries, which are excluded from line-by-line consolidation.
"Non-controlling interests" are classified under Financial Assets Available for Sale.

Criteria for classification and measurement
Investments are initially recognised on the settlement date.
Investments in subsidiaries excluded from the scope of line-by-line consolidation and in entities subject to significant influence exempt from application of the equity method for being considered non-significant are recognised at cost.
The equity method is applied to investments in companies subject to significant influence.
The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the change in the investor's share of net assets of the investee.
The share of changes in net assets arising from profit or loss of the investee is recognised in profit or loss as "Profits (losses) on equity investments"; the share of changes in net assets arising in the financial statements of the investee without passing through profit or loss are instead posted directly to the item "Reserves".
The difference between the cost of the investment and the share of net assets acquired is treated using a similar approach to line-by-line consolidation, except that if there is a positive residual difference (goodwill), it is not separately recognised among intangible assets (and therefore tested for impairment separately), but continues to be posted to Equity Investments.

At the end of each annual or interim reporting period, a review is performed to determine whether there is any indication that an equity investment may be impaired. As a minimum, these indications coincide with the following internal and external sources of information:
- the equity investment's value has declined during the period;
- changes have taken place in the environment in which the investee operates;
- market interest rates have increased during the period;
- the economic performance of the investment is, or will be, worse than expected.
If any one of these conditions is met, the recoverable amount of the investment is calculated, i.e. the higher of its fair value less costs to sell and its value in use. If the recoverable value proves less than the accounting value, the equity investment is written down.
The value in use is calculated as the present value of future cash flows generated by the investment, applying a market rate on these flows which is reflective of the cost of equity and risks specific to the investment. When calculating the value in use it is also necessary to discount the final value of the presumed disposal of the investment on the basis of a hypothetical price that is agreed in an arm's length transaction between independent, knowledgeable, willing parties.
If an impairment loss recognised in prior periods no longer exists or has decreased, the carrying amount is increased to the cost value prior to impairment.

Derecognition criteria
Equity investments are derecognised when they are sold, substantially transferring all related risks

and rewards, or when the contractual rights to the cash flows expire.

Criteria for the recognition of income

Value adjustments and write-backs associated with the impairment of investments and the profits or losses resulting from the sale of investments are recorded under the item “Profit (Loss) on Investments” in the period in which they occur.

The value of the equity investments is reduced by dividend periodically received by the Group which is recognised in “Dividend and similar income”, at the time when the right to payment arises.

8. PROPERTY AND EQUIPMENT

Classification criteria

This category includes land and buildings used in operations or held for investment, movable properties, equipment, machinery and artwork.

Property and equipment held for use in production or for the supply of goods and services are classified as “assets used in operations” in accordance with IAS 16.

Property owned for investment purposes (for rent income or for the appreciation of the capital invested) is classified as "investment property" in accordance with IAS 40.

Recognition criteria

An item of property, plant and equipment is initially recognised at cost, which comprises its purchase price (after deducting trade discounts and rebates), including any costs directly attributable to purchasing and bringing the asset to the location and condition necessary for it to be capable of operating.

The purchase price also includes the cost of non-recurring maintenance on owned property that is capitalized with an increment in the value of the asset resulting in a significant and tangible increase in productivity and/or an increase in the useful life of the asset[4].

For a description of non-recurring expenses for maintenance on third party premises, please see the specific paragraph of Section “17 - Other information”[5].

Assessment criteria

After initial recognition, property plant and equipment is measured at purchase cost less accumulated depreciation and less accumulated impairment losses.

Items of property, plant and equipment are systematically depreciated using the straight-line method which applies a constant rate over their useful life, except for:

- land, acquired separately or incorporated in the property value, which is not depreciated given its indefinite life. Separation of the property value from the land and building value, for all properties, is based on appraisals by experts registered with professional associations;
- artwork, which is not depreciated as its useful life cannot be estimated and the value is normally expected to increase in the long term.

[4] On the other hand, the costs of day-to-day servicing of the assets owned by the Company are recognised in profit or loss as incurred, given the fact that they are of a recurring nature and are intended to maintain the asset in good working order.

[5] On first-time adoption of the IASs/IFRSs, properties used in operations and investment properties owned by the Group’s credit institutions were recognised at fair value as a replacement for their deemed cost; the separate values of land and buildings were reported, with consequent reversal of the accumulated depreciation of land to the Equity reserve.

Unless the useful life of the individual assets is specifically determined otherwise, the depreciation period is calculated by using the following general criteria:

- for buildings, at an annual standard rate of 1.5%;
- for other property and equipment, at rates judged appropriate also from an accounting perspective.

At least at the end of each annual reporting period, a review is performed to determine whether there is any indication that property and equipment may be impaired. This valuation is based on internal and external sources of information.

If there is an indication that the asset may be impaired, the asset's carrying amount is compared with its recoverable amount ("impairment test"), with the latter being defined as the higher of the asset's fair value less costs to sell and its value in use.

Impairment losses are recognised in profit or loss.

Where the reasons for impairment cease to exist, a reversal is recognised in profit or loss, which shall not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

Derecognition criteria

Items of property, plant and equipment are derecognised when they are discontinued or when no future economic benefits are expected from their use.

Criteria for the recognition of income

Depreciation and any impairment losses/reversals are recognised in profit or loss as "Net adjustments to/recoveries on property and equipment".

Gains and losses from disposal are recognised as "Profits (losses) on disposal of investments" in the period in which they arise.

9. INTANGIBLE ASSETS

Classification criteria

Goodwill and other intangible assets are classified in this category.

Goodwill is the positive difference between the purchase cost and the fair value of the assets and liabilities acquired in a business combination.

Other intangible assets, other than goodwill, are recognised if they are identifiable as such, i.e. if they lack physical substance, arise from contractual or other legal rights and are capable of generating future economic benefits.

Criteria for recognition and measurement

An intangible asset is recognised only if it can be demonstrated that:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity;
- the cost of the asset can be measured reliably.

Goodwill is recognised when the positive difference between the fair value of the assets acquired and liabilities assumed and their acquisition amounts, including additional expense, represents the

future economic benefits arising from the items acquired.
If the difference is negative (badwill) or if goodwill is not justifiable on the basis of future earnings capacity, the difference is recognised directly to profit or loss. Goodwill is not amortised. However, for financial statements purposes it is tested for impairment annually or when there is evidence of impairment.
The total impairment is calculated on the basis of the difference between the carrying amount of goodwill and its recoverable amount, if lower: the resulting adjustment is recognised in profit or loss.

Other intangible assets are measured at their adjusted cost, i.e. the initial acquisition cost including directly attributable expense, net of amortisation and impairment and gross of any revaluation, with breakdown of the amount to be amortised according to the useful life of the intangible asset.
The amortisation of intangible assets occurs on a straight line basis over their useful life and is recognised as a direct decrease in asset value.
At the end of each reporting period, if there is evidence that an asset may be impaired, then the asset's recoverable amount is estimated. The amount of the loss recognised in profit and loss is equal to the difference between the carrying amount and the recoverable amount of the asset.

Derecognition criteria
Intangible assets are derecognised when they are discontinued or when they are no longer capable of producing future economic benefits.
The gain or loss arising from the disposal or discontinuation of an intangible asset shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset.

Criteria for the recognition of income
Any adjustments to the value of goodwill are recognised as “Impairment losses on goodwill”.
Any depreciation or impairment losses/reversals of other intangible assets are recognised in profit or loss as “Net adjustments to/recoveries on intangible assets”
Gains and losses from disposal are instead recognised as “Profits (losses) on disposal of investments” in the period in which they arise.

10. NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE

Classification criteria
Individual assets and groups of assets held for sale referred to in IFRS 5 and associated liabilities are classified in the items “Non-current assets and groups of assets held for sale” and “Liabilities associated with assets held for sale”.
The classification of these items is possible if a disposal process has been initiated for individual assets or groups of assets and if their sale is deemed highly likely.

Criteria for recognition and measurement
Immediately before the classification of the individual assets or groups of assets and liabilities held for sale under the items “Non-current assets and groups of assets held for sale” and “Liabilities

associated with assets held for sale", the accounting value of the assets and liabilities is remeasured by applying the reference accounting principles.
These assets and liabilities as measured at the lower value between the carrying amount and the fair value, net of sale costs.

Derecognition criteria
The individual assets and groups of assets held for sale and associated liabilities are derecognised following their disposal.

Criteria for the recognition of income
Tangible and intangible assets held for sale are no longer subject to amortisation.
Separate exposure is provided for in the item "Profit (Loss) of groups of assets held for sale net of tax" in the Income Statement for only risks and charges (net of related taxes) relating to discontinued operations.

11. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

Criteria for recognition and classification
Current tax assets and liabilities represent the net fiscal position of the Group companies with respect to Italian and foreign tax authorities. In particular, these amounts represent the net balance of current fiscal liabilities for the year, calculated on the basis of a conservative forecast of the tax charge for the year, determined on the basis of currently applicable tax regulations, and current tax assets represented by tax paid in advance and other tax credits for tax withholdings or other tax credits from previous years that the Group companies have requested to offset against tax due in subsequent years.
Current tax assets also represent tax credit that the Group companies have requested the relevant authorities to reimburse.
Income tax, calculated in accordance with national tax legislation, is booked as a cost on an accrual basis, in accordance with the method of recognizing costs and revenues that generate it.
Taking into account the adoption of "national tax consolidation" by the Group, the tax position of the Parent Company and that of the other Group companies is managed individually from an administrative point of view.
Income tax provisions are calculated according to a forecast of the current, prepaid and deferred tax charges. Specifically, prepaid and deferred taxes are determined according to temporary differences - without time limits - between the value attributed to an asset or liability, based on statutory criteria and the corresponding values are assumed for tax purposes.

Measurement criteria
Deferred tax assets are recognised to the financial statements to the extent their recovery is probable, assessed on the basis of the continued capacity of the company or parent company involved - taking into consideration the effect of exercise of the tax consolidation option - to generate positive taxable income.
Those deferred tax assets which, in accordance with Law 214/2011, under certain conditions, are transformed into tax credits, do not require, unlike the others, any tests to assess their recovery

potential and hence they are automatically recognised.
Deferred tax liabilities are recognised in the financial statements with the sole exception of reserves under tax suspension, insofar as the distribution of such items is not foreseeable.
Deferred tax assets and liabilities are recognised in the balance sheet, with open balances and without offsetting, under tax assets and tax liabilities, respectively.
Deferred tax assets referenced in Law 214/2011 are recognised in a dedicated sub-item of the item "Deferred tax assets". Deferred tax assets and liabilities are systematically assessed to take into account any changes in regulations or tax rates.
The tax liabilities total is adjusted to meet charges that could derive from findings already notified or in any event from disputes pending with tax authorities.

Criteria for the recognition of income
Deferred tax assets and liabilities are typically recognised in profit or loss as "Taxes on profit (loss) for the period from continuing operations".
An exception is represented by deferred tax assets or liabilities arising from transactions that are directly recognised in equity, which must thus refer to this equity item. Another exception consists in the assets and liabilities from business combinations, which are part of goodwill value calculation.

12. ALLOWANCES FOR RISKS AND CHARGES

Allowances for pensions and similar obligations
Allowances for pensions and similar obligations, as envisaged in specific regulations, are recognised among liabilities for an amount sufficient to ensure that obligations arising from commitments are met as required by the related regulations.
The total Supplementary Pension Fund is calculated by an independent actuary using actuarial methods.
Allowances for pensions and for similar obligations are included among post-employment benefits, i.e. among compensation paid to employees upon termination of employment.
According to IAS 19, these benefits can be classified as "defined contribution plans" or "defined benefit plans", depending on the economic nature and on the main terms and conditions of the plan:

a) defined contribution plans, in which the entity pays fixed contributions to a distinct entity (a fund) without having a legal or constructive obligation to pay additional contributions if the fund's assets are not sufficient to pay all employee benefits relating to the work performed in the current year and in previous ones; the actuarial risk (benefits are lower than expected) and the investment risk (invested assets are insufficient to fulfil expected benefits) are not borne by the entity but by the employee.
The contributions to be paid to a defined contribution plan are recognised as follows:

- as liabilities, after subtracting any contributions already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another International Accounting Standard requires or permits recognition

as an asset.
Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, the rate used to discount them shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no market for such bonds, the market yields (at the end of the reporting period) on government bonds shall be used.

b) defined benefit plans, in which the company guarantees certain services, regardless of the contribution, being liable for both the actuarial risk and the investment risk.
For defined benefit pension funds the annual variation in the Defined Benefit Obligation is booked to the income statement, as regards cost components (Service cost), and as regards financial components (Net interest on the net defined benefit liability/asset).
The valuation component, comprising actuarial profits and losses originating from adjustments of the previous actuarial hypotheses formulated, is recognised in the Shareholders' Equity Reserve ("Valuation Reserves" item). Subsequent reclassification to profit or loss of amounts recognised in equity is prohibited, whereas reclassification to other components of equity (reserves from allocation of profit) is allowed.
The defined benefit plans also include the provision for employee severance pay (for a description of the adopted criteria refer to Paragraph "17 - Other information").

The profit or loss for the settlement of a benefit plan ("settlement") is the difference between:
a) the current value of the obligation for defined benefits to be settled, determined at the date of settlement; and
b) the settlement price, including all transferred plan assets and all payments effected directly by the entity for the settlement.

The profit or loss for the benefit plan settlement is entered in the income statement when the settlement occurs.
The allocation to the income statement of the "past service cost" - corresponding to the variations in current value of the defined benefit obligation for past services, deriving from changes or reductions in the plan ("plan amendments" and "curtailments") - are effected on the first of the following two dates:
a) when an amendment or curtailment to the plan is made; and
b) when the entity records the related restructuring costs or the benefits due to employees on termination of the employment relationship.

Before determining the "past service cost" or a profit or loss for the settlement of the plan, the net liability (asset) of the defined benefits must be redetermined using the fair value of the plan assets and the current actuarial assumptions (including current market interest rates and other current market prices), reflecting the benefits offered in the plan before these were amended, curtailed or settled.
A settlement occurs at the same time as an amendment or curtailment of the plan if the plan is terminated, resulting in the obligation being settled and the plan ceasing to exist. The conclusion of the plan however does not constitute a settlement if it is replaced by a new plan guaranteeing substantially identical benefits.
Additional information is provided in Section "12 - Allowances for risks and charges" of the Explanatory Notes, part B - Balance Sheet.

Other allowances

Allocation to the allowances for risks and charges shall be recognised when all the following three conditions are met:

a) an entity has a present obligation (legal or constructive) as a result of a past event;
b) it is likely that an outflow of resources will be required to settle the obligation; and
c) a reliable estimate can be made of the amount of the obligation.

The probability that an outflow of resources will be required to settle the obligation shall be understood as it being more probable than not that the event will occur;

The amount recognised as a provision for risks and charges shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. The estimates are determined by experience of similar transactions and reports from independent experts.

"Other allowances" include allowances for liabilities of an uncertain amount or with an uncertain expiry date such as those related to presumed losses from legal disputes, including creditors' clawback lawsuits, or estimated outlays for any customer claims or other legal or constructive obligations that may be in existence at the end of the year.

“Other allowances" also include other long term employee benefits and employee incentives for termination of long term employment.

The allowances related to other long term employee benefits are those paid during employment that are not entirely due within the twelve month period following the end of the financial year during which the employees rendered their service and which are determined by the same actuarial criteria as provided for pension funds, recognising actuarial profits and losses immediately in the Income Statement.

Incentives for terminating employment are recognised at a time when the company is unable to withdraw from offering benefits; such liability is recognised before this date if restructuring costs that fall within the scope of IAS 37 are recognised and there are provisions for the payment of benefits in exchange for termination of employment.

The following allowances apply for the initial and subsequent recognition of the incentives for terminating employment:

- "post-employment benefits", in the event that the benefits due for terminating employment are an improvement of the benefits following employment;
- “short term benefits”, to be recognised on an accrual basis in the period in which the work is carried out, if it is believed that the benefits will be fully paid within the twelve month period following the end of the year in which these benefits are recognised;
- “other long term benefits”, if it is believed that the benefits will not be fully paid within the twelve month period following the end of the year in which these benefits are recognised.

The allowances are re-examined at the end of each year and adjusted to reflect the current best estimate; if the passage of time has a significant effect on the value of the obligation, the flow of resources assumed necessary to extinguish the obligation is discounted. The net allowances for the year are entered under “Net allowances for risks and charges" in the Income Statement; with the

exception of economic items relative to employee benefits that, to better reflect their nature, are recorded under "Administrative expenses – Personnel costs".
If, upon re-examination, the occurrence of the expense appears not probable, the provision will be reversed and recorded in the Income Statement under item "Net allowances for risks and charges".

13. PAYABLES AND SECURITIES ISSUED

Classification criteria

This category includes financial liabilities other than those assessed at fair value with changes recognised in the income statement (see Sections 14 and 15), included under the financial statement items "Payables to banks", "Loans to customers" and "Securities issued".
Securities issued include unsubordinated and subordinated bonds issued and certificates of deposit.

Recognition criteria

"Other financial liabilities" are initially recognised upon receipt of the cash flows or issuance of the debt securities, at the fair value of the liabilities, normally consisting in the consideration received or price of issuance, plus transaction costs directly attributable to the issuance.
Transaction costs and proceeds directly attributable to the initial recognition of liabilities are incremental costs directly attributable to the issue or disposal of the financial liabilities, which can be immediately determined as at that date; transaction costs do not include costs which, although having the same characteristics, may be subject to repayment by the counterparty or included under normal internal administrative costs.
The fair value of any financial liabilities, issued at terms below arm's length, is estimated and the difference compared to their market value is recognised directly in profit or loss.
The fair value measurement methods used for liabilities and securities issued are described in paragraph A.4 "Information on Fair Value" in the Notes to the Financial Statements.

Measurement criteria

After initial recognition, "Other financial liabilities" are measured at amortised cost, using the effective interest method (for a description of the amortised cost method, please see Section 4).
A new placement of repurchased own bonds on the market (or, similarly, a repurchase agreement transaction -for funding purposes- with self-issued bonds as the underlying) is considered as a new issuance, consequently increasing the value of the financial liability with no recognition of any profit or loss from trading.

Derecognition criteria

"Other financial liabilities" are derecognised when they expire or are repaid or repurchased in the case of previously issued securities. In this last case, the difference between the carrying amount and the purchase cost is recognised through profit or loss.
Moreover, IAS 39 clarifies that:

- the exchange between two debt instruments with substantially different contractual terms must be accounted for as a repayment of the original item and a recognition of a new financial instrument;
- similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an

extinguishment of the original financial liability and the recognition of a new financial liability.

- o the terms are considered as substantially different if the present value of the cash flows under the new terms, determined using the original effective interest rate, is at least 10 per cent different from the discounted present value of the cash flows of the original financial liability.
- o the difference between the carrying amount of the financial liability measured at the date of derecognition and the fair value of the new liability shall be recognised in profit or loss.

IFRIC 19 provides the following additional guidance to address the accounting treatment of a financial liability settled, in full or in part, by equity instruments issued by the debtor:

- o the issuance of capital securities involves the derecognition of the debt instrument;
- o the value of the equity instrument is 'consideration paid' to extinguish the financial liability;
- o the equity instrument issued should be measured at its fair value;
- o the difference between the carrying amount of the derecognised liability and the initial value of the equity instrument should be recognised to the profit or loss.

Criteria for the recognition of income

Interest and similar expense relating to “other financial liabilities” is recognised on an accrual basis as “Interest and similar expense”, using the effective interest method for payables other than short-term (with term to maturity up to 12 months), with an indefinite life or revolving.

Gains and losses from trading in financial instruments during the period

are recognised in the Income Statement under the item “Profit/loss from disposal/repurchase - of financial liabilities;

14. FINANCIAL LIABILITIES HELD FOR TRADING

Classification criteria

A financial asset or financial liability is classified as held for trading if it is:

a) acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
c) a derivative contract (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

The category of financial liabilities held for trading includes the negative values of derivative contracts held for trading (positive values are posted under the item “Financial assets held for trading”) and “technical overdrafts” generated from trading securities.

A derivative is a financial instrument or other contract with all three of the following characteristics:

a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract;
b) it requires no initial net investment or an initial net investment that is smaller than would be

required for other types of contracts that would be expected to have a similar response to changes in market factors; and

c) it is settled at a future date.

Derivatives held for trading include those which are operationally linked to financial assets and/or liabilities carried at fair value (subject to the fair value option) or classified as held for trading with settlement of spreads or margins expected to take place on different maturities ("multiflow" contracts) and derivatives embedded in complex financial instruments, which were recognised separately because:

- their economic characteristics and risks are not closely related to the economic characteristics and risks of the host contracts;
- the embedded instruments meet the definition of a derivative contract;
- hybrid instruments are not measured at fair value, with related changes in fair value recognised in profit or loss.

Recognition criteria

Financial liabilities held for trading are initially recognised when they are entered into, at fair value, usually for an amount equal to the consideration received, less transaction costs or proceeds that are directly attributable to the instrument, which are recognised directly in profit or loss.

Measurement criteria

After initial recognition, financial liabilities held for trading are assessed at fair value, with changes in fair value recognised in profit or loss.

The criteria adopted for measuring the fair value of financial instruments are reported in Section "A.4 - Information on fair value".

Transactions in derivative settled through central clearing platforms, are subject to netting of positive and negative values under IAS 32, applying the conventional criteria described in Circular 262/2005, when both of the following requirements are met:

a) an entity has a legally enforceable right to set off the recognised amounts; and

b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derecognition criteria

Financial liabilities held for trading are derecognised when they are repaid, substantially transferring all related risks and rewards, or when the contractual rights to the cash flows expire.

Criteria for the recognition of income

Interest expense on uncovered short positions on securities, as well as spreads and margins on derivatives operationally linked to financial assets and/or liabilities carried at fair value (subject to the fair value option) or classified as held for trading with settlement of spreads or margins expected to take place on different maturities ("multiflow" contracts) are recognised on an accrual basis under the sub-items of interest expense.

Gains and losses from trading and capital gains and losses arising from fair value measurement are recognised through profit or loss in the period in which they arise and are posted to the item "Net profit (loss) from trading", except for the profit or loss components of financial derivative contracts linked to the fair value option which are posted to the item "Net profit (loss) from financial assets and liabilities designated at fair value".

15. FINANCIAL LIABILITIES ASSESSED AT FAIR VALUE

Classification criteria

The financial liabilities valued at fair value are those irrevocably designated at fair value on the basis of the option to do so as per IAS 39, paragraph 9 (the fair value option).

In particular, a financial liability may be designated at inception as a financial liability measured at fair value, only if:

i. the fair value option designation eliminates or significantly reduces the accounting mismatch, which would arise if liabilities were measured with the criteria of different financial instruments which cancel each other out ("natural hedges");
ii. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, based on documented investment or risk management strategies, and information about such group is internally provided to key management personnel (as defined in IAS 24 - Related Party Disclosures) based on the instruments' fair value;
iii. the instrument in question contains one or more embedded derivatives; classification to financial assets designated at fair value is not allowed when:
    a. the embedded derivatives do not significantly modify the cash flows of the host;
    b. it is clear with little or no analysis that separation of the embedded derivatives is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

The Group has classified, in this category, the bonds issued by the Parent Company, the risks of which have been hedged through the conclusion of financial derivative contracts, in order to:

1. measure, at fair value, instruments which cancel each other out ("natural hedges") to eliminate or significantly reduce the accounting mismatch, which would arise if the instruments were measured with different criteria and
2. overcome any difficulties or complexities which would arise from cash flow hedge or fair value hedge accounting.

Derivatives which are operationally linked to bonds issued carried at fair value are classified as derivative contracts held for trading (for a description of the accounting principles for these items, please see Sections 1 and 15).

Reclassification of financial liabilities designated at fair value to or out of other classes of financial instruments is not allowed.

Recognition criteria

Financial liabilities designated at fair value are initially recognised at fair value, normally consisting in the consideration received or price of issuance, less transaction costs or proceeds directly attributable to the instrument, which are recognised directly in profit or loss.

Measurement criteria

After initial recognition, financial liabilities designated at fair value are measured at fair value, with changes in fair value recognised in profit or loss.

The criteria adopted for measuring the fair value of financial instruments are reported in Section

A.4, "Information on Fair value".
A new placement of repurchased own bonds on the market (or, similarly, a repurchase agreement transaction -for funding purposes- with self-issued bonds as the underlying) is considered as a new issuance, consequently increasing the value of the financial liability with no recognition of any profit or loss from trading.
In the case of "natural hedges", the limits set under Legislative Decree no. 38/2005 to the distribution of profits arising from the measurement of liabilities at fair value which are recognised in profit or loss are not applied, given the applicability of article 6, para. 1 a) of the Decree concerning foreign exchange and hedging operations.

Derecognition criteria
Financial liabilities designated at fair value are derecognised when they expire or are repaid or repurchased in the case of previously issued securities. In this latter case, the difference between the carrying amount and the purchase cost is recognised through profit or loss.
Moreover, IAS 39 clarifies that:

- the exchange between two debt instruments with substantially different contractual terms must be accounted for as a repayment of the original item and a recognition of a new financial instrument;
- similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as a repayment of the original financial liability and the recognition of a new financial liability.
- the terms are considered as substantially different if the present value of the cash flows under the new terms, discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the cash flows of the original financial liability.
- the difference between the carrying amount of the financial liability measured at the date of derecognition and the fair value of the new liability shall be recognised in profit or loss.

IFRIC 19 provides the following indications relating to the accounting treatment of the total or partial repayment of a debt with capital instruments issued by the debtor:

- the issuance of capital securities involves the derecognition of the debt instrument;
- the value of the equity instrument is 'consideration paid' to extinguish the financial liability;
- the equity instrument issued should be measured at its fair value;
- the difference between the carrying amount of the derecognised liability and the initial value of the equity instrument should be recognised to profit or loss.

In the event of early unwinding of the derivative contracts but not of the obligations issued, the following criteria apply:

- the bonds continue to be recognised in the financial liabilities category at fair value as they cannot be reclassified to other categories;
- any subsequent gains from the valuation of the bonds cannot be distributed pursuant to Legislative Decree no. 38/2005.

Criteria for the recognition of income
Interest and similar expense on bonds issued carried at fair value are recognised on an accrual basis under the "Interest and similar expense" (Interest items also include spreads and margins on derivative contracts operationally linked to bonds carried at fair value).
Gains and losses from trading and capital gains and losses arising from fair value measurement of

bonds issued carried at fair value and derivative contracts related thereto are recognised through profit or loss as "Net profit (loss) from disposal/repurchase of financial liabilities" in the period in which they arise.

16. FOREIGN-CURRENCY TRANSACTIONS

Upon initial recognition, foreign operations are recognised in the currency of account, applying the current exchange rate to the amount in foreign currency as at the transaction date.
Monetary items are the currency units held, assets to be received and liabilities to be paid in a fixed or determinable number; conversely, non-monetary items are those items which provide no legal right to receive or obligation to deliver a fixed or determinable number of currency units.
Balance sheet entries denominated in foreign currencies are valued at the end of each annual or interim reporting period as follows:

- cash items are translated at the period-end exchange rate;
- non-cash items, measured at their historic cost in a foreign currency, are translated at the transaction date exchange rate;
- non-cash items, measured at fair value in a foreign currency, are translated at the period-end exchange rate.

Exchange differences from the measurement of non-cash items classified under financial assets available for sale are recognised in profit and loss or equity based on whether or not they are involved in fair value hedges of foreign currency risk.
Other exchange differences from disposal or translation differences on items in a foreign currency are recognised to profit or loss.

17. OTHER INFORMATION

- Share-based payments

The Group Banks' remuneration policies are in line with Title IV, Chapter 2 "Remuneration and Incentive Policies and Practices" of Bank of Italy's Circular letter no. 285/2013 and define the structure of the employees' variable salary component, which involves the award of an annual bonus, with payout structured as follows:

- for identified staff, the bonus is partly paid up-front (in cash and financial instruments) and partly deferred (in cash and financial instruments);
- for remaining staff, the bonus is paid up-front in cash. For staff who are assigned individual targets, if the variable component is 50% of the annual gross salary (AGS), the Board of Directors may resolve that a 40% share of the bonus may follow the deferral rules foreseen for Identified Staff, without prejudice to maintaining the same forms of payment and criteria of internal consistency and fairness.

The components consisting in financial instruments will be paid in shares and/or performance units and/or the categories of financial instruments identified in Commission Delegated Regulation (EU) No 527/2014 with regard to regulatory technical standards specifying the classes of instruments that are appropriate to be used for the purposes of variable remuneration.
The components consisting in Performance Units are denominated in "virtual" shares which will be

awarded at the end of the vesting period, based on the performance achieved and converted into cash according to the change in value of the underlying shares between the beginning of the vesting period and conversion into cash. The value of the incentive is therefore linked to changes in the value of Carige's stock.

Benefits for employees paid in financial instruments fall within the scope of application of IFRS 2, with particular regard to share-based, cash-settled payment awards made to employees.

Related charges are entered into items "Administrative expenses – Personnel expenses" and "Other liabilities" upon occurrence of expected conditions.

Financial liabilities are measured at fair value by using an option-pricing model, thus considering the terms and conditions according to which the revaluation rights have been assigned, as well as to what extent the staff rendered its services until that date.

Until the liability is settled, the related fair value is re-measured at each reporting date and at the date of settlement, with all changes in fair value being recognised in profit or loss.

- Treasury shares

Treasury shares held are deducted from shareholders' equity.

Profits or losses on transactions in treasury shares are recognised to a specific equity reserve; changes in the fair value of treasury shares shall not be recognised.

Additional information is provided in Section "15 - Group Equity" of the Notes to the Financial Statements, part B - Balance Sheet.

- Methods for determining value losses of securities in the portfolio

Securities classified as Financial assets available for sale, and loans and receivables are periodically tested for impairment to identify any objective evidence of significant or durable loss of value.

At the end of each annual or interim reporting period, impairment testing is performed and any impairment is recognised to the income statement, at market prices for listed financial instruments and at the current value of estimated future cash flows (discounted at the effective interest rate) for unlisted instruments. A negative change in fair value is considered for impairment testing purposes only if it is deemed permanent; in this case, the cumulative loss for the year and any shareholders' equity reserves are recognised to the income statement.

The impairment testing process is triggered by one of the following conditions: a decrease in fair value greater than 20% (for unstructured debt securities) or 25% (for equities and structured debt securities) compared to their book value, or a persistent and constant decrease in fair value for more than 12 months (debt securities) or 18 months (for other financial instruments).

With reference solely to equity instruments (Shares, Mutual Funds, Private Equity, Hedge Funds, etc.), if the quantitative parameters indicated below are exceeded, this determines, in any case, the "automatic impairment":

- Severity greater than 30% or
- Durability greater than 24 months.

With regard to debt securities, following the quantitative stage described above, before recognition of impairment, a qualitative assessment is performed for each financial instrument, including an analysis of issuer fundamentals.

The securities selected in the quantitative phase and not subject to the recognition of "automatic" impairment are subject, upon preparation of half-year and full-year reports, to an additional qualitative assessment phase targeted at a prior verification of the actual existence of the requirements of loss durability and severity, also in relative terms, in particular with respect to the performance of their respective markets/sectors, except for exceptional and justified cases, over a time period of 12 (debt instruments) or 18 months (equity instruments) prior to the date of the impairment test, in order to support any decisions on whether to impair the securities or not. The longest observation period for the latter is related to their higher volatility.

When there is objective evidence of impairment, the following action is taken:

- L&R or HTM investments recognised at amortised cost: impairment is measured as the difference between the book value of the asset and the present value of estimated future cash flows (excluding unrealised future losses), discounted at the original effective interest rate of the financial asset (e.g. the effective interest rate calculated on initial recognition);
- AFS financial assets: as required by paragraph 67, IAS 39, "the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised". In practice, the difference between the current amortised cost and the fair value as at the reference date is recognised in profit or loss as a contra-entry to the::
  - reversal from the AFS valuation reserve of the previous year and
  - decrease in securities by an amount equal to the difference between the carrying amount and the related fair value as at the date of reference.

- Repurchase agreements upon repurchased own debt securities

Repurchase agreements (liabilities) with repurchased own debt as underlying are recognised as new placement on the securities market by increasing the liabilities of securities issued or liabilities designated at fair value through profit and loss, with recognition of the obligation to repay securities at repo maturity, for the purposes of interest rate and liquidity risk disclosure as per Part E of the Explanatory Notes.

Similarly, repurchase agreement transactions with banking and financial counterparties with securities issued by the same entities as underlying are entered in purchased securities portfolios, with recognition of the commitment to reselling these securities at repo maturity.

- Recognition of revenues and related costs

Revenues are recognised upon attainment, or:

a) in the case of selling goods or products, when it is probable that future benefits will be received and said benefits can be reliably quantified;

b) in the case of services, when these are provided. In particular:

- dividends are recognised in profit or loss as at the date of the Shareholders' Meeting resolution approving their distribution;
- Interest income and interest expense is calculated on a pro rata basis on the basis of the contractual interest rate or the effective interest rate in the event of application of the amortised cost; The amortised cost method is not applied to short-term financial instruments (with term to maturity up to 12 months), with an indefinite life or revolving inasmuch as the effects of application of discounted cash flows are deemed negligible. These types of financial instruments are therefore measured at their historical cost;;
- negative interest relating to financial assets and liabilities) is presented, in line with guidance for FINREP supervisory reporting, respectively under items "Interest and similar expense" and "Interest and similar income" in profit or loss;
- gains and losses from trading in financial instruments are recognised through profit or loss in the

period in which they arise;
- revenues deriving from the sale of non-financial assets are recognised on completion of the sale;
- fee and commission income and income deriving from the provision of services are recognised in the financial statements during the period in which the services are provided.

Expenditures are recognised in profit and loss for the periods in which the related revenues are recognised.

If cost-revenue association is not feasible, the costs are immediately recognised in profit or loss.

- Non-recurring expenses for maintenance on third party premises

This relates to costs incurred for the renovation of third-party properties that can be capitalised as the rental agreement establishes a form of control over the asset and the Bank can therefore expect future economic benefits.

These costs are recognised to "Other assets" in accordance with the Bank of Italy instructions on financial statements, which only require such costs to be recognised as "Property and equipment", only when expenses for the improvement of third-party assets can be identified and separated.

These expenses are amortised over the residual duration of the lease and are recognised in full to the Income Statement in the event of vacation of the premises prior to expiry of the lease.

The amortisation provision for the period is allocated to the Income Statement under "Other operating expenses and income".

- Employee termination indemnity (severance pay)

Employee severance indemnities are recognised according to their actuarial value as determined by an independent actuary.

For discounting purposes the projected unit credit method is used, which considers the projection of future outlay based on historic and statistical analysis and demographic curve analysis. The discounting rate is a market interest rate.

Contributions paid each year are considered separately and recognised and measured individually to calculate the final obligation.

In accordance with IAS 19, employee severance indemnities are a "post-employment benefit".

Specifically, for employee severance indemnities:

- the portions of employee termination indemnities accruing after 1 January 2007 contribute towards a "defined contribution plan" both in the case of employees choosing the option of a supplementary pension and of allocation to the INPS (Italian National Social Security Authority) Treasury fund . The amount is therefore calculated on the basis of contributions due, without application of actuarial calculation methods;
- the employee severance indemnity provision accrued as at 31 December 2006 is considered a "defined benefit plan" with the consequent need to perform an actuarial assessment without the proportional attribution of the benefit to the period of service provided, as the work activity to be valued is considered fully matured as a result of the change in the accounting nature of the portions accrued as of 1 January 2007 (date of entry into force of the supplementary pension reform pursuant to Legislative Decree no. 252 of 5 December 2005).

Additional information is provided in Section "11 - Employee severance indemnity" of the Notes to the Financial Statements, Part B - Balance Sheet.

- Consob proceedings under Articles 157, paragraph 2 (2013 financial statements appeal) and 154-*ter* of the Consolidated Law on Finance

With a notice served on the Bank on 9 January 2015 and disclosed by the Bank via a press release issued on the same date, the Italian Securities and Exchange Commission initiate a civil case in the Court of Genoa pursuant to Article 157, paragraph 2, of the Consolidated Law on Finance seeking a declaration of nullity or annulment of the Shareholders' Meeting resolution of 30 April 2014 approving Banca Carige's separate Financial Statements as at 31 December 2013. As a basis for its action, Consob provided grounds of possible non-compliance of said Financial Statements with financial reporting standards, namely IAS 1, 8 and 36. Similar challenges were raised in relation to the Consolidated Financial Statements for the same period.

In the writ of summons, Consob specifically raised a claim against Banca Carige's disagreement with the methods used to address the findings reported in its Ruling no. 18758 of 10 January 2014, concerning restatement -under IAS 8- of the goodwill amounts and equity investments held in the banking and insurance subsidiaries for the year ending 31 December 2012. According to Consob, the claimed infringements would call for a restatement of the opening balances of the contested accounting items which, in the Authority's opinion, is alleged to have caused errors in the financial statements for 2013.

In this connection, it is noted that in its interim report as at 30 September 2013, the Bank autonomously resolved to reduce to a major extent the carrying amounts of goodwill and equity investments recognised in the financial statements as at 31 December 2012 (i.e. the items which were challenged by Consob in its ruling of 10 January 2014).

Additionally, in the Bank's opinion, Consob's claims exclusively concerned a different time breakdown of the impairment losses on goodwill and equity investments in the profit and loss accounts of 2012 and 2013. It was therefore evident that no changes were caused to the balance-sheet balances of the challenged items as at 31 December 2013 (i.e. the financial year of the financial statements which were challenged by Consob), nor would any changes have occurred, even if Consob's argumentations were supported (for further details, please refer to the more extensive description contained in the Explanatory Notes to the Consolidated Financial Statements as at 31 December 2015).

The Bank appeared in court, disputing the opposing deductions.

During the proceedings, Mr Mario Massari was appointed expert witness, having filed his final report in March 2017, in which he only shared part of the Consob disputes, specifically those pertaining to the projections made, according to the expert, without complying with the criteria of reasonableness and demonstrability of IAS 36 paragraph 33 (a).

The Bank, with the aim of ending the dispute with Consob, expecting the exclusively informative relevance of the affair and supported by the opinion formulated by the expert witness, who deemed a reformulation unfeasible, as at the current date of the 2013-2022 provisional plan, which would lead to results with no acceptable credibility, decided to proceed with a formal re-approval by the competent bodies of the individual and consolidated 2013 financial statements, by inserting an adjustment due to a purely informative error (please refer to paragraphs 50-53, IAS 8).

Consob considered that the information inserted with the re-approval of the consolidated and individual financial statements by the Board of Directors 3 August 2017 and the Shareholders' Meeting of 28 September 2017 re-establishes the correctness of the information framework and that, consequently, it determines the termination of the matter of the dispute in the appeal proceedings in question.

- Disposal of Insurance Companies – Guarantees and commitments

On 5 June 2015, Banca Carige and Primavera Holdings S.r.l., a company controlled by funds affiliated to Apollo Global Management LLC, completed the disposal of the entire share capital held by Banca Carige in Carige Vita Nuova S.p.A. and in Carige Assicurazioni S.p.A. (hereinafter "Amissima Vita S.p.A." and "Amissima assicurazioni S.p.A.).

As at the date of disposal, a distribution agreement valid until 31 December 2024 and renewable for a similar period, was entered into by Banca Carige, the Group's banks (excluding Banca Cesare Ponti) and Creditis (hereinafter also the "Distributors") with the Insurance Companies for the distribution of the Insurance Companies' life and non-life insurance products, in line with the insurance distribution plan, against payment of contractually defined commissions to the Distributors. Banca Carige constantly monitors, including for operational management purposes, Line 1 and Line 3 life insurance production performance. In 2015 (first relevant year for the purposes of the agreement), the production targets were exceeded for both Line 1 and Line 3 insurance products; this resulted in a surplus that Banca Carige could use to offset potential future under-performance.

In 2016, the Bank achieved its objectives for Line 1 net production, but it did not for Line 3. That led to EUR 4 mln worth of penalties which may be partly offset using the EUR 0.5 mln surplus bonus accrued by the Bank in 2015.

For 2017, the distribution trend of Line I insurance products and the sales network focus on marketing life insurance products pursuant to applicable regulations and in compliance with the customers' actual economic needs, enable the Bank to meet its business targets. For the Class III products, as the Bank had not achieved the pre-established distribution targets, the conditions set forth in paragraph 14 of IAS 37 were met and a provision for risks and charges amounting to EUR 4 mln was recognised.

Moreover, the Sale and Purchase Agreement envisaged some warranties and indemnities which are referenced to in Part A "Accounting Policies" in the Consolidated Financial Statements as at 31 December 2015.

In particular, indemnities are possibly envisaged with regard to:

- certain policies, in the event that claims settlements occur for amounts exceeding the reserves allocated as at the date of reference provided for by the transfer agreement (30 June 2014) or additional provisions referring to the said reserves;
- specific disputes, should the final expenditure exceed the provisions existing as at the above-mentioned reference date.

With regard to the foregoing agreements, it is highlighted that:

- on 17 June 2016, the Board of Directors resolved to bring an action against Mr Cesare Castelbarco Albani, former Chairman of the Company, Mr Piero Montani, former CEO of the company and certain individuals of the Apollo Group (Apollo Management Holdings L.P., Apollo Global Management L.L.C., Apollo Management International L.L.P., Amissima Holdings S.r.l., Amissima Assicurazioni S.p.A., Amissima Vita S.p.A.) to obtain compensation for damages resulting from the sale of investments in Banca Carige to Insurance Companies and other conduct subsequently carried out by the individuals of the aforementioned Group; at the time of the response, the defendants filed counterclaims (for an amount equal to approximately EUR 622 mln), in relation to which the Bank, supported by the appointed lawyers, believes that the conditions for a compensation ruling are not met;

- on 22 November 2016, Banca Carige lodged an application for arbitration with the Chamber of Arbitration of Milan, requesting that the clauses of the Distribution Agreement entered into with Amissima Vita (former Carige Vita Nuova) concerning the obligation of exclusivity, distribution targets and penalties be declared null and void and that the Distribution Agreement be accordingly declared null or ineffective in its entirety. With regard to the above action, Amissima Holding S.r.l. has claimed for compensation (quantified on a preliminary basis at EUR 200 mln) in relation to the hypothesis that it may lose the arbitration proceedings; following in-depth analyses carried out with the assistance of its legal consultants, the Bank considers the hypothesized claim for damages completely unfounded.

As at the date of closing of this reporting period, the Bank has reassessed the whole set of contractual relationships in place with the Apollo Group. Although the Bank remains convinced of the foundedness of the argumentations it provided as part of the foregoing proceedings and of the reasons it raised against the counterparties' out-of-court claims, the Bank - without prejudice to such reasons- has sufficient elements available to quantify the potential risk arising from said claims for damages/penalties and deemed it essentially consistent with the terms and assumptions of paragraph 14 of IAS 37 to adjust the already existing provisions in this regard, bringing the total of the provision for risks and charges, as at 31 December 2016, to EUR 18.5 mln. Following a similar assessment made during 2017 and the assessments made further increased the provisions for risks and charges by EUR 19.7 mln. The adjustment brought the provision for risks and charges associated with the sale and purchase agreement to an amount of EUR 38.2 mln.

- Writ of summons brought by Saba Marco before the Court of Genoa for the assignment of money found or compensation for the discovery of money on the sum of EUR 25,476 mln allegedly found and not accounted for among the assets in the financial statements reported on 12 February 2018.

This dispute is due to an appeal for a Preventive Technical Assessment notified to Banca Carige on 2 August 2016, with which the appellants, Saba Marco and Mana Bond Ltd asked the Court of Genoa to ascertain the existence of non-operating monetary assets for EUR 25,476 mln resulting from a value "generated" by the Bank, not accounted for in the cash flows, therefore not recorded in the financial statements.

The Bank declared itself by challenging the opposing petitions in every respect. The Court of Genoa, by decision of 9 February 2017, confirmed in the claim of 15 March 2017, declared the claim of the plaintiffs inadmissible, sentencing them to pay the expenses.

With writ of summons dated 12 February 2018, Saba requested the Judge to sentence the Bank to pay it the recovered sum, amounting to EUR 25,476 mln, pursuant to Article 929 of the Italian Civil Code, according to which, if the owner of the recovered item does not present itself, the item belongs to the finder: in this specific case, as the Bank had not claimed the money "found" by Saba, the money would, in its opinion, have become the property of the latter. Alternatively, the plaintiff requested to be paid 1/20 of the amount of the money found, as a reward pursuant to Article 930 of the Italian Civil Code.

The Bank appointed a trusted external legal counsel for its assistance and shall proceed to appear before the court within the deadline. At present, the Bank, taking into account the outcome of the precautionary procedure introduced by the same plaintiff and relating to the same matter, ending with a rejection order by the Court of Genoa, confirmed at the time of the claim, considers the claim unfounded and the relative risk of losing as remote, subject to update, as soon as it is in possession of elements capable of allowing for a more defined prognostic judgement.

- Securitisations completed by the Banca Carige Group

During 2017, the Banca Carige carried out the following securitisations:

a) Securitisation "of non-performing loans pursuant to Article 58 of Legislative Decree 385/1993 and Articles 1 and 4 of Italian Law no. 130/1999, with a view to reducing the Group's risk profile.

b) Securitisation of non-performing loans pursuant to Articles 4 and 7.1 of Law 130/1999.

As regards the securitisation referred to in point a), on 16 June 2017, Banca Carige, Banca Cesare Ponti and Banca del Monte di Lucca (selling Banks) completed a non-recourse transfer, for a fee and en bloc, to an specifically incorporated SPV not belonging to the Banca Carige Group, of a portfolio of loans classified as non-performing by the selling Banks for a total gross carrying amount, as at the date of sale, of EUR 961.1 mln (of which EUR 861.4 mln by Banca Carige, EUR 98 mln by Banca del Monte di Lucca and EUR 1.7 mln by Banca Cesare Ponti).

The securitisation transaction was structured with the Transferors initially underwriting senior, mezzanine and junior securities in full on 5 July 2017 and the mezzanine and junior tranches being subsequently placed on the institutional market on 8 August 2017. The Senior tranche, which, in the meantime, obtained an Italian State guarantee (known as a "GACS", pursuant to Decree Law no. 18 of 14 February 2016, converted, with amendments, into Law no. 49 of 8 April 2016), was instead kept in the portfolio of the selling Banks and recorded in the Loans and Receivables portfolio for a value of EUR 267.6 mln.

The securitisation transaction is structured in two phases:

- until the date when all mezzanine and junior securities are sold by the Transferors, the transaction qualifies as a "self-securitisation" and the securitised loans continue to be recognised in the Transferring Banks' Financial Statements as "assets sold and not derecognised";
- as at the date of sale on the market of mezzanine and junior securities, the selling Banks proceeded to write off the loans, the requirements for the "derecognition" of the portfolio subject to securitisation having been met pursuant to IAS 39, as a result of:
    - transferring the contractual rights to receive the cash flows from the assets (paragraph 18 (a) of IAS 39), and
    - transferring "substantially all the risks and benefits" of ownership associated therewith (paragraph 20 (a) of IAS 39).

More specifically, the analysis for the purposes of de-recognising the foregoing loan portfolio was carried out in accordance with the provisions of paragraphs from 15 to 37 and from AG34 to AG52 of the international accounting principle IAS 39 "Financial instruments: Recognition and Valuation".

The loss for the period recognised on the portfolio held for sale totalled EUR 98 mln for the Banca Carige Group (of which EUR 87.7 mln for Banca Carige, EUR 10 mln for Banca del Monte di Lucca and EUR 0.3 for Banca Cesare Ponti) and was posted to P&L item 100 a) "Profits (losses) on disposal/repurchase of loans".

As regards the securitisation referred to point b), on 6 December 2017, Banca Carige completed a non-recourse sale transaction, for a fee and en bloc, to an SPV incorporated by Credito Fondiario S.p.A., of a non-performing loans portfolio, along with mortgages, collateral guarantees and any other right ancillary to said loans for a total gross carrying amount, as at the date of sale, of EUR 1,199 mln.

The securitisation was structured by the SPV and provided for the issuance of more than one asset-backed note with limited recourse.

The agreement of sale requires that Banca Carige does not assume any liability of obligation of any kind and against any counterparty, or becomes involved in any transaction that the SPV intends to carry out with reference to the receivables sold, including the securitisation, or other form of structured finance, with the sole exception of liabilities and obligations that may result from the provisions of the agreement of sale.
On 21 December 2017, Banca Carige also entered into a "sub-servicing and mandate agreement for migration services" with Credito Fondiario S.p.A., which requires that Banca Carige S.p.A. continues to carry out the recovery and management activities of the non-performing loans portfolio subject to the agreement of sale until the date of completion of the migration of the platform for the recovery of bad loans to the Servicer, to be performed by 30 June 2018; more specifically, Banca Carige has been sub-delegated the "master servicing" and "special servicing" activities, with explicit provision that the Bank acts exclusively according to the instructions provided by Credito Fondiario S.p.A. (the "Servicer").
On 28 December 2017, Banca Carige proceeded to derecognise the non-performing loans sold, the requirements for the "derecognition" of the portfolio subject to securitisation having been met, pursuant to IAS 39, given that they were transferred to the SPV:

- the contractual rights to receive the cash flows from the assets (paragraph 18 (a) of IAS 39), and
- "substantially all the risks and benefits" associated therewith (paragraph 20 (a) of IAS 39).

The analysis for the purposes of de-recognising the foregoing loan portfolio was carried out in accordance with the provisions of paragraphs from 15 to 37 and from AG34 to AG52 of the international accounting principle IAS 39 "Financial instruments: Recognition and Valuation".
The loss for the period recognised on the portfolio held for sale totalled EUR 210 mln for Banca Carige and was posted to the Income Statement item "100 a) "Profits (losses) on disposal/repurchase of loans".

- Assets held for sale
As part of the comprehensive effort to strengthen the Group's capital structure included in the Business Plan 2017-2020 (for more information, please see the section 'Strategy and business performance'), the disposal of a number of assets is planned, including:

- the branch of business relating to Merchant Acquiring;
- the consumer credit company Creditis;
- the NPL management platform for non-performing loans, to a specialised player to which management will be outsourced on the basis of a servicing agreement.

For the purposes of preparing the Consolidated Financial Statements as at 31 December 2017, the Group carried out the analyses necessary to verify the fulfilment of the requirements of paragraphs 7 and 8 of IFRS 5 for classifying assets or groups of assets as "Non-current assets held for sale and discontinued operations".
These analyses, partly in light of the progress status of the corporate asset sale transactions contained in the 2017-2020 Industrial Plan, let to believe that the aforementioned requirements are limited to the sales concerning the consumer credit company Creditis and the company branch comprising the bad debts management platform, to which the accounting criteria provided for by IFRS 5 have been applied. In fact, for these transactions, the disposal is highly probable given that, on 6 December 2017, binding agreements were signed envisaging the completion of the disposal within one year.
For the business branch relating to the Merchant boot/acquiring, given the progress status of the

related project and their non-compliance with the requirements of IFRS 5, the other assets continued to be presented separately in the Consolidated Financial Statements as at 31 December 2017.

A.3 - INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

In prior years, the Group reclassified financial assets according to the provisions of IAS 39; had the Group not taken the option of reclassifying the foregoing financial assets, positive income components for an amount of EUR 65 thousand instead of the EUR 130 thousand negative component would have been recognised for the year.

A.3.1 Reclassified financial assets: book value and effects on comprehensive income

Type of financial instrument	Portfolio prior to transfer	Portfolio after transfer	Book value as at 31/12/2017	Fair Value as at 31/12/2017	Income components in the absence of transfers (before tax)		Income components recognised during the period (before tax)	
					From measurement	Other	From measurement	Other
Debt securities	HFT	AFS	-	-	-	-	-	-
Equity instruments	HFT	AFS	-	-	-	-	-	-
Units in UCITS	HFT	AFS	121	121	(130)	(42)	(130)	(42)
Debt securities	HFT	L&R	379	441	65	129		(56)
Debt securities	AFS	L&R	-	-	-	-		-
Total			500	562	(65)	87	(130)	(98)

A.3.2 Reclassified financial assets: effects on comprehensive income prior to transfer

In the financial year in which the reclassification takes place, IFRS 7 requires that the effects on comprehensive income be shown prior to transfer. In this regard, it is reported that during financial year 2017 no portfolio transfers occurred and there is therefore no information to be provided.

A.3.3 Transfer of financial assets held for trading

It should be noted that, for the reclassifications effected by the Group in the past, the IABS expressly considered the deterioration of world financial markets observed in the third quarter of 2008, as an example of “rare circumstance”, as indicated in its press release of 13 October 2008.

A.3.4 Effective interest rate and cash flows expected from the reclassified assets

The debt securities portfolio reclassified to L&R (Loans & Receivables) for a nominal value of EUR 379 thousand has an average effective interest rate of 0% with expected cash flows estimated at EUR 379 thousand.

A.4 – INFORMATION ON FAIR VALUE

Qualitative information

Introduction

IFRS 13 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in a normal transaction between market participants as at the measurement date.

Therefore, it is a sort of "exit price" under current market conditions, regardless of whether that price is directly observable or estimated using valuation techniques.

IFRS 13 indicates that, in calculating the fair value:

- ✓ it is necessary to identify the prices on the main market (meaning the market with the highest volumes of levels of activity) or, in its absence, on the most advantageous market;
- ✓ fair value must be measured using the assumptions that the market participants would use to price an asset or liability, assuming that market participants act in their best interest;
- ✓ it recognises the distinction between a price quoted on an active market and a price not quoted on an active market.

IFRS 7 requires financial disclosures to indicate the fair value of each class of financial asset and liability, so it can be compared with the associated book value. Equity instruments for which the fair value cannot be reliably determined are valued at cost.

IFRS 13 determines that a specific level should be assigned to fair value according to a hierarchy which, in decreasing order of priority, categorises fair value into three levels:

- level 1: the fair value is determined directly on the basis of quoted prices observed in active markets for assets or liabilities that are identical to the ones being measured; specific emphasis is placed on determining the principal market or, in its absence, the most advantageous market as well as the possibility that the firm preparing the financial statements can carry out the transaction at the market price on the date of measurement;
- level 2: fair value is calculated on the basis of inputs other than quoted prices referred to in level 1 which are directly or indirectly observable;
- level 3: fair value is calculated on the basis of unobservable inputs and is based on the assumptions it is presumed market participants would make to calculate the value of the instrument.

The inputs used to calculate the fair value of an instrument could be categorised into different levels of the fair value hierarchy; in these cases, the instrument is classified in its entirety in the same level of the hierarchy in which the lowest level input is classified.

In the event significant adjustments are made to level 2 inputs with respect to the total fair value of the instrument, the latter is classified in level 3 of the fair value hierarchy if these adjustments use significant unobservable inputs.

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

Please find below a description of the criteria adopted to both measure the fair value and classify the instruments measured on a recurring basis and those assessed on a non-recurring basis into the different levels of the fair value hierarchy.

a) Financial instruments measured on a recurring basis (securities and derivative contracts)
The fair value of financial instruments corresponds to the quoted price for instruments quoted in active markets, and to the value calculated through the use of valuation techniques for other instruments.

A financial instrument is considered quoted in an active market when its price is readily and regularly available from stock exchanges, operators, intermediaries or pricing agencies and when this price represents actual arm's length transactions taking place on a regular basis as standard, or potential transactions that could take place on such bases.

This category includes instruments admitted to trading on regulated markets or systematically traded through "alternative trading" systems[6], whose prices are considered to be "meaningful", together with those obtainable from leading intermediaries on other markets, when the prices proposed represent potential transactions.

A regulated market does not guarantee the presence of "meaningful" prices when at least one of the following conditions apply:

- trading is highly infrequent and volumes are of little significance;
- there is no information on volumes and trading and the pricing methods are considered unreliable or are no longer published;
- there is insufficient "breadth" and "depth" to the market.

An alternative trading system or a contributor does not guarantee the presence of "meaningful" prices when at least one of the following conditions apply:

- trading is highly infrequent and volumes are of little significance;
- there is no information on volumes and trading;
- there are not at least two contributors of high standing, who continuously publish "aligned" prices over time on Bloomberg or Reuters pages.

For financial instruments listed on active markets, the current "cash" or "bid" price is used for financial assets held and the current "offer" or "ask" price is required for existing financial liabilities.
If the bid and ask prices are not available, the price of the most recent transaction may provide an indication of the current fair value.
For equivalent financial assets and liabilities, with matching positions in terms of market risk, mid-market prices are used instead of the bid or ask price as a basis for measuring fair value.
All the prices considered are those obtained as at year end.
When the market does not have a sufficient and continuous number of transactions, bid-ask spread and insufficiently contained volatility, which characterise level 1 of the fair value hierarchy, special valuation methods are used, including theoretical models which, largely making use of observable market parameters, can determine an appropriate fair value for financial instruments.
The measurement methods established for each financial instrument not quoted in an active market are adopted consistently in the long term, unless amendments or improvements are considered appropriate.
All parameters of the models used are based on the market conditions prevailing at the end of the reporting period.

[6] Secondary markets not officially regulated on which financial instruments already issued are systematically traded on the basis of pre-established transparent rules and conditions known to all participants concerned.

Usually, the NAV ("Net asset value") of units of Undertakings for collective investments in transferable securities (UCITS) which are not traded on regulated markets, such as private equity funds and similar funds (including real estate investment funds and hedge funds), is provided by the asset manager on a six-month basis. The fair value of these securities is measured by adjusting the NAV in order to:

- consider the events not yet included in the measurement of the units value, such as calls on shares and dividend payout, and to
- reflect specific contractual provisions, including the existence of minimum financial returns below which no performance fees are due (hurdle rates) or, alternatively, the existence of minimum performance fees.

For financial instruments not quoted in active markets , the fair value -if no valuations from reliable sources are available (even if said prices were not such as to qualify as effective market quotes) is calculated by using valuation techniques which aim to ultimately establish the price the instrument would have had, at the valuation date, in an arm's length transaction driven by normal business considerations. These techniques include:

- reference to market values indirectly related to the instrument to be valued and taken from similar instruments in terms of their risk characteristics (comparable approach);
- valuations made by using, even only partially, inputs not taken from parameters observable on the market, for which use is made of estimates and assumptions made by the analyst (Mark to Model).

More specifically, the guidelines used to attribute fair value levels 2 or 3 to the financial instruments are:

1. Valuation Techniques (Comparable Approach) – Fair value level 2. The valuation is not based on significant prices of the financial instrument to be valued, but on indicative valuations available from reliable info-providers or on prices determined by using an appropriate calculation method (pricing model) and observable market parameters, including credit spreads taken from the official quotes of substantially similar instruments in terms of risk factors. If calculation methods are used (pricing models) in the comparable approach, these allow the reproduction of the prices of financial instruments listed on active markets (calibration of the model) without including discretional parameters – i.e. parameters whose value cannot be deduced from prices of financial instruments on active markets or cannot be fixed on levels as such to replicate prices on active markets – in such a way as to influence the final valuation in a determining manner.

2. Valuation Techniques (Mark to Model Approach) – Fair value level 3. Valuations are carried out using different inputs, not all taken from parameters that can be observed on the market and therefore involve estimates and assumptions by the analyst. In particular, this approach requires the valuation of the financial instrument to be conducted by using a calculation method (pricing model) which is based, among other things, on specific hypotheses or assumptions that, on the basis of the instrument to be valued, may concern:

- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of behavioural hypotheses;

- the level of specific input parameters not listed on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred; where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by rating agencies or primary market players);

- the reference to all possible relevant information available, even accounting information, including, for example, the value of shareholders' equity in the case of interests or shareholdings in unlisted companies.

The fair value of derivative contracts includes the valuation of counterparty credit risk, if the fair value is positive (Credit valuation adjustment - CVA), or valuation of own credit risk, if the fair value is negative (Debit valuation adjustment - DVA); derivative contracts subject to margin trading (CSA agreements) are excluded from calculation of the CVA and DVA.

The fair value of bonds issued includes the evaluation of own creditworthiness (Own Credit risk Adjustment - OCA).

b) Instruments measured on a non-recurring basis

- Other financial instruments

The fair value of the financial instruments other than securities issued or in the portfolio and derivative contracts, to be disclosed in the tables of the explanatory notes, is measured by using a Discounted Cash Flow type analysis method.

A risk neutral approach is applied, using PD and LGD risk parameters to calculate the expected value of future cash flows; cash flows are discounted using a risk-free discount factor. The final fair value includes the Debit valuation adjustment (DVA).
For the following cases, it is presumed that the fair value corresponds to the carrying amount:

- ✓ non-performing loans: this approximation is based on the assumption that the lack of a sufficiently large number of transactions for these financial assets does not allow the adoption of observable market parameters, with particular reference to the discount rate components (which would also include the market premium for risks and uncertainties).
  By virtue of this, the estimated fair value depends mainly on the current portfolio management model and the relative collection methods, and does not appear to be specifically influenced by the evolution of rates of return demanded by the market.
  The internal methods of calculating the fair value (so-called exit price) of the loan portfolio are therefore more sensitive to the loss of value forecasts, the result of a subjective valuation, expressed by the position manager, with reference to the estimated cash flows expected from collection and related timing.
  It is not possible therefore to exclude that the price of any sales to third parties could deviate from the fair value indicated for the purposes of financial reporting;

- ✓ short-term loans/receivables and financial liabilities (with term to maturity up to 12 months)
  Reported below are the general criteria for assigning a fair value level to financial instruments other than securities issued or portfolio securities and derivative contracts:

  - ✓ non-performing loans and receivables: level 3;
  - ✓ short-term performing loans and receivables and short-term financial liabilities: level 2, as it is presumed that -being a reasonable approximation of fair value- the book value includes unobservable inputs deemed as non-significant;
  - ✓ medium-/long-term performing loans/receivables and financial liabilities: level 3, as the criteria described above for measuring fair value use mostly unobservable inputs, do not

include some risk components and do not envisage any comparison with benchmarks containing observable market data.

- Investment Property (IAS 40)

Measurement of the fair value of a non-financial asset must consider the capacity of market participants to generate economic benefits by employing the asset in its highest and best use or selling the asset to whichever entity can guarantee said use.
The use of the above makes reference to the use of an asset by market participants which should maximise the value of the asset or group of assets and liabilities in which the asset should be used, considering the uses of the asset which are physically possible, legally admissible and financially feasible at the measurement date.
The fair value of investment property is measured to reflect the properties' specific characteristics (e.g. state of preservation, presence of any easements, size) and returns of similar property, also considering the feedback provided by independent info-providers.
The fair value measured with this approach is classified into level 3 of the fair value hierarchy because, as described above, is it measured by using mainly unobservable inputs.

A.4.2 Processes and sensitivity of valuations

The financial instruments included in level 3 of the fair value hierarchy are comprised of the:

1. investments held in the Bank of Italy amounting to EUR 302.4 mln;
2. equity instruments (non-controlling interests in unlisted companies) valued at cost as a replacement for the fair value which cannot be measured reliably, amounting to EUR 11.3 mln;
3. debt securities and equities in default or otherwise unlisted;
4. the Bank's securitisation;
5. stakes in Private Equity and Hedge Funds.

With reference to the investments held in the Bank of Italy the fair value was in line with the values of previous financial years which are confirmed by market transactions concluded in 2016.

Valuation methodologies, in which the significant input used could not be directly observed on the market (e.g. volatility), were adopted for some equity instruments arising from restructuring agreements of large-amount exposures.

A.4.3 Fair Value Hierarchy

With reference to the financial assets measured at fair value on a recurring basis, a quarterly analysis is performed for determining the characteristics of the individual securities in order to categorise them within the correct a level of fair value.

If the stock exchanges that presented bid/ask quotations with a small bid/ask spread and with acceptable exchange volumes are reduced to less than three and the value can be estimated using internal models whose inputs are objectively observable on the market, a transfer is made from level 1 to level 2.

Conversely, if a loss of the conditions necessary for the financial asset to belong to level 1 or level 2 occurs, and if the price may be estimated via an internal model that makes use of at least one non-observable market input, the asset is classified in level 3 of the fair value.

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

	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	1,485	967	1	1,244	6,437	2
2. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
3. Financial assets available for sale	1,676,166	-	376,732	1,971,889	-	347,724
4. Hedging derivatives	-	29,581	-	-	39,233	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	1,677,651	30,548	376,733	1,973,133	45,670	347,726
1. Financial liabilities held for trading	-	850	-	-	2,064	-
2. Financial liabilities designated at fair value through profit or loss	348,459	-	-	459,198	-	-
3. Hedging derivatives	-	224,971	-	-	259,037	-
Total	348,459	225,821	-	459,198	261,101	-

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

A.4.5.2 Annual changes in assets designated at fair value on a recurring basis (level 3)

	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
A. Opening balance	2	-	347,724	-	-	-
2. Increases	1	-	69,544	-	-	-
2.1. Purchases	-	-	66,727	-	-	-
2.2. Profits recognised in:						
2.2.1. Profit and Loss	-	-	-	-	-	-
Capital gains	-	-	-	-	-	-
2.2.2. Shareholders' equity	X	X	644	-	-	-
2.3. Transfer from other levels	-	-	-	-	-	-
2.4. Other increases	1	-	2,173	-	-	-
3. Decreases	2	-	40,536	-	-	-
3.1. Sales	-	-	12,890	-	-	-
3.2. Repayment	-	-	-	-	-	-
3.3. Losses recognised in:						
3.3.1. Profit and Loss	-	-	15,630	-	-	-
of which: capital losses	-	-	406	-	-	-
3.3.2. Shareholders' equity	X	X	1,849	-	-	-
3.4. Transfer to other levels	-	-	-	-	-	-
3.5. Other decreases	2	-	10,167	-	-	-
4. Closing balance	**1**	**-**	**376,732**	**-**	**-**	**-**

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

	31/12/2017				31/12/2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	-	-	-	-	-	-	-	-
2. Loans to banks	2,934,607	-	2,644,290	290,322	1,958,763	-	1,640,903	317,638
3. Loans to customers	15,753,934	-	2,207,615	14,695,035	18,246,327	-	2,625,737	16,920,273
4. Assets held for investment	155,743	-	-	155,456	145,168	-	-	147,381
5. Non-current assets held for sale and discontinued operations	608,077	-	-	-	-	-	-	-
Total	19,452,361	-	4,851,905	15,140,813	20,350,258	-	4,266,640	17,385,292
1. Due to banks	4,656,624	-	830,638	3,294,584	3,468,322	-	46,148	2,866,406
2. Due to customers	12,624,541	-	11,797,405	760,777	13,710,208	-	12,967,872	707,118
3. Securities issued	3,885,829	2,979,066	611	906,050	5,443,294	3,774,371	1,301,758	244,454
4. Liabilities associated to non-current assets held for sale and discontinued operations	193,808	-	-	-	-	-	-	-
Total	21,360,802	2,979,066	12,628,654	4,961,411	22,621,824	3,774,371	14,315,778	3,817,978

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

A.5 – INFORMATION ON “DAY ONE PROFIT/LOSS”

Paragraph 28 of IFRS 7 regulates the specific case of purchase/sale of a financial instrument not quoted in an active market, where the price of the transaction, which generally represents the best estimate of fair value at initial recognition, differs from the fair value determined using the valuation techniques adopted by the entity at the time of recognition.

In this case, a profit/loss emerges in the measurement at the time of purchase for which adequate disclosure by class of financial instrument must be given of the accounting policy adopted for recognising that difference, with an indication of the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

No such cases are to be reported for the Consolidated Financial Statements.

Part B

CONSOLIDATED BALANCE SHEET

ASSETS

SECTION 1

CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31/12/2017	31/12/2016
a) Cash	296,581	297,412
b) Demand deposits with Central banks	-	-
Total	296,581	297,412

SECTION 2

FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

2.1 Financial assets held for trading: breakdown

Item/Amounts	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
A. Balance-sheet assets						
1. Debt securities	1,485	4	1	1,244	-	2
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,485	4	1	1,244	-	2
2. Equity instruments	-	-	-	-	-	-
3. Units in UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	1,485	4	1	1,244	-	2
B. Derivatives						
1. Financial derivatives:	-	963	-	-	6,437	-
1.1 trading	-	963	-	-	1,958	-
1.2 connected with the fair value option	-	-	-	-	4,479	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	-	963	-	-	6,437	-
Total (A+B)	1,485	967	1	1,244	6,437	2

2.2 Financial instruments held for trading: breakdown by borrower/issuer

Item/Amounts	31/12/2017	31/12/2016
A. Balance-sheet assets		
1. Debt securities	1,490	1,246
a) Governments and central banks	1,397	1,156
b) Other public-sector entities	-	-
c) Banks	88	89
d) Other issuers	5	1
2. Equity instruments	-	-
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Units in UCITS	-	-
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public-sector entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	1,490	1,246
B. Derivatives		
a) Banks	159	5,404
- Fair value	159	5,404
b) Customers	804	1,033
- Fair value	804	1,033
Total B	963	6,437
Total (A+B)	2,453	7,683

SECTION 4

FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

4.1 Financial assets available for sale: breakdown

Item/Amounts	31/12/2017			31/12/2016		
	L1	L2	L3	L1	L2	L3
1. Debt securities	1,675,624	-	44,915	1,968,182	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	1,675,624	-	44,915	1,968,182	-	-
2. Equity instruments	542	-	318,101	433	-	327,099
2.1 Designated at fair value	542	-	310,906	433	-	315,824
2.2 Recognised at cost	-	-	7,195	-	-	11,275
3. Units in UCITS	-	-	13,716	3,274	-	20,625
4. Loans	-	-	-	-	-	-
Total	1,676,166	-	376,732	1,971,889	-	347,724

Equity instruments for which the fair value cannot be reliably determined are designated at cost.

The amount shown in sub-item 1.2 "Other debt securities" with fair value level 3 refers to non-performing exposures (unlikely-to-pay exposures) of the Pillarstone Italy SPV S.r.l. mezzanine class securitisation for EUR 31.7 mln and Junior notes for EUR 13.2 mln.

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

Item/Amounts	31/12/2017	31/12/2016
1. Debt securities	1,720,539	1,968,182
a) Governments and central banks	1,675,624	1,968,182
b) Other public-sector entities	-	-
c) Banks	-	-
d) Other issuers	44,915	-
2. Equity instruments	318,643	327,532
a) Banks	302,668	302,720
b) Other issuers:	15,975	24,812
- insurance companies	-	-
- financial companies	5,741	10,505
- non-financial companies	10,233	14,306
- other	1	1
3. Units in UCITS	13,716	23,899
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public-sector entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	2,052,898	2,319,613

4.3 Micro-hedged financial assets available for sale

Item/Amounts	31/12/2017	31/12/2016
1. Financial assets subject to micro-hedging of fair value	32,949	34,567
a) interest rate risk	32,949	34,567
b) exchange risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Financial assets subject to micro-hedging of cash flows	-	-
a) interest rate risk	-	-
b) currency risk	-	-
c) other	-	-
Total	32,949	34,567

SECTION 6

LOANS TO BANKS – ITEM 60

6.1 Loans to banks: breakdown

Type of transaction/Amounts	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. Loans to central banks	1,094,297	-	1,094,297	-	1,279,031	-	1,279,031	-
1. Term deposits	-	X	X	X	-	X	X	X
2. Compulsory reserves	1,094,297	X	X	X	1,279,031	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Loans to banks	1,840,310	-	1,549,993	290,322	679,732	-	361,872	317,638
1. Loans	1,840,310	-	1,549,993	290,322	674,413	-	361,872	312,543
1.1 Current accounts and demand deposits	27,136	X	X	X	75,219	X	X	X
1.2 Term deposits	-	X	X	X	25,800	X	X	X
1.3 Other loans:	1,813,174	X	X	X	573,394	X	X	X
- Repurchase agreements	1,041,292	X	X	X	-	X	X	X
- Leasing	-	X	X	X	-	X	X	X
- Other	771,882	X	X	X	573,394	X	X	X
2. Debt securities	-	-	-	-	5,319	-	-	5,095
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	-	X	X	X	5,319	X	X	X
Total	2,934,607	-	2,644,290	290,322	1,958,763	-	1,640,903	317,638

Key
FV= Fair Value
BV = Book value

SECTION 7
LOANS TO CUSTOMERS – ITEM 70

7.1 Loans to customers: breakdown

Type of transaction/Amounts	Total 31/12/2017						Total 31/12/2016					
	Book value			Fair Value			Book Value			Fair Value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	12,869,451	717	2,639,516	-	1,963,367	14,695,035	14,243,613	5,922	3,996,288	-	2,625,235	16,920,273
1. Current accounts	1,261,095	84	245,709	X	X	X	1,509,171	323	408,299	X	X	X
2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Mortgage loans	9,209,468	615	2,012,032	X	X	X	9,670,809	5,237	3,156,615	X	X	X
4. Credit cards, personal loans and fifth of salary-backed loans	71,224	-	1,516	X	X	X	593,089	-	5,236	X	X	X
5. Leasing	479,199	-	132,817	X	X	X	521,946	-	138,176	X	X	X
6. Factoring	56,590	-	26,241	X	X	X	61,160	41	35,344	X	X	X
7. Other loans	1,791,875	18	221,201	X	X	X	1,887,438	321	252,618	X	X	X
Debt securities	244,250	-	-	-	244,248	-	504	-	-	-	502	-
8 Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9 Other debt securities	244,250	-	-	X	X	X	504	-	-	X	X	X
Total	13,113,701	717	2,639,516	-	2,207,615	14,695,035	14,244,117	5,922	3,996,288	-	2,625,737	16,920,273

The sub-item "Debt securities" includes senior notes issued by the SPV *Brisca securitisation S.r.l.* for a total amount of EUR 243.9 mln.

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Amounts	31/12/2017			31/12/2016		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1. Debt securities	244,250	-	-	504	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	379	-	-	504	-	-
c) Other issuers	243,871	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	243,871	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	12,869,451	717	2,639,516	14,243,613	5,922	3,996,288
a) Governments	40,362	-	-	58,734	-	-
b) Other public entities	639,912	-	412	698,713	-	1,130
c) Other entities	12,189,177	717	2,639,104	13,486,166	5,922	3,995,158
- non-financial companies	6,117,838	359	2,286,511	6,720,807	2,587	3,280,430
- financial companies	976,348	-	63,241	996,655	6	139,960
- insurance companies	-	-	2	4	-	-
- other	5,094,991	358	289,350	5,768,700	3,329	574,768
Total	13,113,701	717	2,639,516	14,244,117	5,922	3,996,288

7.3 Micro-hedged loans to customers

	31/12/2017	31/12/2016
1. Loans subject to micro-hedging of fair value:	535,308	544,992
a) Interest rate risk	535,308	544,992
b) Exchange risk	-	-
c) Credit risk	-	-
d) Multiple risks	-	-
2. Loans subject to micro-hedging of cash flows	-	-
a) Interest rate risk	-	-
b) Exchange risk	-	-
c) Forecast transaction	-	-
d) Other assets subject to hedging	-	-
Total	535,308	544,992

7.4 Financial Leases

Receivables from financial leasing transactions, net of write-downs, are indicated in table 7.1 of loans to customers for a total of EUR 634,681 thousand (of which EUR 612,016 thousand posted to item 5 and EUR 22,665 thousand relative to receivables under work-in-progress leasing contracts, included in item 7).
Net non-performing receivables under finance leases amount to a total of EUR 137,865 thousand, of which EUR 132,817 thousand posted to item 5 and EUR 5,048 thousand to item 7 of table 7.1 of loans to customers.
The total gross investment in leasing amounts to EUR 1,167,707 thousand, whereas total implicit loans and receivables, gross of write-downs, total EUR 644,400 thousand, broken down into the following categories:

	Initial gross investment	Gross implicit receivables
motor vehicles	19,294	9,641
equipment, plant and machinery	153,841	68,718
residential properties	425,690	237,410
industrial properties	550,121	321,686
boats	18,761	6,945
Total	1,167,707	644,400

The breakdown by remaining lease term is:

Breakdown by remaining lease term	due	up to 1 year	1 to 5 years	over 5 years	indefinite	Total
total gross leasing investment	523,307	55,965	203,915	279,614	104,906	1,167,707
gross outstanding implicit receivables		55,965	203,915	279,614	104,906	644,400

Write-downs recognised in the balance sheet on amounts receivable under leasing contracts totalled EUR 96,808 thousand.
During the course of the year, potential lease payments were identified (consisting in periodic adjustments to interest of index leases) accounted for as operating expenses for the year for a total of EUR 11,470 thousand.

SECTION 8

HEDGING DERIVATIVES - ITEM 80

8.1 Hedging derivatives: breakdown by hedge type and level

	31/12/2017			NV 31/12/2017	31/12/2016			NV 31/12/2016
	L1	L2	L3		L1	L2	L3	
A) Financial derivatives								
1) Fair value	-	29,581	-	1,204,948	-	39,233	-	972,491
2) Cash flows	-	-	-	-	-	-	-	-
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B) Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	-	29,581	-	1,204,948	-	39,233	-	972,491

Key:
FV = Fair Value
NV = Notional Value

8.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging (book value)

Transactions/Type of hedging	Fair value						Cash flows		Foreign investments
	Micro-hedging					Macro-hedging	Micro-hedging	Macro-hedging	
	interest rate risk	exchange risk	credit risk	price risk	multiple risk				
1. Financial assets available for sale	-	-	-	-	-	x	-	x	x
2. Loans and receivables	-	-	-	x	-	x	-	x	x
3. Financial assets held to maturity	x	-	-	x	-	x	-	x	x
4. Portfolio	x	x	x	x	x	-	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	-	-	-	-	-	-	-	-	-
1. Financial liabilities	23,096	-	-	x	-	x	-	x	x
2. Portfolio	x	x	x	x	x	-	x	-	x
Total liabilities	23,096	-	-	-	-	-	-	-	-
1. Forecast transactions	x	x	x	x	x	x	-	x	x
2. Financial assets and liabilities portfolio	x	x	x	x	x	6,485	x	-	-

SECTION 10

EQUITY INVESTMENTS – ITEM 100

10.1 Equity investments: information on investment relationships

Company Name	Registered office	Operating office	Type of relationship	Shareholding relationship		Voting rights (%)
				held by	% held	
A. Subsidiaries subject to joint control						
B. Companies subject to significant influence						
1. Autostrada dei Fiori SpA	Savona	Savona	Significant influence	Banca Carige SpA	20.62	
2. Nuova Erzelli Srl	Genoa	Genoa	Significant influence	Banca Carige SpA	40.00	

10.2 Significant interests: book value, fair value and dividends earned

Company Name	Book value	Fair value (2)	Dividends earned
A. Subsidiaries	21,908		
1. Banca del Monte di Lucca S.p.A. (1)	21,908	-	-
B. Subsidiaries subject to joint control			
C. Companies subject to significant influence	97,424		
1. Autostrada dei Fiori SpA	97,424		5,361
Total	119,332	-	5,361

(1) The reported book value is the value shown in the Parent Company's separate financial statements, which is netted off in consolidation

(2) The fair value is only shown for listed securities

With regard to controlling interests, information is provided only for subsidiaries in which significant non-controlling investments have been made.

10.3 Significant interests: accounting information

Company Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues (1)	Net Interest Income	Valuation adjustments to tangible and intangible assets	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Profit (loss) after tax from groups of assets held for sale	Net Profit (Loss) for the period (a)	Other comprehensive income after tax (b)	Total comprehensive income (c) = (a) + (b)
A. Subsidiaries 1. Banca del Monte di Lucca SpA	8,540	733,595	75,063	737,120	19,820	7,832	9,977	(378)	(17,344)	(12,311)		(12,311)	24	(12,287)
B. Subsidiaries subject to joint control														
C. Companies subject to significant influence 1. Autostrada dei Fiori SpA	71,317	139,269	626,302	235,103	129,766	274,229	(5,612)	(63,276)	60,715	44,313	-	44,313	555	44,868

(1) Total revenues means the total of item 120 "Net interest and other banking income" in the separate income statement
(2) Figures taken from the reporting package prepared by the Directors according to IAS/IFRS as at 31/12/2017

10.4 Non-significant interests: accounting information

Company Name	Book value of equity investments	Total assets	Total liabilities	Total revenues	Profit (loss) after tax from continuing operations	Profit (loss) after tax from groups of assets held for sale	Net Profit (Loss) for the period (1)	Other comprehensive income after tax (2)	Total comprehensive income (3) = (1) + (2)
Companies subject to joint control									
Companies subject to significant influence									
1. Nuova Erzelli S.r.l. (1)	1,145	3,026	165	-	(16)	-	(16)	-	(16)

(1) Figures taken from the financial statements as at 31/12/2016 (latest financial statements approved)

10.5 Equity investments: changes in the year

	31/12/2017	31/12/2016
A. Opening balance	94,235	92,536
B. Increases	4,408	1,699
B.1 Purchases	-	-
B.2 Write-backs		
B.3 Revaluations	-	-
B.4 Other increases	4,408	1,699
C. Decreases	74	-
C.1 Disposals	-	-
C.2 Write-downs	74	-
C.3 Other decreases	-	-
D. Closing balance	98,569	94,235
E. Total revaluations		
F. Total write-downs	1,699	1,625

Details of the changes are as follows:

B. INCREASES

OTHER INCREASES

AUTOSTRADA DEI FIORI SPA

Increase due to application of the equity method, as per reporting package 12/2017	4,408
Total other increases	**4,408**

C. DECREASES

VALUE ADJUSTMENTS

NUOVA ERZELLI Srl	74
Total value adjustments	**74**

SECTION 12

PROPERTY AND EQUIPMENT – ITEM 120

12.1 Property and equipment: breakdown of assets carried at cost

Asset/Amounts	Total 31/12/2017	Total 31/12/2016
1.1 Owned assets	582,699	616,106
a) land	214,248	228,361
b) buildings	322,378	337,382
c) furniture and furnishings	1,548	2,099
d) electronic systems	6,366	7,672
e) other	38,159	40,592
1.2 Leased assets	-	-
a) land	-	-
b) buildings	-	-
c) furniture and furnishings	-	-
d) electronic systems	-	-
e) other	-	-
Total	582,699	616,106

12.2 Tangible assets held for investments: breakdown of assets carried at cost

Asset/Amounts	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	155,743	-	-	155,456	145,168	-	-	147,381
a) land	67,927	-	-	57,921	64,123	-	-	64,321
b) buildings	87,816	-	-	97,535	81,045	-	-	83,060
2. Leased assets	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	155,743	-	-	155,456	145,168	-	-	147,381

12.5 Property and equipment used in the business: annual changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	228,361	415,567	31,700	84,099	98,033	857,760
A.1 Total net write-downs	-	(78,185)	(29,601)	(76,427)	(57,441)	(241,654)
A.2 Net opening balance	228,361	337,382	2,099	7,672	40,592	616,106
B. Increases	4,771	7,157	26	2,095	366	14,415
B.1 Purchases	4,771	7,157	26	2,095	366	14,415
B.2 Capitalised expenditure for improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value booked to:	-	-	-	-	-	-
- a) shareholders' equity	-	-	-	-	-	-
- b) profit & loss	-	-	-	-	-	-
B.5 Positive exchange difference	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases	18,884	22,161	577	3,401	2,799	47,822
C.1 Disposals	15,079	7,224	-	-	220	22,523
C.2 Depreciation	-	6,209	573	3,391	2,533	12,706
C.3 Impairment losses booked to:	-	320	-	-	-	320
- a) shareholders' equity	-	-	-	-	-	-
- b) profit & loss	-	320	-	-	-	320
C.4 Decreases in fair value booked to:	-	-	-	-	-	-
- a) shareholders' equity	-	-	-	-	-	-
- b) profit & loss	-	-	-	-	-	-
C.5 Negative exchange difference	-	-	-	-	-	-
C.6 Transfers to:	3,805	8,408	-	10	-	12,223
- a) assets held for investment	3,805	8,408	-	-	-	12,213
- b) assets held for sale	-	-	-	10	-	10
C.7 Other changes	-	-	4	-	46	50
D. Net closing balance	214,248	322,378	1,548	6,366	38,159	582,699
D.1 Total net write-downs	-	(80,691)	(30,132)	(79,621)	(59,566)	(250,010)
D.2 Gross closing balance	214,248	403,069	31,680	85,987	97,725	832,709
E. Carried at cost	-	-	-	-	-	-

Property and equipment are carried at cost.
Sub-item E. "Carried at cost" has been left blank, as per Bank of Italy's instructions, as this only needs to be filled out for assets accounted for at fair value.

12.6 Property and equipment held for investments: annual changes

	Total	
	Land	Buildings
A. Opening balance	64,123	81,045
B. Increases	3,804	8,411
B.1 Purchases	-	-
B.2 Capitalised expenditure for improvements	-	-
B.3 Increases in fair value	-	-
B.4 Write backs	-	-
B.5 Positive exchange differences	-	-
B.6 Transfer from properties used in the business	3,804	8,411
B.7 Other changes	-	-
C. Decreases	-	1,640
C.1 Disposals	-	-
C.2 Depreciation	-	1,640
C.3 Decreases in fair value	-	-
C.4 Impairment losses	-	-
C.5 Negative exchange differences	-	-
C.6 Transfers to other portfolios	-	-
a) properties used in the business	-	-
b) non-current assets held for sale	-	-
C.7 Other decreases	-	-
D. Closing balance	67,927	87,816
E. Valuation at fair value	57,921	97,535

SECTION 13

INTANGIBLE ASSETS – ITEM 130

13.1 Intangible assets: breakdown by type of asset

Asset/Amounts	31/12/2017		31/12/2016	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	-	X	-
A.1.1 group	X	-	X	-
A.1.2 non-controlling interests	X	-	X	-
A.2 Other intangible assets	35,005	-	56,654	-
A.2.1 Assets valued at cost:	35,005	-	56,654	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	35,005	-	56,654	-
A.2.2 Assets valued at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	35,005	-	56,654	-

13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets:		Total
		Finite	Indefinite	Finite	Indefinite	
A. Gross opening balance	**38,585**	**-**	**-**	**157,685**	**-**	**196,270**
A.1 Total net write-downs	(38,585)	-	-	(101,031)	-	(139,616)
A.2 Net opening balance	-	-	-	56,654	-	56,654
B. Increases	**-**	**-**	**-**	**16,229**	**-**	**16,229**
B.1 Purchases	-	-	-	16,229	-	16,229
B.2 Increases in intangible assets generated internally	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value:	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- profit or loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other decreases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**37,878**	**-**	**37,878**
C.1 Disposals	-	-	-	-	-	-
C.2 Write-downs	-	-	-	36,692	-	36,692
- Amortisation	X	-	-	21,757	-	21,757
- Write-downs	-	-	-	14,935	-	14,935
+ equity	X	-	-	-	-	-
+ profit or loss	-	-	-	14,935	-	14,935
C.3 Decreases in fair value	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- profit or loss	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other decreases	-	-	-	1,186	-	1,186
D. Net closing balance	**-**	**-**	**-**	**35,005**	**-**	**35,005**
D.1 Total net write-downs	-	-	-	(137,258)	-	(137,258)
E. Closing balance	**-**	**-**	**-**	**172,263**	**-**	**172,263**
F. Carried at cost	**-**	**-**	**-**	**-**	**-**	**-**

Key:
DEF: definite life
INDEF: indefinite life

SECTION 14

TAX ASSETS AND TAX LIABILITIES – ITEM 140 (ASSETS) AND ITEM 80 (LIABILITIES)

14.1 Deferred tax assets: breakdown

	31/12/2017		31/12/2016	
Counter-item in the income statement	IRES (27.5%)	IRAP (5.57%)	IRES (27.5%)	IRAP (5.57%)
Deferred tax assets as per Law 214/2011				
Loan loss provisions	156,145	20,568	184,279	23,942
Tax loss portion convertible into tax credit	-	-	7	1
Goodwill	290,898	59,875	339,316	70,213
Total deferred tax assets as per Law 14/2011	447,043	80,443	523,602	94,156
Other deferred tax assets:				
Provisions to the supplementary pension fund	17,815	2,812	7,894	253
Provision for risks and charges related to legal disputes	19,272	618	12,345	477
Provisions to the write-down reserve for signature loans	7,574	1,534	8,715	1,765
Immovables	3,502	713	3,430	698
Intangible fixed assets	1,441		1,911	
ACE (aid for economic growth) benefit carried forward	60,527		52,302	
Tax losses	376,416		240,857	
DTA charges as per Law 14/2011				
Other	1,230	1,829	1,257	1,134
Total other deferred tax assets	**487,777**	**7,506**	**328,711**	**4,327**
TOTAL	**934,820**	**87,949**	**852,313**	**98,483**
Counter-item in Shareholders' equity	IRES (27.5%)	IRAP (5.57%)	IRES (27.5%)	IRAP (5.57%)
Provisions to the supplementary pension fund	5,330	161	5,342	198
Valuation of securities recognised in the AFS portfolio	9,482	1,920	9,864	1,998
Cash flow hedging derivatives	41,488	8,403	48,369	9,797
Intangible fixed assets	7,223		12,031	
Tax losses	58,997		39,938	
TOTAL	**122,520**	**10,484**	**115,544**	**11,993**
Total deferred tax assets	**1,057,340**	**98,433**	**967,857**	**110,476**

2. Current tax assets: breakdown

Current tax assets recognised for an amount of EUR 794,737 thousand, mainly refer to:

a) tax credits on indirect tax prepayments for 2017;
b) tax credits for IRES (corporate income tax) pertaining to 2017; Banca Carige, as consolidating company, has adopted the special tax consolidation (art. 117 et seq., Consolidated Income Tax Law [TUIR]) along with the other Group companies;

c) tax credit pursuant to Italian Law no. 214/2011, arising from the conversion of deferred tax assets that took place from 2014 onwards following the loss for the year and/or the fiscal loss for 2013 for some Group companies.
Part of those credits (recognised by the merged company, Banca Carige Italia) was assessed and verified by the Italian Revenue Agency (see paragraph 14.8 'Tax Disputes' below for further details). For this reason and in consideration of the severe fines (theoretically including criminal sanctions) imposed in the event of unduly applied tax credits, the Group -supported by the opinions of highly reputed tax experts- has prudentially decided to limit the offsetting use of tax credits to positions which are not being directly or indirectly examined by the Revenue Agency;

d) tax credits from prior years awaiting refund.

14.2 Deferred tax liabilities: breakdown

	31/12/2017		31/12/2016	
Counter-item in the income statement	IRES (27.5%)	IRAP (5.57%)	IRES (27.5%)	IRAP (5.57%)
Immovables	512	104	512	104
Receivables for interest taxable when collected	6,934	25	7,062	33
Participation in FITD Voluntary Scheme	197	42	1,091	221
Other	3,528	714	3,129	1,096
TOTAL	11,171	885	11,794	1,454
Counter-item in Shareholders' equity	IRES (27.5%)	IRAP (5.57%)	IRES (27.5%)	IRAP (5.57%)
Valuation of securities recognised in the AFS portfolio	333	126	676	160
Other	387	78	461	1
TOTAL	720	204	1,137	161
Total deferred tax liabilities	11,891	1,089	12,931	1,615

2. Current tax liabilities: breakdown

Current tax liabilities recognised for an amount of EUR 3,557 thousand, mainly refer to:

a) tax liabilities for doubtful outcomes on tax credits awaiting refund;
b) other indirect tax payables (VAT, stamp duty, substitute tax on medium/long-term loans, etc.).

14.3 Deferred tax assets: annual changes (with offsetting entry to profit and loss)

	31/12/2017	31/12/2016
1. Opening balance	950,796	843,497
2. Increases	171,250	175,343
2.1 Prepaid taxes arising during the year	171,250	175,343
a) relating to previous years	1,870	1,438
b) due to change in accounting principles	-	-
c) write-backs	-	-
d) other	169,380	173,905
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	99,277	68,044
3.1 Deferred tax assets derecognised in the year	8,876	35,873
a) reversals	8,876	35,873
b) write-downs of non-recoverable items	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	90,401	32,171
a) Conversion into tax credit under Law no. 214/2011	86,258	32,171
b) Other	4,142	-
4. Closing balance	1,022,769	950,796

14.3.1 Deferred tax assets out of which for purposes of L. 214/2011: annual changes (with offsetting entry to profit and loss)

	Total 31/12/2017	Total 31/12/2016
1. Opening balance	617,758	650,140
2. Increases	4	8
3. Decreases	90,276	32,390
3.1 Reversals	39	219
3.2 Conversion into tax credit	86,258	32,171
a) from year losses	86,246	32,171
b) from tax losses	12	-
3.3 Other decreases	3,979	-
4. Closing balance	527,486	617,758

14.4 Deferred tax liabilities: annual changes (with offsetting entry to profit and loss)

	31/12/2017	31/12/2016
1. Opening balance	13,248	9,732
2. Increases	4,321	6,557
2.1 Deferred tax liabilities of the year	4,321	6,557
a) relating to previous years	5	6
b) due to change in accounting principles	-	-
c) other	4,316	6,551
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	5,513	3,041
3.1 Deferred tax liabilities derecognised in the year	5,513	3,041
a) reversals	5,513	3,041
b) due to change in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	12,056	13,248

14.5 Deferred tax assets: annual changes (with offsetting entry to equity)

	31/12/2017	31/12/2016
1. Opening balance	127,537	127,599
2. Increases	19,244	31,175
2.1 Deferred tax assets of the year	19,244	31,175
a) relating to previous years	-	-
b) due to change in accounting principles	-	-
c) other	19,244	31,175
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	13,777	31,237
3.1 Deferred tax assets derecognised in the year	13,777	31,237
a) reversals	13,777	31,237
b) write-downs of non-recoverable items	-	-
c) due to change in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	133,004	127,537

14.6 Deferred tax liabilities: annual changes (with offsetting entry to equity)

	31/12/2017	31/12/2016
1. Opening balance	1,300	1,836
2. Increases	47	504
2.1 Deferred tax liabilities of the year	47	504
a) relating to previous years	-	-
b) due to change in accounting principles	-	-
c) other	47	504
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	423	1,042
3.1 Deferred tax liabilities derecognised in the year	422	1,040
a) reversals	422	1,040
b) due to change in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	1	2
4. Closing balance	924	1,298

14.7 Other information

- Tax rates applied

The 2016 Stability Law (Law no. 208 of 28/12/2015), provides for a further reduction in the IRES rate from 27.5% to 24%, effective from the fiscal year coinciding with calendar year 2017. For credit and financial institutions, however, the reduction was cancelled out by the introduction of a 3.5% surcharge starting from the same date.

Law Decree no. 98, published in the Official Journal, General Series no. 155 of 6 July 2011, converted into Law no. 111 of 15 July 2011, in Art. 23, para. 5 and 6 changed the IRAP base rate to 4.65% for the banking sector.

A coefficient of 0.9176 was established to reset the rates imposed by the regions for IRAP additional tax. Therefore, for almost all regions in which the company operates (for which the standard rate has been set at 1%), the applicable tax rate essentially became 5.57% (4.65% new base rate + 0.92% surcharge).

As a consequence, the rates applied in calculating current and deferred taxes for 2017 are as follows:

IRES 27.5%

IRAP 5.57%

As shown, with regard to IRES, the rate applied was 27.5%, which includes the portion relating to the main tax (24%) and that relating to the IRES surcharge (3.5%).

- Determining the tax base

Corporate income tax (IRES)

As is known, law no. 244/2007 also reinforced the principle of deriving company income from financial statements prepared in accordance with international accounting standards (IAS/IFRS). To this end, tax regulations were changed to envisage:

A) that, for entities that adopt the IASs/IFRSs, the time allocation and classification criteria of the IAS financial statements should prevail over the provisions of the Consolidated Income Tax Law (Article 83, TUIR);
B) the introduction of a series of changes to other parts of the TUIR for valuation aspects, in order to harmonise the rules of deriving company income from the financial statements.

At any rate, it should be noted that, despite the foregoing reinforced principle of deriving company income, differences remain between tax regulations and those arising from the application of the International Accounting Standards. As a result, the taxable income still shows some differences with respect to the income inferred from the accounting records. To this effect, Ministerial Decree no. 48 of 1 April 2009, (the "IAS Decree") clarified that "even the parties adopting IAS must apply the provisions of Chapter II, Section I of the Consolidated Income Tax Law providing for quantitative limits on the deduction of negative components, or their exclusion or allocation to more than one tax period, or those that partially or fully exempt or exclude any positive components from taxable income calculation, or permit allocation to more than one tax period, and those that establish the significance of positive or negative components for the year based, respectively, on their collection or payment".

It should be noted that the tax regime for loans and receivables was recently affected by multiple significant changes.

The 2014 Stability Law established at first that, for IRES purposes, starting from the financial year in progress as at 31 December 2013, credit and financial institutions could fully deduct during the year any losses on loans to customers realised through disposal and deduct any other forms of write-downs and losses on loans to customers, during the year and in the four subsequent years (art. 106, paragraph 3, Consolidated Income Tax Law).

More recently, art. 16 of Legislative Decree no. 83/2015, established that all write-downs and losses on loans to customers can be fully deducted in the financial year of their recognition. Only for the first period of application of the new regime, deductibility was limited to 75% of the total amount of write-downs and losses on loans to customers.
The non-deducted 25%, together with the write-downs on loans until 2012 and the adjustments on loans for financial years 2013 and 2014, will be deductible over ten taxable periods as of 2016 based on the different rates applied according to the law (5% for 2016, 8% for 2017, 10% for 2018, 12% from 2019 to 2024, 5% for 2025).

Write-downs and losses on loans to entities other than customers will, by contrast, continue to be deductible according to ordinary rules for IRES purposes (art. 101, paragraph 5 of the Consolidated Income Tax Law) and not deductible for IRAP purposes.

Regional tax on productivity (IRAP)
The above mentioned Law no. 244/2007 also introduced changes in the calculation method for the IRAP tax base, establishing direct significance of balance sheet items, including for tax purposes, as classified according to the correct accounting standards.
Therefore, the IRAP tax base is essentially determined by subtracting from the Net Interest and other banking Income 50% of dividends collected and 90% of amortisation/depreciation of tangible and intangible assets and administrative costs, net of personnel expenses.
Concerning the latter, the Stability Law for 2015 (Law no. 190 of 23/12/2014), starting from tax period 2015, introduced the full deductibility of costs incurred for permanent staff.
For the adjustments in the value of loans to customers, which were not deductible until 2012, from 2013 the same rules stated above for IRES apply.

- Convertibility of deferred tax assets into tax credits.
Article 2, paragraph 55 of Law Decree no. 225/2010 (the "*Decreto Milleproroghe*" converted to Law 10/2011) envisaged that deferred tax assets recognised in the financial statements for write-downs on loans (art. 106, paragraph 3, TUIR), goodwill and other intangible assets deductible over several tax years for income tax purposes, are converted into tax credits subject to certain conditions being met, namely, if a loss for the year is posted in the separate financial statements of a company. The conversion is effective as of the date of approval of the financial statements posting a loss, and is limited to the product of the loss for the year multiplied by the ratio of deferred tax assets to the sum of share capital and reserves.
Article 8 of Law Decree no. 201/2011 (the "Salva Italia" or "Save Italy" decree, converted to Law 214/2011), further expanded the convertibility of deferred tax assets into cash, as already provided for by the "*Decreto Milleproroghe*" ("One thousand extensions decree"), making it possible to transform them into tax receivables, also in the event of tax loss, and to use the receivables to offset other tax liabilities or transfer such receivables to other Group companies or request reimbursement of the amount.

The above-mentioned amendment therefore renders the possible recovery of deferred tax assets practically certain.
More recently, the "2014 Stability Law" allowed, in the presence of a negative net value of production, for the conversion into tax credits of DTAs allocated for IRAP purposes in relation to write-downs and loan losses, and to the value of goodwill and other intangible assets.
The accounting framework for new DTAs convertible into tax credits ceased to apply in 2016 given that, following the new laws introduced in 2015, adjustments in the value of loans to customers are fully deductible during the tax year of reference, whereas the DTAs relative to goodwill and other intangible fixed assets, recognised for the first time in the financial statements as of 31 December 2015 are no longer convertible (art. 17 of Legislative Decree no. 83/2015).

With specific regard to key events occurring in 2017, it should be noted that, following approval of the 2016 financial statements, which showed a loss for several companies of the Group, the above mentioned conversion took place for an amount of EUR 86.3 mln.
The deferred tax assets recognised in the financial statements and referred to in the decree include EUR 350.7 mln goodwill and EUR 176.7 mln losses on impairment of loans for a total of EUR 527.5 mln (see Table 14.3.1).

Under Article 11 of Decree Law no. 59 of 3 May 2016, an option to pay a fee to continue converting certain deferred tax assets into tax credits was established. The reference period for the payment of the fee, after the changes implemented in the conversion law of Decree Law No. 237 of 23/12/2016, is from 2016 to 2030.

Given the relevance of the option of converting deferred tax assets into tax credits for the Group, the option was exercised.

The overall cost recognised in the Carige Group's profit and loss for 2017 amounted to EUR 13.9 mln.

- IAS 12 and "probability test" for the recognition of prepaid tax assets.

IAS 12 - Income Tax, defined that the "prepaid tax assets" are the amounts of income tax recoverable in future years, referring to:

(a) deductible temporary differences;
(b) carry forward of unused tax losses; and
(c) carry forward of unused tax credits.

The same principle indicates that a prepaid tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.
The principle then elaborates on this concept, indicating that the derecognition of deductible temporary differences results in deductions in the determination of taxable income in subsequent financial years. However, the company shall receive economic benefits in the form of reduced tax payments, only if it generates sufficient taxable income for the deductions to be offset. Therefore, the company recognises deferred tax assets only when it is likely that taxable income will be realised, against which the deductible temporary differences can be used.

The principle adds that the existence of taxable income is likely in the presence of sufficient temporary taxable differences.

A deferred tax asset for unused tax losses or tax credits should be carried forward to the extent that it is likely that future taxable income will be available, against which unused tax losses and unused tax credits can be used.
As regards tax losses in particular, the company, in assessing the probability that taxable income will be available, against which unused tax losses and unused tax credits can be used, must take into account the following criteria:

(a) if the company has sufficient taxable temporary differences, with reference to the same tax authorities and the same tax entity, which will result in taxable amounts against which the unused tax losses and unused tax credits can be used prior to their expiry;
(b) if it is likely that the company has taxable income prior to the expiry of unused tax losses and tax credits;
(c) if the unused tax losses result from identifiable causes that are unlikely to be repeated; and
(d) if there are tax planning opportunities for the company based on which taxable income will be generated in the year, in which the unused tax losses and tax credits can be used.

To the extent that it is unlikely that taxable income will be available, against which unused tax losses and tax credits can be used, the deferred tax assets cannot be recognised.
Furthermore, the principle does not provide the notion of "probable". In this regard, it can be noted that the adjective "probable" is contained in numerous IAS/IFRS accounting standards. However, only in one standard and, specifically, in IAS 37 - Provisions, contingent liabilities and assets, it is possible to read the definition of "probable", as follows: the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not. Furthermore, in a footnote for the same principle, there is a warning that the interpretation of the term “probable” assumed in IAS 37 as "more likely that the opposite" does not necessarily have to be applied in other IAS/IFRS accounting principles. Although IAS 12 does not contain indications of the meaning to be attributed to the term “probable”, based on a systematic interpretation, the definition "more likely than not” can be deemed applicable.
Having said that and taking into account the regulatory framework that does not, in fact, allow a predetermined time frame to be taken as a reference for the estimates (the tax provisions do not provide for a deadline for the use of DTAs for future taxes due and principle IAS 12 does no define the time frame in which the company must measure the probability of recovery of DTAs), it was assumed as an objective function of the probability test to estimate, using a probabilistic approach, what the foreseeable recovery times of the DTAs are, with a probability of over 50%.

In consideration of the significant amount of deferred tax assets recognised, also with regard to the 2017 financial statements, an analysis was conducted to verify whether the forecasts of future profitability are such as to ensure their re-absorption and therefore justify their recognition and maintenance in the financial statements. For the 2017 Financial Statements, with the aid of external consultants, methodological developments were also made to the probability test, considering that, tax measures have recently been introduced which, along with the reduction in profitability estimates, limit the reabsorption capacity of losses over time.
From a regulatory standpoint, it is specifically noted as follows:

- Article 16 of Decree Law 83/2015, establishing that all write-downs and losses on loans to customers can be fully deducted in the financial year of their recognition, to be added to those that were not deducted in previous years;
- the deduction in ACE (*Aiuto alla Crescita Economica* - Aid to Economic Growth), in the current amount of 1.5%, as of 2018, of capital increases carried out from 2011 onwards and in the limits of shareholders' equity to be verified at the end of each tax period. The capital increases made by the Group from 2011 onwards amount to over EUR 2.2 bn.

As part of the assessments on the "probability" of recovery of prepaid tax assets recorded in the financial statements, the following preliminary considerations were made:
- the deferred tax assets recorded in the Group's Consolidated Financial Statements as at 31 December 2017, include EUR 527 million DTAs resulting from deductible temporary differences relating to value adjustments on loans and goodwill, for which Article 2, paragraphs 55 to 57 of Decree Law no. 225/2010, however, allows conversion into tax credits in the event of tax and/or statutory losses. The convertibility of deferred tax assets into tax credits therefore constitutes an adequate basis for their recognition in the financial statements, in fact rendering the associated probability test fully superseded (see joint document from the Bank of Italy, Consob and ISVAP no. 5 of 15 May 2012, and subsequent IAS-ABI document no. 112 of 31 May 2012);
- the probability test, using the methodology described below, is therefore focused only on deferred taxes that cannot be converted into tax credits;
- the growing attention on the issue of disclosure to be provided in the financial statements. ESMA recalled in its reports the importance of disclosure on DTA recording criteria, on the recovery time frame and on the need to provide adequate information on the evidence supporting the estimate.

The probability test has taken, as a reference, the Group's 2017-2020 Industrial Plan, approved by the Board of Directors of Banca Carige S.p.A., from which the corresponding taxable income and taxes that should be paid within the plan period, if the Institute were not to have IDTAs and, for subsequent years, quantified the taxable income and, therefore, the taxes, based on average annual compound rate of growth, defined in light of the current and, especially, expected economic conditions and the economic performance of the Bank, to be observed for a sufficiently long period, given the long period of time over which the recoverability of the DTAs is estimated.
It was considered reasonable to use the 2% annual compound growth rate corresponding to the inflation target defined by the ECB and deemed representative of the expected long-term inflation figure and, therefore, assuming a zero increase, in real terms, in the long term.
Once the series of expected taxable income is estimated (and, therefore the resulting taxes), in order to consider the uncertainty and, therefore, the variability, to which the achievement of the results is structurally subject, the Group adopted, to carry out the analysis of probabilistic scenarios, the Monte Carlo simulation method.

The test was conducted separately, on a consolidated basis, for the IRES base rate of 24% (EUR 532.6 million of consolidated non-convertible IRES DTAs) by virtue of the Group companies' adhesion to tax consolidation and, on an individual basis, as regards the additional IRES of 3.5% and for IRAP.

The test was conducted by considering the absorption of non-convertible DTAs over the Plan period and subsequently applying the foregoing probability test method.
On a consolidated basis, in the absence of volatility assumptions, DTAs recorded in the financial statements for IRES (24% rate), would be fully absorbed by 2035.
However, introducing, in the model, the volatility assumptions in the taxable income forecasts, still on a consolidated basis, it has shown, with a volatility of 9%, a 60% probability of full recovery of DTAs between 2033 and 2039 (90% by 2041) which extends to the 2032 - 2048 range, assuming a volatility of over 18%.

In this sense, as a particularly significant event, it is worth mentioning the signing of the Banks recent capital increase, which is a sign of confidence in the Institute, along with the all the other actions taken in the most recent period aimed at reviving profitability.

Returning again to the results of the model, again assuming a volatility of 9%, the results thereof lead to estimate these further results:

- with a probability of approximately 50%, at least EUR 461.6 mln (i.e. approximately 97.1% of DTAs) will be recovered by 2035, whilst the remaining EUR 13.8 mln will be recovered in subsequent years;
- with a probability of approximately 70%, at least EUR 386.7mln (i.e. approximately 81.3% of the DTAs) shall be recovered by 2035, whilst the remaining EUR 88.7 mln will be recovered in subsequent years;
- with a probability of approximately 90%, at least EUR 294.6 mln (i.e. approximately 62.0% of the DTAs) shall be recovered by 2035, whilst the remaining EUR 180.8 mln will be recovered in subsequent years.

On an individual basis, relating to the additional IRES of 3.5% and IRAP of 5.57%, the test was conducted for each Bank of the Group and produced the following results:

Banca Carige
In the absence of volatility assumptions, non-convertible DTAs recorded in the financial statements for additional IRES (3.5% rate) and for IRAP (5.57% rate), amounting to approximately EUR 92.4 mln, would be fully absorbed by 2035.
However, introducing, in the model, the volatility assumptions in the taxable income forecasts, it has shown, with a volatility of 9%, a 60% probability of full recovery of DTAs between 2033 and 2037 (90% by 2039) which extends to the 2032 - 2043 range, assuming a volatility of over 18%.
Still assuming a volatility of 9%, the results of the model lead to estimate these further results:

- with a probability of approximately 50%, all DTAs (EUR 77.9 mln) will be recovered by 2035;
- with a probability of approximately 70%, at least EUR 72.5 mln (i.e. approximately 93% of the DTAs) shall be recovered by 2035, whilst the remaining EUR 5.4 mln will be recovered in subsequent years;
- with a probability of approximately 90%, at least EUR 58.1 mln (i.e. approximately 74.6% of the DTAs) shall be recovered by 2035, whilst the remaining EUR 19.8 mln will be recovered in subsequent years.

Banca del Monte di Lucca

In the absence of volatility assumptions, non-convertible DTAs recorded in the financial statements for additional IRES (3.5% rate) and for IRAP (5.57% rate), amounting to approximately EUR 1.8 mln, would be fully absorbed by 2039.

However, introducing, in the model, the volatility assumptions in the taxable income forecasts, it has shown, with a volatility of 9%, a 60% probability of full recovery of DTAs between 2037 and 2044 (90% by 2046) which extends to the 2036 - 2054 range, assuming a volatility of over 18%.

Still assuming a volatility of 9%, the results of the model lead to estimate these further results:

- with a probability of approximately 50%, at least EUR 1.62 mln (i.e. approximately 95.4% of the DTAs) shall be recovered by 2039, whilst the remaining EUR 0.08 mln will be recovered in subsequent years;
- with a probability of approximately 70%, at least EUR 1.38 mln (i.e. approximately 81.3% of the DTAs) shall be recovered by 2039, whilst the remaining EUR 0.32 mln will be recovered in subsequent years;
- with a probability of approximately 90%, at least EUR 1.08 mln (i.e. approximately 63.9% of the DTAs) shall be recovered by 2039, whilst the remaining EUR 0.61 mln will be recovered in subsequent years.

Banca Cesare Ponti

In the absence of volatility assumptions, non-convertible DTAs recorded in the financial statements for additional IRES (3.5% rate) and for IRAP (5.57% rate), amounting to approximately EUR 1.1 mln, would be fully absorbed by 2026.

However, introducing, in the model, the volatility assumptions in the taxable income forecasts, it has shown, with a volatility of 9%, a 60% probability of full recovery of DTAs between 2025 and 2026 (90% by 2027) which extends to the 2025 - 2027 range, assuming a volatility of over 18%.

In consideration of all of the above, in order to appreciate the existence of the conditions for the recognition of prepaid taxes, the analyses and the considerations made, it is summarised as follows:

(a) a significant part of the deferred tax assets recorded is attributable to the DTAs, governed by Law 214/2011, which, therefore, meet the "probability" requirement in accordance with what is specified in the joint Banca d'Italia/IVASS/Consob document of 15 May 2012;

(b) the Board of Directors approved an Industrial Plan for the period 2017-2020 which provides, for the Group, for 2018 being substantially in balance, with the achievement of profits and taxable income as of financial year 2019; for the purposes of the "probability” test, the simulation prepared is based on the development of projections for the years after 2020, taking into account that the principle does not provide for a time frame on which to measure the probability of recovery and, therefore, does not permit the assumption of a pre-established interval as a reference;

(c) the DTAs recognisable in 2017 are largely related to charges that Bank reasonably deems unrepeatable in the near future, as they are significantly associated with specific asset and Group efficiency improvement actions; this assumption is recalled from the principle in which it is required that the probability requirement must consider whether unused tax losses result from identifiable causes that are unlikely to be repeated.

In conclusion, it is considered that the simulation carried out has highlighted the elements that, pursuant to IAS 12, also have taken into account the specific tax regulation in force on the conversion of DTAs and the carrying forward of tax losses, are suitable for appreciating the "probability". Of these, the projection, to a fixed extent with an increase of 2% exclusively equal to the expected inflation, of the taxable income envisaged by the Industrial Plan for 2020 to subsequent years and the improbability of the repetition of the causes that generated the tax losses, are fundamental elements, in this specific case, on which to base the aforementioned appreciation.

- Deferred taxes on untaxed reserves.

No allocations were made for deferred tax liabilities on untaxed reserves, given the fact that their distribution, for an amount of roughly EUR 198.6 mln (of which EUR 117.6 mln included in share capital) is not expected at the moment.

14.8 Tax Disputes

Information about the individual Group companies is shown below.

<u>Banca Carige</u>

On 28/02/2014 the Genoa Provincial office of the Revenue Agency served an order on Banca Carige levying a higher amount of registration tax (in addition to fines and interest) with reference to the deed of purchase of a company business unit bought from Banca del Monte dei Paschi di Siena in 2010.

In particular, the order was based on the re-estimation of the value of goodwill at an amount higher than the amount indicated by the parties in the afore-mentioned deed of purchase; in particular, the Revenue Agency redetermined the value from EUR 102,461,722 to EUR 140,167,758, resulting in levying a higher amount of registration tax, equal to EUR 455,116 in addition to fines of the same amount and interest. The company promptly filed an appeal.

On 16 February 2016 the Provincial Tax Commission deposited judgement no. 399/1/2016 which upheld the Bank's appeal in its entirety and ordered the Agency to refund the legal costs. The judgement was appealed against by the Italian Revenue Agency. The case is thus now pending second-level trial on appeal.

<u>Merger of Cassa di Risparmio di Carrara into Banca Carige</u>

On 3 March 2014 the Genoa Provincial office of the Revenue Agency served a settlement and correction notice to the merged company Cassa di Risparmio di Carrara (and to Banca del Monte dei Paschi di Siena S.p.A.) whereby the aforementioned Office levied a higher amount of registration tax (in addition to fines and interest) with reference to the deed of purchase of the company business unit signed by the Company in 2010. The settlement and correction notice in question is based on the redetermination of goodwill to an amount that is greater than the amount indicated by the parties in the afore-mentioned deed of purchase. In particular, the Revenue Agency redetermined the goodwill in question from EUR 13,642,160 to EUR 18,925,041. As a result of such redetermination the Tax Office requested the payment of additional registration tax for a value of EUR 77,248, in addition to fines for the same amount and interest. The Company promptly filed an appeal.

On 28 January 2016 the Provincial Tax Commission deposited judgement no. 282/1/2016 which upheld the Bank's appeal in its entirety and ordered the Agency to refund the legal costs. The judgement was appealed against by the Italian Revenue Agency. The case is thus now pending second-level trial on appeal.

<u>Merger of Banca Carige Italia into Banca Carige</u>

On 29 December 2016, as a result of a prior inquiry by Liguria's Regional Directorate of the Italian Revenue Agency on Banca Carige, the latter -in its capacity as the merging company of Banca Carige Italia- was served a notice of assessment containing two findings. The first relates to the re-determination of tax credit from the conversion of deferred tax assets for 2013 (approximately EUR 205 mln); the second is about EUR 2.1 mln additional tax payable resulting from partial non-acceptance of the relief connected with the Economic Growth Stimulus (*Aiuto alla Crescita Economica*, ACE).

Both findings are a consequence of the objections raised by the Agency against the results of the impairment test on goodwill conducted by Banca Carige Italia during preparation of its financial statements for the year 2012. In particular, in the Italian Revenue Agency's opinion, Banca Carige Italia should have partially impaired its previously recognised goodwill by EUR 771.6 mln and would thus not have had the possibility to fiscally align it in its entirety under art. 15, paragraph 10, of Legislative Decree no. 185/2008 as it did. That lesser tax alignment would have resulted in a lower recognisable amount of alignment-related DTAs and, consequently, in a lower amount convertible into tax credit, upon occurrence of the legally required conditions (as was the case in 2013). In quantitative terms, the Italian Revenue Agency's ascertainment was reflected in partial non-acceptance of the tax credit arising from conversion of deferred tax assets by the afore-mentioned amount of approximately EUR 205 mln. However, it is worth pointing out that, in relation to the foregoing finding, the notice of assessment clarifies that, after settlement of the specific claim, Banca Carige (in its capacity as the merging company of Banca Carige Italia) would be entitled to the pro-rata reimbursement (ca. EUR 99.9 mln) of the higher amount of substitute tax paid at that time for the tax alignment of goodwill recognised in 2012 and partly not accepted during the ascertainment. The second reported finding conceptually stems from the same objections raised against the results of the afore-mentioned impairment test. According to the argumentations provided by the Italian Revenue Agency in its ascertainment, the financial year 2012 - due to the afore-mentioned impairment and its effects on deferred tax assets - should have closed with a loss for the period instead of posting a profit which was allocated to a reserve and thus caused an increase in what is known as the ACE (Economic Growth Stimulus) base. For this finding alone, sanctions were imposed for an amount equal to 90% of the ascertained higher amount of corporate income tax (IRES).

The Company, supported by the qualified opinions of authoritative experts, believes that the findings formalised in the aforementioned notice of assessment present more than one element of censurability and, therefore, brought a judicial appeal before the competent Provincial Tax Commission in order to achieve the cancellation of the tax claim. The hearing of the discussion is currently scheduled for 23 April 2018. Accordingly, no pre-conditions were considered to exist under IAS 37 for the allocation of specific provisions to address the foregoing notice of assessment.

On 28 December 2017, upon the conclusion of a new audit by the Regional Revenue Agency of Liguria, a new Official Tax Audit Report (P.V.C.) was issued for 2014, in which, by repeating the argument procedure as per the aforementioned tax provision, the Agency made the following remarks: a) disregard for the tax credit previously recorded by the merged Banca Carige Italia S.p.A. against the transformation of prepaid taxes for approximately EUR 0.66 million; b) higher IRES of approximately EUR 2.9 million due to partial disregard of the benefit associated with the Aid to Economic Growth (ACE).
In addition to the aforementioned findings, a third was raised, for IRAP purposes, concerning the treatment, for tax purposes, of the Rapid Investigation Commission for a higher quantifiable tac of approximately EUR 0.37 million. Also in this case, the Company deems the findings to be completely unfounded and, on 20 February 2018, presented specific Observations pursuant to Article 12, paragraph 7, Law 212/2000.

Banca del Monte di Lucca
On 07/03/2014 the Genoa Provincial office of the Revenue Agency served a settlement and correction notice to the Company (and to Banca del Monte dei Paschi di Siena S.p.A.) no. 2012IT003868000, by which the aforementioned Office levied a higher amount of registration tax (in addition to fines and interest) with reference to the deed of purchase of a company business unit signed by the Company on 28 May 2010 and registered on 9 June 2010, the final price of which was determined in the subsequent deed dated 6 March 2012 registered on 30 March 2012. The

settlement and correction notice in question is based on the redetermination of goodwill to an amount that is greater than the amount indicated by the parties in the afore-mentioned deed of purchase. In particular, the Revenue Agency redetermined the goodwill in question from EUR 9,210,173 to EUR 12,861,460. As a result of such redetermination the Revenue Agency requested the payment of an additional registration tax for a value of EUR 53,257, in addition to fines for the same amount and interest.
The appeal was filed on 13/08/2014 - at the Provincial Tax Commission of Genoa - and was concluded on 28/01/2016, with the filing of judgement no. 383/1/2016 which upheld the Bank's appeal in its entirety and ordered the Agency to refund the legal costs. The Revenue Agency appealed against the aforementioned ruling to the Regional Tax Commission of Genoa.

SECTION 15

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH GROUPS OF ASSETS HELD FOR SALE - ITEM 150 (ASSETS) AND ITEM 90 (LIABILITIES)

15.1 Non-current assets and disposal groups held for sale and liabilities associated with groups of assets held for sale: breakdown by type of asset

	31/12/2017	31/12/2016
A. Individual assets		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Property and equipment	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	-	-
of which carried at cost	-	-
of which designated at fair value level 1	-	-
of which designated at fair value level 2	-	-
of which designated at fair value level 3	-	-
B. Asset groups (discontinued operations)		
B.1 Financial assets held for trading	-	-
B.2 Financial assets designated at fair value	-	-
B.3 Financial assets available for sale	-	-
B.4 Financial assets held to maturity	-	-
B.5 Loans to banks	62,828	-
B.6 Loans to customers	543,062	-
B.7 Equity investments	-	-
B.8 Property and equipment	35	-
B.9 Intangible assets	1,098	-
B.10 Other assets	1,054	-
Total B	608,077	-
of which carried at cost	608,077	-
of which designated at fair value level 1	-	-
of which designated at fair value level 2	-	-
of which designated at fair value level 3	-	-
C. Liabilities associated with individual non-current assets held for sale and discontinued operations	-	-
C.1 Due to banks/customers	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	-	-
of which carried at cost	-	-
of which designated at fair value level 1	-	-
of which designated at fair value level 2	-	-
of which designated at fair value level 3	-	-

D. Liabilities associated with groups of non-current assets held for sale and discontinued operations		
D.1 Due to banks	-	-
D.2 Due to customers	-	-
D.3 Securities in issue	(188,636)	-
D.4 Financial liabilities held for trading	-	-
D.5 Financial liabilities designated at fair value	-	-
D.6 Allowances	(464)	-
D.7 Other Liabilities	(4,708)	-
Total D	(193,808)	-
of which carried at cost	(193,808)	-
of which designated at fair value level 1	-	-
of which designated at fair value level 2	-	-
of which designated at fair value level 3	-	-

SECTION 16

OTHER ASSETS - ITEM 160

16.1 Other assets: breakdown

	31/12/2017	31/12/2016
Revenue items in transit	10,851	14,895
Bills and other items for collection	1,046	2,830
Receivables from disposal of properties	96,750	-
Items undergoing processing	175,734	114,415
Current account cheques drawn on third parties	19,286	22,745
Current account cheques drawn on banks	2,652	3,221
Advances paid to tax authorities on behalf of third parties	7,780	18,757
Accrued revenues to be collected	57,418	63,965
Expenses for improvement of third parties' assets	956	1,854
Other	46,574	23,144
Total	419,047	265,826

LIABILITIES

SECTION 1

DUE TO BANKS – ITEM 10

1.1 Due to banks: breakdown

	31/12/2017	31/12/2016
1. Due to central banks	3,500,000	3,000,000
2. Due to banks	1,156,624	468,322
2.1 Other current accounts and demand deposits	67,879	28,996
2.2 Term deposits	-	-
2.3 Loans	1,072,846	422,731
2.3.1 Repos	746,949	-
2.3.2 Other	325,897	422,731
2.4 Liabilities for commitments to repurchase own equity instruments	-	-
2.5 Other liabilities	15,899	16,595
Total	**4,656,624**	**3,468,322**
Fair value - level 1	-	-
Fair value - level 2	830,638	46,148
Fair value - level 3	3,294,584	2,866,406
Total Fair value	**4,125,222**	**2,912,554**

The item "Due to central banks" for an amount of EUR 3.5 bn (EUR 3 bn as at 31/12/2016) refers to refinancing operations with the European Central Bank (T-L.T.R.O. II).

SECTION 2

DUE TO CUSTOMERS– ITEM 20

2.1 Due to customers: breakdown

	31/12/2017	31/12/2016
1. Current accounts and demand deposits	11,141,642	11,841,106
2. Term deposits	1,313,280	1,344,401
3. Loans	4,021	356,311
3.1 Repos	-	351,226
3.2 Other	4,021	5,085
4. Liabilities for commitments to repurchase own equity instruments	-	-
5. Other liabilities	165,598	168,390
Total	12,624,541	13,710,208
Fair value - level 1	-	-
Fair value - level 2	11,797,405	12,967,872
Fair value - level 3	760,777	707,118
Fair Value	12,558,182	13,674,990

The Group did not carry out any "long-term structured repo" transactions as defined by the joint Consob / Bank of Italy / IVASS communication dated 8 March 2013.

SECTION 3

SECURITIES ISSUED – ITEM 30

3.1 Debt securities issued: breakdown

Type of securities/Amounts	31/12/2017				31/12/2016			
	Book Value	Fair Value			Book Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Listed securities								
1. Bonds	3,884,698	2,979,066	-	905,531	5,440,218	3,774,371	1,299,234	243,902
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	3,884,698	2,979,066	-	905,531	5,440,218	3,774,371	1,299,234	243,902
2. Other securities	1,131	-	611	519	3,076	-	2,524	552
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	1,131	-	611	519	3,076	-	2,524	552
Total	3,885,829	2,979,066	611	906,050	5,443,294	3,774,371	1,301,758	244,454

Outstanding bonds decreased during 2017, even following the implementation of a liability optimisation (Liability Management Exercise, LME), which led to the replacement of subordinated bonds for EUR 510 mln with Senior bonds with a nominal value of EUR 188.8 mln. The expenses incurred for the issuance of the Senior bonds amounted to EUR 3.6 mln and were recognised in the amortised cost of issued security.

3.2 Breakdown of item 30 "Securities issued": subordinated securities

Issuing company	Security code	Nominal value	Book value	Currency	Interest rate	Maturity date
Banca Carige	IT0004429137	135,000	135,031	Euro	3-month Euribor + annual 200 bps spread	29/12/2018
Argo Mortgage 2 Srl	IT003694137	26,800	26,800	Euro	6-month Euribor + annual 0.32 bps spread	27/10/2043
Argo Mortgage 2 Srl	IT003694145	21,650	21,670	Euro	6-month Euribor + annual 0.83 bps spread	27/10/2043
Lanterna Finance Srl (1)	IT0005154072	331,800	76,372	Euro	3-month Euribor + annual 2.20 bps spread	28/10/2065
Lanterna Lease Srl (2)	IT0005187916	157,000	75,470	Euro	This note pays a premium depending on the performance of the securitisation	28/01/2051
	Total	**672,250**	**335,343**			

(1) Note repurchased by Banca Carige and later sold in a repo transaction coming to maturity on 2 January 2018
(2) Note repurchased by Banca Carige and later sold in a repo transaction coming to maturity on 6 March 2018

Qualitative information on subordinated securities issued and eligible as regulatory capital is reported in Part “F” of the Explanatory Notes.

3.3 Breakdown of item 30 "Securities issued": Micro-hedged debt securities issued

	31/12/2017	31/12/2016
1. Securities subject to micro-hedging of fair value:	759,457	945,167
a) interest rate risk	759,457	945,167
b) exchange risk	-	-
c) multiple risks	-	-
2. Securities subject to micro-hedging of cash flows:	-	-
d) other	-	-
b) exchange risk	-	-
c) other	-	-

SECTION 4

FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

4.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	31/12/2017					31/12/2016				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
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. Derivative instruments										
1. Financial derivatives	x	-	850	-	x	x	-	2,064	-	x
1.1 Trading	x	-	850	-	x	x	-	2,064	-	x
1.2 Connected 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 Trading	x	-	-	-	x	x	-	-	-	x
2.2 Connected with the fair value option	x	-	-	-	x	x	-	-	-	x
2.3 Other	x	-	-	-	x	x	-	-	-	x
Total B	**x**	**-**	**850**	**-**	**x**	**x**	**-**	**2,064**	**-**	**x**
Total (A+B)	**x**	**-**	**850**	**-**	**x**	**x**	**-**	**2,064**	**-**	**x**

Key
FV = Fair Value
FV* = fair value calculated excluding value adjustments due to changes in the credit rating of the issuer since date of issuance.
NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

SECTION 5

FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS – ITEM 50

5.1 Financial liabilities designated at fair value: breakdown

Type of transaction/Amounts	31/12/2017					31/12/2016				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	x	-	-	-	-	x
1.2 Other	-	-	-	-	x	-	-	-	-	x
2. Due to customers	-	-	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	x	-	-	-	-	x
2.2 Other	-	-	-	-	x	-	-	-	-	x
3. Debt securities	341,421	348,459	-	-	363,895	452,297	459,198	-	-	493,640
3.1 Structured	-	-	-	-	x	-	-	-	-	x
3.2 Other	341,421	348,459	-	-	x	452,297	459,198	-	-	x
Total	341,421	348,459	-	-	363,895	452,297	459,198	-	-	493,640

Key
FV = Fair Value
FV* = fair value calculated excluding value adjustments due to changes in the credit rating of the issuer since date of issuance.
NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The Bank has attributed a fair value to bonds issued which are hosted in derivative contracts connected with interest rate risk, in order to avoid an accounting mismatch with respect to the treatment reserved for the associated hedge accounting derivatives. During 2016 and 2017, these derivatives were fully repaid.

SECTION 6

HEDGING DERIVATIVES - ITEM 60

6.1 Hedging derivatives: breakdown by type of hedging and level of fair value

	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	-	224,971	-	315,647	-	259,037	-	847,645
1) Fair value	-	224,971	-	315,647	-	259,037	-	847,645
2) Cash flows	-	-	-	-	-	-	-	-
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	-	224,971	-	315,647	-	259,037	-	847,645

NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

6.2 Hedging derivatives: breakdown by hedged portfolio and type of hedging

Transactions/Type of hedging	Fair Value						Cash flows		Foreign investments
	Micro-hedge					Macro-hedge	Micro-hedge	Macro-hedging	
	Rate risk	Exchange risk	Credit risk	Price risk	Multiple risks				
1. Financial assets available for sale	15,167	-	-	-	-	x	-	x	x
2. Loans and receivables	209,766	-	-	x	-	x	-	x	x
3. Financial assets held to maturity	x	-	-	x	-	x	-	x	x
4. Portfolio	x	x	x	x	x	-	x	-	x
5. Other transactions	-	-	-	-	-	x	-	x	-
Total assets	224,933	-	-	-	-	-	-	-	-
1. Financial liabilities	-	-	-	x	-	x	-	x	x
2. Portfolio	x	x	x	x	x	-	x	-	x
Total liabilities	-	-	-	-	-	-	-	-	-
1. Forecast transactions	x	x	x	x	x	x	-	x	x
2. Financial assets and liabilities portfolio	x	x	x	x	x	38	x	-	-

SECTION 8

TAX LIABILITIES – ITEM 80

For information on this section, please refer to Section 14 - Assets.

SECTION 10

OTHER LIABILITIES – ITEM 100

10.1 Other liabilities: breakdown

	Total 31/12/2017	Total 31/12/2016
Security deposits received from third parties	2	679
Amounts payable to tax authorities on behalf of third parties	38,043	41,311
Debit items in transit	3,473	2,925
Adjustments diff. relating to bills held in portfolio	611	7,370
Items undergoing processing	163,047	164,518
Accounts payable	95,201	49,118
Payables for personnel expenses	7,376	4,571
Costs accrued to be recognised	18,490	34,787
Payables for guarantees and commitments	27,540	31,692
Other liabilities	120,796	101,227
Total	474,579	438,198

.

SECTION 11

EMPLOYEE TERMINATION INDEMNITIES – ITEM 110

11.1 Employee termination indemnities: annual changes

	Total 31/12/2017	Total 31/12/2016
A. Opening balance	65,769	72,235
B. Increases	634	935
B.1 Provision for the year	633	826
B.2 Other decreases	1	109
C. Decreases	6,986	7,401
C.1 Severance payments	5,928	7,353
C.2 Other decreases	1,058	48
D. Closing balance	59,417	65,769

11.2 Other information

The employee termination indemnities provision covers rights accrued by employees as at 31 December 2017 in accordance with current laws, national collective labour agreements and company supplementary labour contracts.
The amount calculated pursuant to Article 2120 of the Italian Civil Code amounts to EUR 55,332 thousand (EUR 57,559 thousand as at 1 January 2017).

Application of IAS 19 - Employee Benefits.

EC Regulation no. 475 of 5 June 2012 endorsed the new version of IAS 19 outlining the accounting requirements for employee benefits, mandatorily applicable to annual periods beginning on or after 1 January 2013.
The Banca Carige Group applied the revised IAS 19 starting from 1 January 2012, availing itself of the option of earlier application permitted by the Regulation.

Description of the employee termination indemnities as a defined benefit plan.

The Consolidated Law on supplementary pensions (Legislative Decree No. 252/2005) makes it possible to allocate, on a voluntary basis, the employee termination indemnities (severance pay), accruing as of 1/1/2007, to supplementary pension funds.
Companies with at least 50 employees shall pay the portions of employee termination indemnities not intended for supplementary pensions to the "Provision for disbursement to private sector employees pursuant to Article 2120 of the Italian Civil Code", managed by INPS [National Social Security Institute] and established by Law 296/2006 (2007 Budget Law).
Except for a residual part accruing in the first half of 2007, all TFR amounts accrued from 1 January 2007 must be paid into supplementary pension plans and/or to INPS.
These amounts constitute a "defined contribution plan": the expense for the Company is limited to the contributions set out in the Italian Civil Code, with no additional actuarial obligations for the Company, in connection with the employee's future service.

However, the Employee Severance Indemnity accrued until 31 December 2006 continue to qualify, for accounting purposes, as a post-employment "defined benefit" plan.

Application of IAS 19.

Defined benefit plans require, for accounting purposes, the disaggregation of changes in the obligation into three components: employment, financing and remeasurement. The first two should be recognised to profit or loss, while the third component should be recognised in Equity under "Other Comprehensive Income" (OCI).
The employment component consists of changes in the obligation relating to:

- the service rendered by the employee in the current year (Current Service Cost, or CSC);
- the service rendered in prior years, arising as result of a plan amendment or curtailment;
- actuarial gains or losses upon plan settlement.

The financing component consists of changes in the obligation, during the period, arising from the passage of time (Interest Cost or IC).

The remeasurement component comprises actuarial gains/losses.

Determination of the present value of defined benefit obligations.

The valuation of future expense for employee termination indemnities was performed by an independent actuary in accordance with IAS 19 criteria for defined benefits plans. In particular, the approach led to the determination of the Defined Benefit Obligation (DBO), i.e. the average present value of defined benefit obligations as at 31 December 2017, accrued by employees in service at the calculation date during the current and prior years.

It is noted that, under current regulations, employee termination benefits should be considered accrued in full, and therefore the Current Service Cost (CSC) for this benefit is zero from 1 July 2007.

In addition, the employee termination Interest Cost for 2017 was determined by applying the discount rate at the beginning of the period (1%) to the DBO as at 1 January 2017, taking into account the changes in the liability as a result of the payment of contributions and benefits.

To define the DBO amount, an estimation was made of future payments due to each employee for accrued entitlement to retirement benefits on account of age or seniority, disability, death, resignation or a request for advances.
Evaluations took account of Art. 24 of Law 214/2011 as regards requirements for entitlement to INPS pension schemes.

Demographic assumptions.

The following statistical sources with breakdown by age and gender were used:
- probability of termination by death: ISTAT table for 2016 (ISTAT source – Annuario statistico italiano, the Italian Statistical Yearbook, for 2017) selected on the basis of the Group's time series of data;
- probability of termination of employment for various reasons (resignation, firing) by age and gender: figures were inferred from experience with employees of the Carige Group.

Other estimates included:
- the maximum number of requests for advances that may be submitted;
- the frequency of requests for first advances and subsequent requests;
- the amount of termination benefit advances for each request.

Economic-financial assumptions.

Assumptions included a 1.3% annual inflation rate for 2018, 1.4% for 2019, 1.5% for 2020 and 2% from 2021 thereafter, an annual remuneration growth rate for all categories equal to the annual rate of inflation for the entire valuation period and a nominal discount rate of 1%, in light of the average term to maturity of the Group’s liabilities for the staff severance pay, and with reference to the interest rate curve of AA-rated securities issued by corporate issuers in the Euro area as at 31 December 2017.

SECTION 12

ALLOWANCES FOR RISKS AND CHARGES – ITEM 120

12.1 Allowances for risks and charges: breakdown

Item/Amount	31/12/2017	31/12/2016
1. Company pension fund	34,410	37,179
2. Other allowances for risks and charges	130,830	68,992
2.1 Legal disputes	24,489	23,407
2.2 Personnel expenses	60,903	19,844
2.3 Other	45,438	25,741
Total	165,240	106,171

12.2 Allowances for risks and charges: annual changes

Item/Amount	Total	
	Pensions and post-retirement benefit obligations	Other allowances
A. Opening balance	**37,179**	**68,992**
B. Increases	**1,420**	**84,371**
B.1 Provision for the year	492	83,934
B.2 Changes due to the time value of money	-	12
B.3 Changes due to discount-rate changes	-	-
B.4 Other increases	928	425
C. Decreases	**4,189**	**22,533**
C.1 Use during the year	3,137	16,732
C.2 Changes due to discount rate changes	-	-
C.3 Other decreases	1,052	5,801
D. Closing balance	**34,410**	**130,830**

12.3 Defined benefit company pension funds

Following the merger by absorption of Cassa di Risparmio di Savona S.p.A. and Cassa di Risparmio di Carrara S.p.A. on 1 January 2015, the pension funds established within the above-indicated companies have remained separate also for accounting purposes within the merging company Banca Carige S.p.A.

The Banca Carige S.p.A. fund will hereinafter be referred to as “FIP Carige”, the fund of Cassa di Risparmio di Savona as “FIP Carisa”, and the fund of Cassa di Risparmio di Carrara as “FIP Carrara”.

The three Funds are supplementary pension funds which already existed on entry into force of Law no. 421 of 23 October 1992, and as such they have been registered with the Registry of Pension Funds under special section III since 14 October 1999. The Carige, Carisa and Carrara funds are respectively registered under no. 9004, 9026 and 9154 and are subject to the supervision of COVIP (Pension Fund Supervisory Commission).

The Funds lack autonomous legal personality; both the Carige and Carisa funds are an item in the Balance Sheet which guarantees the Bank’s obligation to maintain the resources necessary at any given time for each Fund to pay the benefits payable. They are therefore a provisioning fund of the Bank which guarantees payment of a future obligation.

FIP Carrara is established as a separate and autonomous fund pursuant to art. 2117 of the Italian Civil Code, as part of the Bank's overall assets.

The Funds are not structured in individual accounts and are closed to new participants.

In particular:

- FIP Carige

During 2015 the Bank and the unions agreed to undertake a project involving the transformation of the Fund for active participants, retired employees and former employees awaiting a deferred pension from the Fund (“deferred pension recipients”). As a result of this transformation, individual asset packages were calculated on the basis of the benefits accrued to each participant as at 30 June 2015 (“transferable packages”). Such transferable packages are to be transferred, following voluntary enrolment, to another defined-contribution pension fund, along with the employer’s future contribution; in the cases of retirees and deferred pension recipients, the transformation called for payment of (current or future) pensions in lump-sum form and the calculation of the sums to be offered at 30 June 2015, also through voluntary enrolment, with the exclusion of all other benefits from the Bank.

In implementation of the resolution of the Board of Directors of 27 October 2015, agreements were entered into with the unions to formalise the arrangements indicated above.

Following the aforementioned operation, which continued even after 2015 and which provided, for the employees, for the voluntary enrolment to another defined contribution pension fund, together with the future employer contribution and, for retirees and deferred pension recipients, the settlement of the pension capital value, through voluntary enrolment; the group of participants in the Fund as at 31 December 2017 consisted of 4 deferred pension recipients and 188 retirees.

- FIP Carisa

During 2016, the same actions as those concerning FIP Carisa were implemented for FIP Carisa, with only 3 deferred pension recipients and 7 retirees joining the Carisa Fund as at 31 December 2017.

- FIP Carrara

Only retired employees are registered with FIP Carrara, as the defined contribution section which the employees participated in, was settled in February 2015, in compliance with the resolution taken by the Board of Directors of Cassa di Risparmio di Carrara on 10 November 2014.
Currently, the Carrara Fund has functions limited to a group of 40 retired employees.

Application of the new version of IAS 19 - Employee Benefits.

EC Regulation no. 475 of 5 June 2012 endorsed the new version of IAS 19 outlining the accounting requirements for employee benefits, mandatorily applicable to annual periods beginning on or after 1 January 2013.
The Banca Carige Group, which includes Banca Carige S.p.A., applied the revised IAS 19 starting from 1 January 2012, availing itself of the option of earlier application permitted by the Regulation.

Classification of the Supplementary Pension Funds in accordance with IAS 19.
IAS 19 defines the accounting procedures for employee benefits, classifying such benefits based on payment timing and degree of uncertainty in determining the Entity's obligation.
Pension benefits are classified as post-employment benefits and they are divided into defined contribution plans and defined benefit plans.
Defined benefit plans are characterised by the fact that actuarial and investment risks are not transferred to an outside party or to the employee, but fall on the Entity.
Accounting for defined benefit plans is complex because, to determine the value and cost of the obligation, actuarial assumptions are necessary and there is a possibility that actuarial gains and losses may occur. Moreover, obligations are subject to discounting because they may be settled many years after the employees render the related service.
For IAS 19 purposes, Company Pension Funds are post-employment defined benefit plans.

Determination of the present value of the obligation (Defined Benefit Obligation).
The Entity's obligation consists in the payment of:

- direct pensions to retired employees;
- indirect pensions to survivors of employees who died while they were employed;
- dependants' pensions, to the survivors of former employees who died after retirement.

Entitlement to a pension is obtained when reaching the requirements specified by the Regulation, but the payment is subject to the settlement of the INPS pension (pursuant to Legislative Decree 124/1993 Article 18, paragraph 8-quinquies, introduced by Law 335/1995 Article 15, which limited the benefits of the supplementary pension to the supplementary part alone case).

To determine the present value of the obligation, it is necessary to:

- determine the cost of current services (Current Service Cost) and, if the conditions are met, the cost of past services (Past Service Cost);
- use the projected unit credit method (sometimes known as the accrued method pro-rated on service or as the benefit/years of service method);
- estimate, with actuarial assumptions, the demographic and financial variables that will influence the cost of the benefits;
- discount the benefits in order to determine the present value of the obligation;

- subtract the fair value of the plan assets from the present value of the obligations.

The main demographic variables to be considered relate to the future characteristics of deferred pension recipients and former employees (and their dependants) who are eligible for the benefits. Demographic assumptions deal with matters such as:

- mortality;
- rates of employee turnover, disability and early retirement;
- the proportion of plan members with dependants who will be eligible for the benefits.

The main financial assumptions to be considered deal with items such as:

- the discount rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. Currencies and terms of the corporate bonds or government bonds yields used must be consistent with the currency and terms of the obligation;
- the benefit levels set out in the terms of the plan;
- estimated future salary increases that will affect the benefits payable.

The present value of the obligation was determined by an independent actuary using technical demographic, economic and financial evidence in accordance with the foregoing IAS 19 criteria.

The following statistical sources with breakdown by age and gender were adopted:

- probability of death of the retired employees and their family members: inferred from the 2016 figures for the mortality rates in the Italian population (source: ISTAT – *Annuario Statistico Italiano* 2017) selected on the basis of a job background in the banking sector and updated to take into account the gradual increase in life expectancy, inferred from changes to the latest projections published by ISTAT for the 2011-2065 period (middle scenario);
- probability of leaving family (source: ISTAT);
- frequency of different types of family structures in new surviving households and average age of the members of the new surviving households according to age and gender of the assignor (source: INPS).

The forecast assumptions in terms of economy and finance adopted for the assessments are as follows:

- annual rate of inflation equal to 1.3% for 2018, 1.4% for 2019, 1.5% for 2020 and 2% as of 2021;
- change in the INPS minimum pensions according to law, in connection with the assumed annual rate of inflation;
- increase in pensions according to the provisions of the current regulations on the matter (automatic equalisation);
- annual nominal discount rate of 1.5% (1.4% as at 31/12/2016 and 1.6% as at 30/06/2017), taking account of an average term to maturity of liabilities related to the Carige Group's pension funds of approximately 9 years, and with reference to the interest rate curve for AA-rated securities issued by corporate issuers in the Euro area as at 31/12/2017.

The retirement payout and the extent of the public pension were calculated according to current regulations.

Benefit levels set out in the terms of the plan and estimated future salary increases.

In every year of evaluation:

- for each deferred pension recipient, the possibility of exiting the deferral status due to death or due to meeting the requirements for the right to INPS old-age pension was assumed;
- for each deferred pension recipient, the amount of the pension due at the time was directly provided;
- for each retired employee, the pension was revaluated, taking into account any additional pensions received, according to current law provisions regulating adjustments to pensions.

The definition of "plan assets" in accordance with IAS 19 prescribes that such assets:

→ are held by a fund that is legally separate from the reporting Entity and exists solely to pay or fund employee benefits

and

→ are available to be used only to pay or fund employee benefits, are not available to the reporting Entity's own creditors (even in bankruptcy), and cannot be returned to the reporting Entity, unless under strictly defined exceptions.

As the Funds have no independent legal status, no defined benefit plan assets exist.

Application of IAS 19.

Defined benefit plans require, for accounting purposes, the disaggregation of changes in the obligation into three components: employment, financing and remeasurement. The first two should be recognised to profit or loss, while the third component should be recognised in Equity under "Other Comprehensive Income" (OCI).

The employment component consists of changes in the obligation relating to:

- the service rendered by the employee in the current year (Current Service Cost, or CSC);
- the service rendered in prior years arising as a result of plan amendment (Past Service Cost) or curtailment;
- actuarial gains or losses upon plan settlement.

The financing component consists of changes in the obligation, during the period, arising from the passage of time (Interest Cost or IC).

The remeasurement component comprises actuarial gains/losses.

Details of the amount set aside and its use during the period.

FIP Carige

Changes in the amount set aside for the period are the result of the algebraic sum of:

- Interest Cost (IC), recognised in profit or loss, amounting to EUR 417 thousand;
- actuarial losses, allocated to Other Comprehensive Income (OCI), amounting to EUR 547 thousand;
- reduction in the amount set aside amounting to EUR 1,050 thousand, in relation to the agreement signed by the Bank with trade unions to transform the Fund as per details provided above for retired employees and former employees awaiting a deferred pension from the Fund ("deferred pension recipients").

The Current Service Cost (CSC) is zero, given that, referring solely to deferred salaries and pensioners, the benefits have already fully accrued.
Pensions paid out amounted to EUR 2,517 thousand.

Sensitivity analysis of the main actuarial assumptions.

The impact from changes, with a discount rate respectively lower and higher by 0.5 percentage point compared with 1.5% would have been as follows:

EUR/000

Discount rate	DBO retirees and deferred recipients
1%	30,579
2%	27,762

Cash flows.

Changes recognised in profit or loss are therefore those arising entirely from the IC (determined applying the start-of-period discount rate to the start-of-period DBO, taking into account changes due to pension pay-outs).

FIP Carisa

Details of the amount set aside and its use during the year.

Changes in the amount set aside for the year are the result of the algebraic sum of:

- Interest Cost (IC), recognised in profit or loss, amounting to EUR 6 thousand;
- Actuarial losses, allocated to Other Comprehensive Income (OCI), amounting to EUR 10 thousand;
- Reduction in the amount set aside amounting to EUR 81 thousand, in relation to the agreement signed by the Bank with trade unions to transform the Fund as per details provided above for retired employees.

The Current Service Cost (CSC) is zero, given that, referring solely to deferred salaries and pensioners, the benefits have already fully accrued.
Pensions paid out amounted to EUR 31 thousand.

Sensitivity analysis of the main actuarial assumptions.

The impact from changes, with a discount rate respectively lower and higher by 0.5 percentage point compared with 1.5% would have been as follows:

EUR/000

Discount rate	DBO retirees and deferred recipients
1%	419
2%	378

Cash flows.

Changes recognised in profit or loss are therefore those arising entirely from the IC (determined applying the start-of-period discount rate to the start-of-period DBO, taking into account changes due to pension pay-outs).

FIP Carrara

Details of the amount set aside and its use during the year.

The allocation for the year, amounting to EUR 181 thousand, comprises:

- Interest Cost (IC), recognised in profit or loss, amounting to EUR 69 thousand;
- actuarial losses, allocated to Other Comprehensive Income (OCI), amounting to EUR 112 thousand;

Pensions paid out amounted to EUR 477 thousand.

Sensitivity analysis of the main actuarial assumptions.

The impact from changes, with a discount rate respectively lower and higher by 0.5 percentage point compared with 1.5% would have been as follows:

EUR/000

Discount rate	DBO retirees
1%	5,125
2%	4,693

Cash flows.

Changes recognised in profit or loss are those arising from the IC (determined applying the start-of-period discount rate to the start-of-period DBO, taking into account changes due to pension pay-outs).

These changes, for 2017 and in the short term, can be indicatively estimated on an annual basis at approximately EUR 69 thousand.

By effect of the fund composition CSC is nil.

12.4 Allowances for risks and charges - other allowances

1. Legal Disputes

The provision was established to meet any potential losses from legal proceedings in progress, for which it is possible to make a reliable estimate of contingent liabilities in accordance with IAS 37. At the end of 2017, the provision totalled EUR 24.5 mln, of which EUR 22.6 mln for lawsuits filed against the Bank and bankruptcy clawback actions, for which the future expenditure and length of the dispute settlement process have been estimated, and EUR 1.9 mln for labour disputes. Commitments becoming due proved immaterial and therefore were not discounted.

2. Personnel expenses

Fund for charges related to incentives for employment termination.
The provisions set aside are those related to the definitive financial benefits - i.e. without the possibility of withdrawal from the offer - in favour of employees as an incentive for termination of employment. These incentives become payable twelve months or more after the end of the reporting period. Considering the time-frame for these benefits to be awarded (2016 - 2020), no actuarial assessments were made: the amounts were discounted using the interest rate curve for AA-rated securities from corporate issuers in the Euro area as at 31 December 2017. The amount set aside is EUR 4,469 thousand.

Fund for restructuring charges related to incentives for employment termination.
The provisions set aside are those corresponding to the estimated benefits - i.e. incentives for employment termination - from which it is still possible for the Company to withdraw. The provisions set aside were determined by applying the requirements of IAS 37.
The amounts set aside in previous years were fully used during 2017.
As at 31/12/2017, sums amounting to a further EUR 4,750 thousand were set aside.

Seniority bonus
The seniority bonus is an amount equal to 1/12 of the annual contractual compensation, paid to the employee upon reaching the 25th year of actual service.

The Union Agreement of 30/09/2014 modified both the identification criteria of the recipients of the Seniority Bonus and its determination. In particular, starting from 1/1/2015, the Seniority Bonus will only be paid to employees who as at 1/1/2015 have accrued no less than 6 years of service. In this case, the bonus will be paid to the individuals concerned - who have been employed continuously, upon reaching the level of seniority required by the company - prorated to the actual period of employment as at 30/09/2014, taking as a reference the annual contractual remuneration of each individual in question as at 30/09/2014.

The new union agreement signed on 28/10/2016 establishes that, upon attainment of the retirement eligibility requirements set forth by the applicable regulations by 31/03/2017, employees may become the beneficiaries of substitute treatment as an alternative to the treatment envisaged by the

Agreement of 30/09/2014. Alternative treatment implies paying out a portion of the seniority bonus. This change was accounted for on 31/12/2016.
The new union agreement signed on 26/04/2017 also establishes that, upon attainment of the retirement eligibility requirements set forth by the applicable regulations after 31/03/2017, employees may become the beneficiaries of substitute treatment as an alternative to the treatment envisaged by the Agreement of 30/09/2014. Alternative treatment have implied paying out a portion of the seniority bonus. This change was accounted for in 2017.
The Fund was therefore cleared to zero.

Fund for restructuring charges related to the solidarity fund.
With the Trade Union Agreement of 16/12/2017, it was decided to reserve the possibility of allowing access to the Redundancy Fund for 490 Group employees who accrued rights to a pension by 31/12/2023 out of 635 eligible employees, with an estimated charge of EUR 49,556 thousand.

The charges set aside are those relating to the expected economic costs for creating the funding for the payment of the severance indemnity paid by the INPS to members and the related contribution. These fees will be disbursed monthly and shall be implemented between 01/07/2018 (date of the first access window) and the date of access to the pension of the final member of said Fund, estimated at 31/12/2023. Considering the time-frame for these payments to be awarded (2018 - 2023), no actuarial assessments were made: the amounts were discounted using the interest rate curve for AA-rated securities from corporate issuers in the Euro area as at 31/12/2017. The amount set aside is EUR 49,999 thousand.

Allowances for risks and charges - FIP Carige

In the prior years, the Bank set aside provisions for risks and charges to face potential demands from the FIP Carige retirees for different claims.
In application of ruling 364/2017 of 20/04/2017 of the Court of Genoa, ordering the adjustment of the pension and payment of arrears to 18 retirees of the FIP, sums set aside in the Fund amounting to EUR 336 thousand were used.
Given the decrease in FIP membership for capitalisation, the Bank acknowledged that risk was reduced and partially released the fund, bringing about a reversal of EUR 59 thousand.
To pay the sums agreed upon with transaction dated 17/02/2017 relating to 7 FIP retirees, sums set aside in the Fund amounting to EUR 6 thousand were used.

3. Other provisions

This item consists mainly in a provision recognised at the end of 2017 for EUR 38.2 million (EUR 18.5 million during 2016) in connection with distribution commitments undertaken and guarantees pledged under the agreements for the disposal of the insurance companies and thereto connected distribution agreements. For more information, please see the Section “Disposal of Insurance Companies – guarantees and commitments” in Part A of the Explanatory Notes.
In addition, the item comprises a provision for restructuring costs, associated with the closure of 56 bank branches, for EUR 3.5 million, from a provision related to a commercial loan from a services supplier, recorded under Item 150 “other assets”, with a doubtful collectability of EUR 2.3 mln, from a

provision for the risk of non-recovery for penalties imposed upon former directors, anticipated by the Bank as jointly co-obliged, for EUR 332 thousand and from a provision relating to the pending appeals before the Financial Banking Arbitrator (Arbitro Bancario Finanziario - ABF) and the Financial Disputes Arbitrator (Arbitro Controversie Finanziarie - ACF) for EUR 679 thousand.

The provision for charges incurred by the subsidiary Centro Fiduciario S.p.A. relating to likely sanctions due to the non-reporting of suspected money laundering transactions (pursuant to Legislative Decree 231/2001) by former employees of Centro Fiduciario, amounting to EUR 3.4 million, in 2016, was reduced at the end of 2017 to EUR 300 thousand following the entry into force of Legislative Decree 90/2017, which provided for a significant mitigation of the applicable sanctions, even for periods prior to 2017.

Finally, other provisions were outstanding as at 31 December 2017, for a total amount of EUR 116 thousand. This amount was set aside as a consequence of cases of embezzlement attributable to former employees of Banca Cesare Ponti S.p.A. in relation to which specific provisions were allocated to allow for the out-of-court settlement of the pending disputes arising therefrom, some of which were still ongoing at the end of the year.

Contingent liabilities

With reference to the Group as at 31 December 2017, no material contingent liabilities exist other than those reported below.

On 29 December 2016, the Italian Revenue Agency served a notice of assessment on Banca Carige. For further information see paragraph 14.8 "Tax disputes" in the Explanatory Notes.

Lastly, it should be noted that during the previous year Banca Carige received a claim for damages amounting to EUR 100 mln from the Bankruptcy Receivers of a borrower which the Bank, with the support of a legal advisor’s opinion, believes has no immediate detrimental impacts at this stage and, therefore, has not taken any provisions as the risk is considered not probable at the moment.

SECTION 15

GROUP SHAREHOLDERS' EQUITY – ITEMS 140, 160, 170, 180, 190, 200 AND 220

15.1 Share capital and treasury shares – breakdown

Number of shares issued	Ordinary	Savings	Total
Number of shares at the end of the year	55.265,855,473	25,542	55,265,881,015
– fully paid-up	55.265,855,473	25,542	55,265,881,015
– not fully paid-up			

Share capital structure	Ordinary	Savings	Total
Number of shares at the end of the year	2,845,856	1	2,845,857
– fully paid-up	2,845,856	1	2,845,857
– not fully paid-up			

EUR/000

Number of treasury shares	Ordinary	Savings	Total
Number of shares at the end of the year	219,513	-	219,513
– fully paid-up	219,513	-	219,513
– not fully paid-up			

Book value of treasury shares	Ordinary	Savings	Total
Shares outstanding at the end of the year	15,572	-	15,572
– fully paid-up	15,572	-	15,572
– not fully paid-up			

EUR/000

15.2 Share capital – Number of shares: changes in the year

Item/Type	Ordinary	Savings
A. Shares outstanding at the beginning of the year	830,155,633	25,542
– fully paid-up	830,155,633	25,542
– not fully paid-up		
A.1 Treasury shares (-)	(219,513)	-
A.2 Shares outstanding: opening balance	829,936,120	25,542
B. Increases	54,435,699,840	-
B.1 New issues	54,435,699,840	-
– with consideration:		
– business combinations		
– conversion of bonds		
– exercise of warrants		
– other	54,435,699,840	
– without consideration		
– in favour of employees		
– in favour of directors		
– other		
B.2 Sale of treasury shares		
B.3 Other increases		
C. Decreases	-	-
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Sale of companies		
C.4 Other decreases		
D. Shares in issue: closing balance	55,265,635,960	25,542
D.1 Treasury shares (+)	219,513	
D.2 Shares outstanding at the end of the year	55,265,855,473	25,542
– fully paid-up	55,265,855,473	25,542
– not fully paid-up	-	-

In the sub-item "New issues - others", the number of ordinary shares issued for the capital increase which ended with full subscription on 22 December 2017 is included.

15.3 Share capital - other information

The share capital, totalling EUR 2,845,857,461.21, comprises 55,265,881,015 shares with no par value.

The increase in share capital and in the share premium reserve recorded during the year is related to the capital increase transaction concluded on 22 December 2017 for EUR 544.4 mln, of which EUR 46.4 mln underwritten by the holders of the subordinated notes included in the scope of the LME. The increase in items was divided between share capital (10%) and share premium reserve (90%). The expenses incurred by the Bank for this Share Capital increase transaction amounted to EUR 51.8 mln (of which EUR 36.9 mln pertaining to the guarantee consortium, EUR 7.7 mln for the initial guarantee and the remaining EUR 7.2 mln for attestations, advice and publicity). The amount of these charges net of the tax effect amounts to EUR 37.5 mln and was recognised as a deduction from the share premium reserve, resulting in a total increase in shareholders' equity following the capital increase, amounting to EUR 506.8 mln.

15.4 Reserves from allocation of profit: other information

Item/Amounts	31/12/2017	31/12/2016
Profit reserves:	(736,129)	(444,004)
- Legal reserve	-	-
- Reserve for the purchase of treasury shares: used, restricted pursuant to art. 1, para. 147, Law 147/2013	15,572	15,572
- Reserve for the purchase of treasury shares: available quota, restricted pursuant to art. 1, para. 147, Law 147/2013	61,428	61,428
- Other reserves	(813,129)	(521,004)

15.5 Other information

Item/Amounts	31/12/2017	31/12/2016
Other reserves:	51,272	51,272
- Reserves from capital increases without consideration for companies consolidated using valuation reserves	51,272	51,272
- Reserve for share-based payments	-	-

SECTION 16

NON-CONTROLLING INTERESTS - ITEM 210

16.1 Breakdown of Item 210 "Shareholders' equity: Non-controlling interests"

Company name	2017	2016
Equity investments in consolidated companies with significant non-controlling interests		
Banca del Monte di Lucca SpA	24,067	28,988
Other investments	58	56
Total	24,125	29,044

OTHER INFORMATION

1. Guarantees issued and commitments

Transactions	Amount 31/12/2017	Amount 31/12/2016
1) Financial guarantees given to	72,771	104,115
a) Banks	70	50
b) Customers	72,701	104,065
2) Commercial guarantees given to	516,990	584,626
a) Banks	206	508
b) Customers	516,784	584,118
3) Irrevocable commitments to disburse funds	947,693	1,142,592
a) Banks	166	6,772
i) usage certain	166	6,772
ii) usage uncertain	-	-
b) Customers	947,527	1,135,820
i) usage certain	9,981	10,418
ii) usage uncertain	937,546	1,125,402
4) Underlying commitments on credit derivatives: sales of protection	-	-
5) Assets pledged as collateral for third-party obligations	4,821	5,227
6) Other commitments	-	-
Total	1,542,275	1,836,560

2. Assets pledged as collateral for own liabilities and commitments

Portfolios	Amount 31/12/2017	Amount 31/12/2016
1. Financial assets held for trading	28	38
2. Financial liabilities designated at fair value through profit and loss	-	-
3. Financial assets available for sale	1,477,500	1,689,542
4. Financial assets held to maturity	-	-
5. Loans to banks	280,655	371,215
6. Loans to customers	8,253,930	7,384,155
7. Property and equipment	520	527

Assets pledged as collateral for the company's own liabilities and commitments amount to EUR 10.01 bn and are primarily made up of securities underlying repo transactions, mortgage loans and securities pledged as both collateral and deposit for refinancing operations with the European Central Bank, securities guaranteeing the issue of bank cheques, mortgages pledged as collateral for the issuance of covered bonds by Banca Carige, securitised mortgage loans transferred to the special purpose vehicles, Argo Mortgage 2 S.r.l. And Lanterna Lease S.r.l., that are not subject to write-off, mortgages transferred to the special purpose vehicle Lanterna Finance Srl as part of a retained (or self-) securitisation, securities pledged as collateral on OTC derivative contracts, mortgage loans guaranteeing financing operations with the E.I.B., security deposits with the clearing house, Cassa Compensazione e Garanzia S.p.A.

5. Asset management and trading on behalf of third parties

Type of service	Amount 31/12/2017
1. Orders execution on behalf of customers	
a) purchases	
1. settled	1,457,789
2. unsettled	-
b) sales	
1. settled	2,197,455
2. unsettled	-
2. Portfolio management	
a) individual	345,889
b) collective	-
3. Custody and administration of securities	
a) third party securities on deposit: associated with the custodian bank transactions (excluding portfolios management)	
1. securities issued by companies included in consolidation	-
2. other securities	-
b) third party securities on deposit (excluding asset management): other	
1. securities issued by companies included in consolidation	3,152,416
2. other securities	10,126,452
c) third party securities deposited with third parties	11,962,305
d) own securities deposited with third parties	2,035,409
4. Other transactions	
- receipt and transmission of orders and trading	4,126,421
a) value of purchase transactions made during the year	2,228,520
b) value of sales transactions made during the year	1,897,901
- commercial bills, documentary bills and similar instruments received for collection on behalf of third parties	1,728,672
- other banks' participation in syndicated loans	58,286
- total invoices for factoring transactions (with recourse)	173,834
- loans on behalf of Public Entities	2,216

6. Assets subject to accounting offsetting, master netting agreements and similar

Type		Gross amount of financial assets (a)	Amount of Financial liabilities offset in Balance Sheet (b)	Net book value of financial assets (c=a-b)	Related amounts not offset in Balance Sheet		Net amount 31/12/2017	Net amount 31/12/2016
					Financial instruments (d)	Cash collateral received (e)		
1. Derivatives		21,830	-	21,830	-	13,106	8,724	22,651
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-
Total	31/12/2017	21,830	-	21,830	-	13,106	8,724	x
Total	31/12/2016	40,896	-	40,896	-	18,245	x	22,651

The amount shown in column (a) relates to derivatives recognised under item 20 "Financial assets held for trading", totalling EUR 61 thousand, and item 80 "Hedging derivatives", totalling EUR 21,769 thousand. The related cash deposits received as collateral, shown in column (e) are recognised under item 10 "Due to banks", for an amount of EUR 12,007 thousand and under item 20 “Due to customers” for an amount of EUR 1,099 thousand.

7. Liabilities subject to accounting offsetting, master netting agreements and similar

Type		Gross amount of financial liabilities (a)	Financial assets offset in Balance Sheet (b)	Net book value of financial liabilities (c=a-b)	Related amounts not offset in Balance Sheet		Net amount 31/12/2017	Net amount 31/12/2016
					Financial instruments (d)	Cash collateral received (e)		
1. Derivatives		225,421	-	225,421	53,304	169,163	2,954	1,270
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other transactions		-	-	-	-	-	-	-
Total	31/12/2017	225,421	-	225,421	53,304	169,163	2,954	x
Total	31/12/2016	233,348	-	233,348	55,040	177,038	x	1,270

The amount shown in column (a) relates to derivatives recognised under item 40 "Financial liabilities held for trading", totalling EUR 488 thousand, and item 60 "Hedging derivatives", in the amount of Euro 224,933 thousand. Related financial instruments pledged as collateral, shown in column (d) consist in securities recognised under item 40 "Financial assets available for sale". Cash deposits pledged as collateral, shown in column (e) are recognised under item 60 "Loans to banks".

The Bank periodically analyses all types of master netting agreements, or similar arrangements, which might be eligible for accounting offsetting (netting).
This includes, for example, netting agreements on OTC derivatives subject to margin trading with central counterparties (ISDA/FIA CDEA), netting agreements on other OTC derivatives (CSA) and repurchase agreement transactions in compliance with TBMA/ISDA - *Global Master Repurchase Agreements* (GMRA) - international standards and all rights related to financial collateral. Arrangements qualifying only as "collateral agreements" are instead excluded as per regulations.

The following can be inferred from the analysis made:

- master netting agreements (ISDA), entered into by Group banks do not comply with the accounting offsetting criteria under the joint provisions of paragraphs AG38A and AG38B of IAS 32;
- repurchase transactions on securities with the clearing house, *Cassa di Compensazione e Garanzia,* do not meet the criteria for accounting offsetting as they are in fact regulated by a collateral agreement;
- transactions in quoted derivatives, being immaterial for the Carige Group, were excluded from the scope of the analysis.

Part C

CONSOLIDATED INCOME STATEMENT

SECTION 1

INTEREST – ITEMS 10 AND 20

1.1 Interest 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	3,430	-	748	4,178	1,308
2. Financial assets designated at fair value through profit and loss	-	-	-	-	-
3. Financial assets available for sale	9,165	-	-	9,165	9,676
4. Financial assets held to maturity	-	-	-	-	-
5. Loans to banks	-	457	87	544	266
6. Loans to customers	403	446,703	7	447,113	525,554
7. Hedging derivatives	x	x	-	-	-
8. Other assets	x	x	3,312	3,312	2,040
Total	**12,998**	**447,160**	**4,154**	**464,312**	**538,844**

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

Interest accrued during the year for positions classified as "non-performing" as at 31 December 2017 totalled EUR 96 mln.

1.3 Interest and similar income: other information

1.3.1 Interest income from financial assets denominated in foreign currency

Interest income from financial assets held in foreign currency amount to EUR 22,755 thousand.

1.3.2 Interest income from finance leases

Interest income from finance leases amount to EUR 12,714 thousand.

1.4 Interest and similar expense: breakdown

Item/Type	Debts	Securities	Other transactions	Total 31/12/2017	Total 31/12/2016 (*)
1. Due to central banks	-	x	-	-	(1,140)
2. Due to banks	(4,975)	x	(986)	(5,961)	(4,397)
3. Due to customers	(34,410)	x	(547)	(34,957)	(45,337)
4. Securities issued	x	(107,661)	-	(107,661)	(154,851)
5. Financial liabilities held for trading	(351)	-	-	(351)	(3,636)
6. Financial liabilities designated at fair	-	(15,763)	-	(15,763)	(17,104)
7. Other liabilities and funds	x	x	(12,906)	(12,906)	(7,300)
8. Hedging derivatives	x	x	(53,100)	(53,100)	(46,083)
Total	(39,736)	(123,424)	(67,539)	(230,699)	(279,848)

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

1.5 Interest and similar expense: spreads on hedging transactions

	31/12/2017	31/12/2016
A. Positive spreads on hedging transactions	11,461	13,438
B. Negative spreads on hedging transactions	(64,561)	(59,521)
C. Total (A-B)	(53,100)	(46,083)

1.6 Interest and similar expense: other information

1.6.1 Interest expense on liabilities denominated in foreign currency

Interest expense on liabilities denominated in foreign currency amount to EUR 3,783 thousand.

1.6.2 Interest expense on liabilities from finance leases

There are no interest expenses on liabilities from finance leases.

SECTION 2

FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total 31/12/2017	Total 31/12/2016 (*)
a) guarantees issued	7,193	8,249
b) credit derivatives	-	-
c) management, brokerage and advisory services:	92,452	88,154
1. trading of financial instruments	375	373
2. currency trading	1,816	1,877
3. portfolio management	4,349	4,748
3.1. individual	4,349	4,748
3.2. collective	-	-
4. custody and administration of securities	1,777	2,101
5. custodian bank	-	-
6. placement of securities	42,244	38,100
7. receipt and transmission of orders	5,469	5,830
8. advisory services	11	-
8.1 related to investments	11	-
8.2 related to financial structure	-	-
9. distribution of third-party services	36,411	35,125
9.1 portfolio management	2,058	1,929
9.1.1. individual	46	-
9.1.2. collective	2,012	1,929
9.2 insurance products	21,492	19,850
9.3 other products	12,861	13,346
d) collection and payment services	58,560	59,503
e) securitisation servicing	-	-
f) factoring services	742	860
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) maintenance and management of current accounts	95,280	102,119
j) other services	16,623	15,335
Total	270,850	274,220

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

The "other services" line item includes EUR 326 thousand for Fiduciary Management Services.

2.2 Fee and commission expense: breakdown

Service type/Amounts	Total 31/12/2017	Total 31/12/2016 (*)
a) guarantees received	(1,621)	(6,754)
b) credit derivatives	-	-
c) management and brokerage services	(1,913)	(1,944)
1. trading in financial instruments	(128)	(167)
2. currency trading	-	-
3. portfolio management	(228)	(353)
3.1 own portfolio	(228)	(353)
3.2 third-party portfolio	-	-
4. custody and administration of securities	(1,450)	(1,325)
5. placement of financial instruments	(105)	(94)
6. off-site marketing of financial instruments, products and services	(2)	(5)
d) collection and payment services	(20,723)	(19,409)
e) other services	(7,374)	(6,791)
Total	(31,631)	(34,898)

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

SECTION 3

DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 31/12/2017		Total 31/12/2016	
	Dividends	Income from units in UCITS	Dividends	Income from units in UCITS
A. Financial assets held for trading	-	-	32	-
B. Financial assets available for sale	10,236	425	13,721	324
C. Financial assets designated at fair value through profit and loss	-	-	-	-
D. Investments	-	x	-	x
Total	10,236	425	13,753	324

SECTION 4

NET PROFIT (LOSS) FROM TRADING – ITEM 80

4.1 Net profit (loss) from trading: breakdown

Transactions/P&L items	Capital gains (A)	Trading profit (B)	Capital losses (C)	Trading losses (D)	Net Profit [(A+B) - (C+D)] 31/12/2017
1. Financial assets held for trading	3	8,400	(6)	(9,275)	(878)
1.1 Debt Securities	3	7,982	(6)	(4,176)	3,803
1.2 Equity instruments	-	-	-	-	-
1.3 Units in UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	418	-	(5,099)	(4,681)
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Deposits	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences		x	x	x	15,866
4. Derivatives	686	16,350	(512)	(27,044)	(10,837)
4.1 Financial derivatives:	686	16,350	(512)	(27,044)	(10,837)
- on debt securities and interest rates	686	11,725	(512)	(18,379)	(6,480)
- on equities and stock indices	-	4,625	-	(8,665)	(4,040)
- on currencies and gold	x	x	x	x	(317)
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	689	24,750	(518)	(36,319)	4,151

SECTION 5

NET PROFIT (LOSS) FROM HEDGING – ITEM 90

5.1 Net profit (loss) from hedging: breakdown

P&L items/Amounts	Total 31/12/2017	Total 31/12/2016
A. Gains on:		
A.1 Fair value hedging derivatives	26,775	2,392
A.2 Hedged financial assets (fair value)	156	19,147
A.3 Hedged financial liabilities (fair value)	11,515	13,835
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	38,446	35,374
B. Losses on:		
B.1 Fair value hedging derivatives	(12,283)	(15,554)
B.2 Hedged financial assets (fair value)	(26,437)	(15,944)
B.3 Hedged financial liabilities (fair value)	(156)	(6,260)
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	(38,876)	(37,758)
C. Net profit (loss) from hedging (A-B)	(430)	(2,384)

SECTION 6

PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE – ITEM 100

6.1 Profits (losses) on disposal or repurchase: breakdown

Items/P&L items	Total 31/12/2017			Total 31/12/2016		
	Profits	Losses	Net Profit (Loss)	Profits	Losses	Net Profit (Loss)
Financial assets						
1. Loans to banks	-	-	-	-	(4)	(4)
2. Loans to customers	-	(321,469)	(321,469)	1	-	1
3. Financial assets available for sale	2,667	(10,649)	(7,982)	49,623	(9,321)	40,302
3.1 Debt securities	1,967	(663)	1,304	37,177	(9,242)	27,935
3.2 Equity Instruments	58	(9,870)	(9,812)	12,441	(79)	12,362
3.3 Units in UCITS	642	(116)	526	5	-	5
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	2,667	(332,118)	(329,451)	49,624	(9,325)	40,299
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	225,142	-	225,142	8,519	(8)	8,511
Total liabilities	225,142	-	225,142	8,519	(8)	8,511

SECTION 7

PROFITS (LOSSES) ON FINANCIAL ASSETS/LIABILITIES DESIGNATED AT FAIR VALUE – ITEM 110

7.1 Net changes in financial assets and liabilities designated at fair value: breakdown

Transactions/P&L items	Gains (A)	Realised profits (B)	Losses (C)	Realised profits (D)	Net Profit (Loss) [(A+B) – (C+D)] 31/12/2017
1. Financial assets	-	-	-	-	-
1.1 Debt Securities	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 Units in UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	162	62	(538)	(418)	(732)
2.1 Debt securities	162	62	(538)	(418)	(732)
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	x	x	x	x	-
4. Credit and financial derivatives	-	3,278	(4,119)	-	(841)
Total	162	3,340	(4,657)	(418)	(1,573)

SECTION 8

NET LOSSES/RECOVERIES ON IMPAIRMENT– ITEM 130

8.1 Net losses (recoveries) on impairment of loans: breakdown

	Write-downs (1)			Write-backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		31/12/2017	31/12/2016 (*)
	Write - offs	Other		A	B	A	B		
A. Loans to banks	-	(1,464)	-	-	-	-	-	(1,464)	2,490
- Loans	-	(1,464)	-	-	-	-	-	(1,464)	2,490
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers	(17,954)	(570,531)	-	14,268	140,305	-	7,875	(426,037)	(472,287)
Purchased non-performing loans	-	-	x	-	-	x	x	-	-
- Loans	-	-	x	-	-	x	x	-	-
- Debt securities	-	-	x	-	-	x	x	-	-
Other loans	(17,954)	(570,531)	-	14,268	140,305	-	7,875	(426,037)	(472,287)
- Loans	(17,954)	(570,531)	-	14,268	140,305	-	7,875	(426,037)	(472,287)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	(17,954)	(571,995)	-	14,268	140,305	-	7,875	(427,501)	(469,797)

Key
A = From interest
B = Other reversals
(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

8.2 Net losses (recoveries) on impairment of financial assets available for sale: breakdown

Transactions/P&L items	Write-downs (1)		Write-backs (2)		Total 31/12/2017	Total 31/12/2016
	Specific		Specific			
	Write - offs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity instruments	-	(2,583)	-	-	(2,583)	(2,014)
C. Units in UCITS	-	(12,792)	x	x	(12,792)	(5,549)
D. Loans to banks	-	-	x	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	(15,375)	-	-	(15,375)	(7,563)

Key
A = From interest
B = Other reversals

8.4 Net impairment losses (recoveries) on other financial activities: breakdown

Transactions/P&L items	Write-downs (1)			Write-backs (2)				Total	
	Specific		Portfolio	Specific		Portfolio		31/12/2017	31/12/2016
	Write-offs	Other		A	B	A	B		
A. Guarantees issued	-	(5,021)	-	-	5,508	-	3,665	4,152	8,762
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	681
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	-	(5,021)	-	-	5,508	-	3,665	4,152	9,443

Key
A = From interest
B = Other reversals

SECTION 11

ADMINISTRATIVE EXPENSES – ITEM 180

11.1 Personnel expenses: breakdown

Type of expense/Amounts	Total 31/12/2017	Total 31/12/2016 (*)
1) Employees	(354,109)	(289,380)
a) wages and salaries	(205,109)	(213,066)
b) social-welfare charges	(55,996)	(57,261)
c) severance pay	(3,194)	(3,693)
d) social security expenses	-	-
e) provision for staff severance pay	(839)	(1,035)
f) pension fund and similar obligations:	(77)	10,515
- defined contribution	-	-
- defined benefit	(77)	10,515
g) contributions to external pension funds:	(18,522)	(18,692)
- defined contribution	(18,522)	(18,692)
- defined benefit	-	-
h) costs related to share-based payments	-	390
i) other employee benefits	(70,372)	(6,538)
2) Other staff	(279)	(443)
3) Directors and Statutory Auditors	(4,355)	(5,934)
4) Retired personnel	-	-
Total	(358,743)	(295,757)

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

11.2 Average number of employees by category

	Total 31/12/2017	Total 31/12/2016
1) Employees	4,408	4,601
a) senior managers	60	63
b) middle managers	1,161	1,207
c) remaining staff	3,187	3,331
2) Other personnel	39	61
Total	4,447	4,662

11.3 Defined benefit company pension funds: costs and revenues

During the year, total costs of EUR 77 thousand were recognised for defined benefit company pension funds.

For more details, please refer to Section 12.3, Liabilities.

11.4 Other employee benefits

This item includes the provision to the solidarity fund for EUR 50 million, costs associated with the economic incentives for employees provided for by the Framework Agreement of 30 September 2014, amounting to a total of EUR 11.5 mln for incentives for termination of service, expenses connected with health policies for an amount of EUR 3.5 mln, other expenses related to training for EUR 1.2 mln, meal vouchers for employees for an amount of EUR 5.2 mln, net of proceeds for the use of the fund for seniority bonus for EUR 1.5 million and other residual charges.

11.5 Other administrative expenses: breakdown

Service type/Amounts	Total 31/12/2017	Total 31/12/2016 (*)
Indirect taxes and duties	(70,015)	(73,001)
- stamp duties and taxes on stock exchange	(45,218)	(47,922)
- substitute tax (Pres. Decree no. 601/73)	(2,353)	(2,545)
- local property taxes	(5,787)	(5,729)
- other indirect taxes and duties	(16,657)	(16,805)
Contributions to the guarantee and resolution funds	(18,273)	(35,598)
Leases and rents payable	(21,156)	(32,341)
- real estate	(19,925)	(20,958)
- electronic equipment and software	(261)	(10,412)
- other	(970)	(971)
Expenses for software acquisition	(3,394)	(4,665)
Maintenance and operating expenses	(20,286)	(26,010)
- property owned and used by the bank	(3,342)	(4,027)
- rented property	(2,340)	(1,675)
- movable property	(6,541)	(8,949)
- software	(8,063)	(11,359)
Cleaning services	(2,412)	(3,912)
Utilities (electricity, heating and water)	(7,967)	(8,975)
Printing and stationery	(1,583)	(2,871)
Post and telephone	(7,905)	(7,544)
Surveillance and security services	(2,861)	(2,910)
Transport	(5,295)	(5,880)
Insurance premiums	(2,233)	(2,630)
Advertising, publicity and media initiatives	(1,979)	(3,188)
Entertainment expenses	(452)	(556)
Membership fees	(1,341)	(1,313)
Contributions to bodies and associations	(481)	(472)
Subscriptions to newspapers, magazines and publications	(601)	(773)
Professional services fees	(55,298)	(36,712)
- consultancy	(26,204)	(15,993)
- legal expenses	(26,787)	(18,280)
- commercial information and land registry searches	(2,004)	(2,117)
- other	(303)	(322)
Expenses for IT services and outsourcing	(32,821)	(19,918)
Indirect personnel expenses	(12)	(6)
Other expenses	(7,403)	(7,123)
Total	(263,768)	(276,398)

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

SECTION 12

NET PROVISIONS FOR RISKS AND CHARGES - ITEM 190

12.1 Net provisions for risks and charges: breakdown

	Total 31/12/2017	Total 31/12/2016 (*)
Provision for risks and charges related to legal disputes and clawback actions	(5,724)	(6,333)
Interest expense from discounting of the provision for legal disputes and clawback actions	-	-
Re-allocation to Income Statement from Provision for risks and charges related to legal disputes and clawback actions	1,996	3,917
Re-allocation to Income Statement from other provisions	3,352	467
Other provisions	(23,848)	(18,796)
Total	(24,224)	(20,745)

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

SECTION 13

NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT - ITEM 200

13.1. Net adjustments to/recoveries on property and equipment: breakdown

Asset/P&L item	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net Profit (Loss) 31/12/2017
A. Property and equipment				
A.1 Owned	(14,341)	(320)	-	(14,661)
- used in the business	(12,702)	(320)	-	(13,022)
- held for investment	(1,639)	-	-	(1,639)
A.2 Acquired through finance lease	-	-	-	-
- used in the business	-	-	-	-
- held for investment	-	-	-	-
Total	(14,341)	(320)	-	(14,661)

SECTION 14

NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS – ITEM 210

14.1 Net adjustments to/recoveries on intangible assets: breakdown

	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net Profit (Loss) 31/12/2017
A. Intangible assets				
A.1 Owned	(21,757)	(14,935)	-	(36,692)
- Generated internally by the company	-	-	-	-
- Other	(21,757)	(14,935)	-	(36,692)
A.2 Acquired through finance lease	-	-	-	-
Total	(21,757)	(14,935)	-	(36,692)

SECTION 15

OTHER OPERATING EXPENSE AND INCOME - ITEM 220

15.1 Other operating expense: breakdown

	31/12/2017	31/12/2016 (*)
Routine maintenance costs on investment property	(191)	(550)
Expenses for improvement of third parties' assets	(898)	(351)
Other expenses	(8,219)	(8,673)
Total	**(9,308)**	**(9,574)**

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

15.2 Other operating income: breakdown

	31/12/2017	31/12/2016 (*)
Lease payments receivable	4,358	4,675
Third-party charges:	60,618	71,213
- recovery of credit facility fees	14,119	21,691
- tax recovery	46,167	49,030
- customer insurance premiums	332	492
Other income	15,846	21,605
Total	**80,822**	**97,493**

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

SECTION 16

PROFITS (LOSSES) ON EQUITY INVESTMENTS – ITEM 240

16.1 Profits (Losses) on equity investments: breakdown

P&L items/Amounts	Total 31/12/2017	Total 31/12/2016
1) Jointly owned companies		
A. Income	-	-
1. Revaluations	-	-

2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Expenses	-	-
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	-	-
2) Companies subject to significant influence		
A. Income	10,057	6,596
1. Revaluations	10,057	6,596
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Expenses	(75)	-
1. Write-downs	-	-
2. Impairment losses	(75)	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	9,982	6,596
Total	9,982	6,596

SECTION 18

IMPAIRMENT ON GOODWILL - ITEM 260

18.1 Impairment on goodwill: breakdown

	31/12/2017	31/12/2016
Banca Cesare Ponti S.p.A.	-	(19,942)
Total	-	(19,942)

SECTION 19

PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 270

19.1 Profits (losses) on disposal of investments: breakdown

P&L items/Amounts	Total 31/12/2017	Total 31/12/2016
A. Real estate	85,449	(116)
- Gains on disposal	85,449	38
- Losses on disposal	-	(154)
B. Other assets	(183)	(33)
- Gains on disposal	33	44
- Losses on disposal	(216)	(77)
Net Profit (Loss)	85,266	(149)

Item A. Real Estate – Gains on disposal refers to the sale of the head office building in Milan for an amount of EUR 85.4 mln

SECTION 20

TAXES ON INCOME FROM CONTINUING OPERATIONS – ITEM 290

20.1 Taxes on income from continuing operations: breakdown

P&L items/Amounts	Total 31/12/2017	Total 31/12/2016
1. Current tax expense (+/-)	5,830	5,876
2. Adjustments to current tax expense of prior years (+/-)	(60)	172
3. Reductions in current tax expense for the year (+)	-	-
3. bis Reductions in current tax expense for the year due tax credit under Law 214/2011 (+)	86,254	32,171
4. Changes in deferred tax assets (+/-)	76,079	107,518
5. Changes in deferred tax liabilities (+/-)	1,181	(3,516)
6. Tax expense for the year	169,284	142,221

20.2 Reconciliation of theoretical and actual tax charges

The overall tax impact on pre-tax profit – tax rate – calculated with reference to items in the Income Statement as at 31 December 2017 (Item 290/ Item 280) is close to 28.8%.
This impact is positive by reason of the fact that the loss for the year generates a tax credit to be carried forward over the following financial years, which will either result in future savings (e.g. deferred tax assets and tax loss carryovers), or will be converted into tax credit, pursuant to Law 214/2011.

Concerning the accrued IRES tax receivable, the tax rate is around 28.2%. It is noted that the reference tax rate of 27.5% on the operating losses should generate a credit of the same proportion but the taxable amount is significantly reduced by permanent reductions such as the tax-exempt part of dividends collected, capital gains on equity investments under participation exemptions (PEX regime) or ACE (aid for economic growth) tax deductions only partly compensated by permanent increases.

With regard to IRAP, it is noted that, due to its specific nature and a different tax base definition with respect to Item 280 which, after the changes introduced under Law No. 244/2007 and Law No. 190/2014, excludes from the computation, *inter alia*, other operating expense and income, gains and losses from disposal of investments, tax credit is 0.6%.

Due to the provisions of Decree Law no 83/2015, value adjustments on receivables from customers are now fully deductible from IRAP tax in the year of recognition.

In light of the above, it can be observed that the actual tax rate proves lower than the theoretical 5.57% applicable to the banking sector due to the particular effect of the IRAP tax that characterizes companies closing their financial year with a negative result or with a gross profit that is significantly lower than the value of production (IRAP taxable amount).

SECTION 21

PROFIT (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS – ITEM 310

21.1 Profit (loss) after tax from discontinued operations: breakdown

P&L items/Amounts	Total 31/12/2017	Total 31/12/2016 (*)
1. Income	45,451	45,213
2. Expenses	(10,879)	(12,439)
3. Profit (loss) from valuation of groups of assets and associated liabilities	-	-
4. Profit (loss) from disposal	-	-
5. Taxes and duties	(8,502)	(7,384)
Profit (Loss)	**26,070**	**25,390**

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations"

21.2 Breakdown of income taxes on discontinued operations

	Total 31/12/2017	Total 31/12/2016
1. Current tax expense (-)	(8,203)	(7,168)
2. Changes in deferred tax assets (+/-)	(299)	(216)
3. Changes in deferred tax liabilities (+/-)	-	-
4. Income taxes for the period (-1 +/-2 +/-3)	(8,502)	(7,384)

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

SECTION 22
NON-CONTROLLING INTERESTS - ITEM 330

22.1 Breakdown of Item 330 "Profit (Loss) for the year: non-controlling interests"

	31/12/2017	31/12/2016
Banca del Monte di Lucca SpA	(4,931)	(4,331)
Centro Fiduciario SpA	2	-
Total	**(4,929)**	**(4,331)**

SECTION 24

EARNINGS PER SHARE

24.1 Average number of diluted ordinary shares

	31/12/2017	31/12/2016
Weighted average of ordinary shares in issue	5,366,244,440	829,936,120
Dilutive effect from sale of put options		
Dilutive effect from convertible liabilities	-	-
Weighted average of diluted ordinary shares in issue	5,366,244,440	**829,936,120**

24.2 Other information

	31/12/2017	31/12/2016 (*)
Basic earnings (EUR/000)		
Net profit (loss)	(388,435)	(291,737)
- Earnings attributable to other share categories	-	9
Net earnings attributable to ordinary shares	(388,435)	**(291,728)**
Diluted earnings (EUR/000)		
Net profit (loss)	(388,435)	(291,737)
- Earnings attributable to other share categories	-	9
Net interest expense on convertible instruments	-	-
Net diluted earnings attributable to ordinary shares	**(291,728)**	**(291,728)**
Earnings per share (EUR)		
Basic	**-0.072**	**-0.352**
Diluted	**-0.072**	**-0.352**

Earnings per share - continuing operations

	31/12/2017	31/12/2016
Basic earnings (EUR/000)		
Net profit (loss)	(388,435)	(291,737)
Less: Net income from discontinued operations	(26,070)	(25,390)
Less: Earnings attributable to other share categories	-	9
Net earnings attributable to ordinary shares	**(414,505)**	**(317,118)**
Diluted earnings (EUR/000)		
Net profit (loss)	(388,435)	(291,737)
Less: Net income from discontinued operations	(26,070)	(25,390)
Less: Earnings attributable to other share categories	-	9
Plus: Net interest expense on convertible instruments	-	-
Net diluted earnings attributable to ordinary shares	**(414,505)**	**(317,118)**
Weighted average of ordinary shares in issue	5,366,244,440	829,936,120
Dilutive effect from sale of put options	-	-
Dilutive effect from convertible liabilities	-	-
Weighted average of diluted ordinary shares in issue	5,366,244,440	**829,936,120**
Earnings per share from continuing operations (EUR)		
Basic	**-0.077**	**-0.382**
Diluted	**-0.077**	**-0.382**

(*) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

Part D

CONSOLIDATED COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Items	2017 Gross	2017 Income tax	2017 Net
10.	Profit (loss) for the year	(554,146)	160,782	(393,364)
	Other comprehensive income not reversed to profit or loss			
20.	Property and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	(14)	(33)	(47)
50.	Non-current assets classified as held for sale	-	-	-
60.	Share of valuation reserves of equity investments valued at equity	135	(46)	89
	Other comprehensive income reversed to profit or loss			
70.	Hedging of investments in foreign operations	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to profit and loss	-	-	-
	c) other changes	-	-	-
80.	Exchange differences	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to profit and loss	-	-	-
	c) other changes	-	-	-
90.	Cash flow hedges	25,031	(8,277)	16,754
	a) changes in fair value	-	-	-
	b) reversal to profit and loss	25,031	(8,277)	16,754
	c) other changes	-	-	-
100.	Financial assets available for sale	763	(82)	681
	a) changes in fair value	(230)	239	9
	b) reversal to profit and loss	993	(321)	672
	- impairment losses	2,040	(667)	1,373
	- profit (loss) from disposal	(1,047)	346	(701)
	c) other changes	-	-	-
110.	Non-current assets classified as held for sale	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to profit and loss	-	-	-
	c) other changes	-	-	-
120.	Share of valuation reserves of equity investments valued at equity	-	-	-
	a) changes in fair value	-	-	-
	b) reversal to profit and loss	-	-	-
	- impairment losses	-	-	-
	- Profit (loss) from disposal	-	-	-
	c) other changes	-	-	-
130.	Total other comprehensive income	25,915	(8,438)	17,477
140.	Total comprehensive income (items 10 + 130)	(528,231)	152,344	(375,887)
150.	Total consolidated comprehensive income: non-controlling interests	(6,930)	2,011	(4,919)
160.	Total consolidated comprehensive income attributable to Parent Company	(521,301)	150,333	(370,968)

Part E

INFORMATION ON RISKS AND RISK HEDGING POLICIES

Introduction

THE INTERNAL CONTROL SYSTEM

In order to guarantee sound and prudent management which reconciles the pursuit of profitability with consistent risk-taking and a conduct of business driven by criteria of transparency and fairness, the Parent Company Banca Carige, in compliance with the law and regulations and the provisions of the Corporate Governance Code for listed companies, has adopted an Internal Control System (ICS) designed to detect, measure and continually verify the risks typical of the Bank's activities.

The prerequisite for a well-working internal control system is the proper articulation of the Corporate Organizational System.

The Corporate Organizational System comprises 5 systems:
- the organizational and corporate governance system
- the operational management system
- the risk assessment and measurement system
- the capital adequacy self-assessment system
- the internal control system.

It is designed and continually monitored to ensure coherence at all times with the supervisory organizational model, i.e. the set of provisions of law and regulations that together govern the processes, procedures and organizational structure.

The active involvement of the Bank's governing bodies in adapting the corporate organizational system to the supervisory regulations is vitally important. The regulations set out precisely the duties and responsibilities of the governing bodies in defining the banks' internal control systems.

The strategic supervision unit is charged with defining the business model, the strategic guidelines, the acceptable levels of risk and approval of the most important company processes (e.g., risk management, assessment of company activities and approval of new products and services).

The individual processes making up the corporate organisational system are described in specific regulations which constitute the first level regulatory sources, and given further detail in the second level internal regulatory sources.

The main purpose of the regulations governing the processes of the corporate organizational system is to regulate the risks to which the Group is exposed, especially the risk of regulatory non-compliance, i.e. the danger that the processes do not comply with the legislation and supervisory regulations (external rules).

The regulatory framework is therefore designed to:
- set out, in compliance with the external rules, the Bank's rules (internal rules) on corporate processes as a whole, including corporate governance and control;

– periodically assess:
  a. the organisational risk of non-compliance of the internal process-governing rules with relative external rules (regulatory compliance), indicating the extent of any deviation from the external rules;
  b. the organisational risk of non-compliance of the activities performed in the processes with the relative external rules (*operational compliance*), indicating the extent of any deviation from the external rules;
– ensure the accuracy of the risk assessment by continual verification of compliance of the procedures used to carry out the assessment;
– periodically inform the governing bodies of the results of the inspections performed i.e. regarding the organizational risk of regulatory and operational non-compliance of the procedures;
– take steps necessary to eliminate any deficiencies found by the inspections and in particular the most important deficiencies, i.e. those which might impact the management of risk and the pursuit of the Bank's targets.

The Banca Carige Internal Control System, periodically examined and modified in the light of changes in the Bank's operations and the business environment, is based on a set of rules, procedures and organizational structures designed to ensure conformity with company strategies and balanced operational management.

It should be recalled that in prior years a number of significant measures were taken to qualitatively and quantitatively strengthen the Internal Auditing, Risk Management and Compliance functions of the Parent Company and further activities are in progress to reinforce the supporting information system. Partly in light of the observations made at a Group level by the ECB within the SREP process and further to subsequent inspections, progress was made throughout the year in improvement initiatives aimed at further strengthening risk management and control. Finally, during the year, the Group, further to a specific request for clarification received from the Bank of Italy's FIU (Financial Intelligence Unit) in 2015 in relation to transaction data entered in the Single Electronic Database (Archivio Unico Informatico) and additional irregularities likewise identified in the course of 2017, the Group continued with the implementation of activities -some of which are still underway- aimed at improving anti-money laundering controls and their related application software architecture. In this regard no provisions for risks and charges were made as the requirements set out by IAS 37 do not apply.

The adequacy and effectiveness of the ICS as a whole is assessed by internal audits.

Banca Carige has defined a system of internal controls for the Group to carry out the following types of controls foreseen by the supervisory regulations and/or by the internal rules:

1) **Line Controls** (level 1)

These consist of:

- ongoing line controls (self-assessments) by the organisational units on the individual activities performed. These can either be: i) incorporated within the IT procedures supporting the activities; (ii) performed as back office controls on samples by the head of the organisational unit (hierarchical line control);
- regular controls by individual units on their own procedures (a set of homogeneous activities) over a specific period.

The personnel has a duty to notify management of any procedural anomalies discovered in the provision of services or the conduct of transactions, and take initiatives to improve the safeguards against risk.

An operational and organizational monitoring model supported by a special IT application is in place for lending, with a view to ensuring the structured and effective management of any positions that show signs of deterioration and, after an initial 'commercial' management stage, charge dedicated credit specialists with the task of monitoring and guiding the actions of relationship managers and the progress of the positions. This model is based on the verification of parameters deemed significant for the assessment of customer performance (i.e. early warning) in order to identify and promptly manage any signs of impairment in the customer's creditworthiness and to protect the Group's credit ratios. Ratings are one of the tools used to define the level of priority for intervention on positions within the perimeter.

2) **Compliance Controls and Risk Controls** (level 2)

These controls are designed to verify the company processes' regulatory and operational compliance with the law and regulations, define risk measurement methods, verify compliance with the limits assigned to the various operating units and monitor the achievement of their risk-return targets. They are performed by a number of distinct structures other than production units:

- Compliance The compliance control function lies with the Compliance Department which, in accordance with supervisory instructions, has complete independence of judgement and action, is part of the Chief Executive Officer's staff and may report directly, via the Head of Compliance, to the governing and control bodies of the Parent Company and Group banks.

  Compliance performs the compliance risk controls for the Parent Company and the Group companies which outsource this function to the Parent, working in conjunction with other corporate structures and with the support of special representatives in each of the companies concerned.

  The unit:

  - performs the regulatory compliance control process (comparing the internal rules with the external rules) and operational compliance control process (comparing the activities performed as part of company processes with those foreseen by the external rules) and issues a judgement on regulatory and operational compliance based on the extent of any deviations identified by the said controls;

- periodically informs the Board of Directors, the Board of Statutory Auditors, the Chief Executive Officer, Internal Audit and Risk Management of the results of the compliance controls and the non-compliance risk assessment, and recommends measures to contain or eliminate this risk;
- contributes, through collaboration with the training programmes on the applicable regulations, to the dissemination of a corporate culture founded on the principles of honesty, fairness and respect for rules, aimed at preventing illicit and/or non-compliant practices.

- Anti-Money Laundering The Anti-Money Laundering function was set up as part of the Compliance Unit, with the Head of Compliance being also the Head of the Anti-Money Laundering function and the Head of the Anti-Money Laundering office being the Manager responsible for reporting suspicious transactions pursuant to article 42, paragraph 4, of Legislative Decree no. 231/2007, under powers attributed by the Legal Representative of all the Group Banks, Centro Fiduciario and Creditis Servizi Finanziari S.p.A.. The Anti-Money Laundering function operates on behalf of all the Group banks and Centro Fiduciario and is also authorized to report suspicious transactions for Creditis Servizi Finanziari S.p.A..

  The function's main task is to continually verify that company procedures serve the goal of preventing and combating the violation of external and self-imposed rules against money laundering and the funding of terrorism.
- Risk Management The Risk Management function lies with the Chief Risk Officer's Area which, in accordance with supervisory instructions, has complete independence of judgement and action, is part of the Chief Executive Officer's staff and can report directly, via its Manager who holds the position of Chief Risk Officer – CRO, to the governing and control bodies of the Parent Company and the Group banks/companies, which outsource this function to the Parent Company.

  In order to both ensure segregation of risk modelling from risk control functions and adaptation of the structure to the ever-growing need for developing an integrated vision of bank-wide risks, partly via the identification of middle management roles, the Chief Risk Officer's area is made up of the Risk Management and Risk Control units and the Internal Validation and Risk Engineering offices.

  The Risk Management function's tasks include the following assessments:
  - correct recognition and measurement of all risks facing the Group;
  - capital adequacy (overall capital) in relation to the summation of risks (overall internal capital);
  - operational compliance of the process followed by the organizational units responsible for credit classification, expected loss determination and debt collection;
  - compliance with the RAF limits laid down by the Board of Directors;
  - operational compliance of ICAAP and ILAAP processes.

  The Chief Risk Officer Area performs its functions for the Parent Company and the Group companies which outsource this function to the Parent, working in conjunction with various corporate structures and with the support of special representatives in each of the companies concerned.

- Ratings Validation The activity is carried out by the Internal Validation office, which is part of the Chief Risk Officer staff. For all risks considered relevant under the ICAAP process, the Internal Validation office examines both risk measurement methods and risk monitoring and management models, together with the relevant IT processes and systems in all cases where such methods were internally developed by the Group.

  Ratings validation consists of:
  - an assessment of compliance with regulations (where applicable) and the soundness of internal risk measurement and control systems, which is summarised in a comprehensive validation score;
  - risk control as a model and drive for the Group to achieve the best practices in risk measurement and control.

  Furthermore, the Internal Validation office:
  - reports to the Control Bodies and the strategic supervision body on the outcome of validation activities by preparing the annual Validation Report;
  - monitors the ICAAP process by stressing both the weaknesses and areas for improvement and reports to the Management and Control Bodies through the ICAAP self-assessment report, relying on the contribution from other relevant operating units where applicable.
- Manager responsible for preparing the Company's financial reports (with the support of Accounting Control) The "Governance and Control Model for the Administrative/Accounting Processes of the Banca Carige Group" covers the whole of the Group's operations and sets out the responsibilities of the various organizational units involved in the financial reporting process to provide reasonable certainty of achieving the Bank's objectives, namely:
  - effectiveness and efficiency of operations (operations);
  - reliability of reporting (reporting);
  - compliance with applicable laws and regulations (compliance).

  The Operations and Compliance dimensions are seen as important because the underlying activities, if not adequately controlled, can have a material impact on the separate and consolidated financial statements.

  The Reporting aspect, is seen as the central focus of the Model, covering all communications and disclosures to the market on the annual and interim accounts.

3) **Internal audit** (level 3).

The Internal Auditing function is performed by the Internal Audit Unit which reports directly to the Board of Directors. Its task is to assess the adequacy and effectiveness of the first and second level controls and to uncover anomalous trends, violations of procedures and regulations, and evaluate the workings of the Internal Control System as a whole.

Internal Audit performs its functions for the Parent Company, Group banks and Group companies, which outsource this function to the Parent, working in conjunction with corporate structures and with the support of special representatives in each of the companies concerned.
In particular Internal Audit:

- assesses the effectiveness and adequacy of the Internal Control System as a whole in accordance with the Regulation of the Internal Audit Process (audit planning, execution of the audit plan, recommendations to improve the corporate system, verification of recommended measures);
- carries out annual and multi-year planning of internal audit activities including controls at the operating units (in loco audits) and remote line controls on the procedures followed by the individual units;
- assesses the correct execution by the organizational units of line controls on their procedures;
- assesses the correct execution by the second level control units of the audits within their remit (risk controls, compliance controls);
- carries out investigations related to complex situations that may result from fraud, errors, etc., giving an opinion as required.

Internal Audit carries out its work on the basis of the Group Audit Model which rests on a methodology designed to identify and report the risk levels associated with company processes, resulting in a qualitative survey of the residual risk facing the company and a subsequent measurement of the adequacy of the Internal Control System.

The Audit Model covers all company processes and all Group entities. It applies to bother process audits and to network audits, carried out throughout the so-called "Audit Life Cycle", with the support of dedicated IT tools for the various steps:

1. Planning activities;
2. Carrying out audits;
3. Assessing risks and controls;
4. Detailed or summary reporting;
5. Follow-ups;
6. Managing resources.

The Parent Company has steering and supervision functions in respect of all risks, primarily via an integrated risk management of Pillar 1 and Pillar 2 risks under the Bank of Italy's supervisory instructions (Circ. No. 285 of 17 December 2013 and following amendments).

The strategy pursued for the Group's subsidiaries has over time led to the centralization of numerous functions within the Parent, in particular internal audit, compliance with regulations, anti-money laundering, risk management, accounting, finance, planning and control.

The different categories of risk - as has been mentioned - are monitored by the 2nd level control structures, and their findings are reported periodically to the Board of Directors, the Risk Committee (and the Board of Statutory Auditors, as well as to the various management committees (Management

Committee, Risk Control Committee, Lending Committee, NPE Committee, Commercial Committee, and the Finance and ALM Committee).

The internal control system and its organisation are also discussed in the "Corporate Governance and Ownership Structure Report for 2017" which can be accessed on the website www.gruppocarige.it.

SECTION 1 – THE BANKING GROUP'S RISKS

1.1 CREDIT RISK

Qualitative Information

1. General aspects

The Parent Company's credit offer mainly targets households, small businesses, small and medium-sized companies.
The Parent Company pursues the policy of consolidating its current market leadership position through actions to increase the level of penetration on current customers, mainly via cross-selling, in any event without neglecting new business initiatives. Growth-boosting activities are mainly focused on consumer and corporate customers in the higher-potential geographical areas and business segments.
The main objective outside the Liguria region is to make the most of the network's potential to expand the customer base, especially in northern Italy and Tuscany, with particular reference to the private segment and retail and mid-corporate companies.
The economic and financial crisis of the last few years, which resulted in a significant increase of non-performing loans, stressed the strategic importance of monitoring credit relations and managing distressed credit positions.
The main guidelines for the Group's credit policies focus on the:

- containment of the credit risk to be pursued through the selection of customers during the concession phase and the monitoring of the loan impairment dynamic to minimise the generation of non-performing loans;
- remixing of the loan book in accordance with the prospects for growth in the markets of operation;
- containment of concentration risk for loans to single-name customers or customer groups; reinforcing non-performing loan collection activities in terms of effectiveness and efficiency.

2. Credit risk management policies

2.1 Organisational aspects

The lending process provides for decision-making decentralisation within the scope of the decision-making powers defined by the Parent Company Board of Directors. Credit facility proposals are normally formulated by the branches and advisory teams, then submitted for approval by the authorised decision-making bodies - both "peripheral" and "central" - on the basis of qualitative and quantitative aspects of the credit facilities and expected loss assigned to the borrower for rated segments. Subsidiary banks act within the limits of their powers and restrictions as established by the Parent Company, through specific directives issued in accordance with Group Regulations under the existing statutory framework.

2.2 Management, measurement and control systems

In relation to decision-making decentralisation, central organisational units have been assigned the task of verifying that assumed risk levels comply with the strategic policies formulated by the Boards of Directors, with regard to counterparty credit ratings and in terms of formal compliance with internal and external codes of conduct.
The Carige Group credit risk measurement, management and monitoring process involves:

- Credit Risk Management, aimed at the strategic governance of the Group's lending activities, through portfolio quality monitoring based on the performance analysis of risk indicators from rating sources (PD, LGD and EAD) and other aspects of interest, with accurate control of compliance with the limits envisaged in supervisory regulations on risk concentration and capital adequacy with respect to credit risk taken;
- activities of an operational nature, to monitor the quality of loans disbursed. Specifically, a tool for the operational monitoring of credit is in place and allows for the various areas of control activities to be combined with risk indicators developed according to the IRB approach, with a view to improving monitoring efficiency and managing credit with an approach ever more consistent with customer risk profiles. To this end, the monitoring process was strengthened by defining final deadlines for the solution of credit positions showing major performance irregularities, after which, failing normalisation, they are classified as non-performing.

These activities feed into a reporting system to be used by the various company units responsible for monitoring Group credit risk.
Internal rating models were developed by the Parent Company based on historical data for the Retail segment (Consumers, Small market players and Small Businesses) and Corporate segment (SMEs and LARGE corporate).

Banca Carige also implemented models for determining, at a consolidated level, the probability of default (PD), loss given default (LGD), exposure at default (EAD).

The information sources used to estimate the probability of default (PD) pertain to three main areas of analysis that are used in varying degrees for the assessment of the segment by bank branches: financial information (financial statement data), performance-related information (in-house data and Central Credit Register data) and customer records. With regard to the SME and Large Corporate segments, the statistical rating override procedure makes it possible to take account of significant data for the purpose of correct customer classification.

The Expected Loss (the product of PD, LGD and EAD) is the parameter used to determine the decision-making route for loan applications in relation to counterparties from the retail segment (Consumers, Small market players and Small Businesses) and Corporate segment (SMEs and Large Corporate).
Risk parameters (PD and LGD) are recalibrated in order to reflect the most recent risk developments in the Group's loan book.

2.3 Credit risk mitigation techniques

The Group's credit policy attaches utmost care to the selection of credit, projects financed and borrowers, as well as to the monitoring of customer relationship performance. Creditworthiness assessment is based on statistical indicators and qualitative information used to assess the borrower's capacity to generate financial resources in line with debt repayment.
Medium/long-term loans are mainly backed by mortgages and, if a more significant risk profile is identified, the credit facilities are backed by personal guarantees (standard and omnibus) and guarantees by loan-guarantee consortia, with adequate risk profile.

Given that, in this context, personal guarantees and collaterals are obtained – as deemed appropriate for credit risk mitigation, considering the mortgage loans' share of the aggregate portfolio and in compliance with regulatory provisions – a value monitoring process for the assets pledged as collateral has been put in place.
More specifically, for a proper assessment of the extent of loan coverage for capital requirements calculation, the value of mortgaged property is subject to periodic revaluation based on statistical data obtained from a leading specialist in real economy studies.
Moreover, the process envisages that a new appraisal will be carried out if there is a significant impairment in the market value of the asset, with the aim of implementing the most suitable credit protection measures. A similar process is in place for leased real estate properties and securities pledged as collateral for loans to customers.

2.4 Non-performing financial assets

New rules for non-performing financial assets have become effective as of 1/1/2015. Three categories of non-performing loans are specified: Bad loans, unlikely-to-pay exposures, past due/overdrawn non-performing exposures, with consequent elimination of previous definitions of 'substandard', 'objective substandard' and 'restructured' exposures.
On 20/03/2017, the ECB published the final text of its bank guidelines on non-performing loans (NPL guidelines). The document clarifies supervisory expectations regarding the identification management, measurement and derecognition of NPLs in the context of existing regulations, directives and guidelines.

Specifically, with regard to impaired financial assets, the guidelines recommend, *inter alia*, applying the prudential definition of NPL and the provisions of the European Banking Authority (EBA) regulation and adopting internal policies that specify criteria for recognising, providing for and derecognising NPLs.

In accordance with the ECB regulation on the assessment of real estate guarantees, the Bank has set up a system to monitor the value of asset guarantees based on individual expert assessments and statistical methods that provide for the updating of estimates every twelve months.
Classification of non-performing assets is based on an ongoing process which involves monitoring activities focused on the prompt identification of any irregularities in relationship management, changes in rating scores over time and any emerging events pointing to a potential impairment of the account. Moreover, on behalf of all subsidiary banks, the Parent Company has introduced operating procedures for the automated flagging of positions with irregular loan repayment and IT monitoring tools to make credit management consistent with the risk profiles identified.
Measures triggered by the aforementioned monitoring activities are differentiated according to the degree of anomaly identified and comply with regulations approved by the Boards of Directors of all Carige Group banks.
Receivables that were classified - not automatically - as non-performing are reclassified to performing status subject to a positive assessment of the financial capacity of customers who, having overcome the difficulties that led to non-performing classification, are considered to be fully capable to fulfil their commitments with the Bank.
Forborne exposures
In order to guarantee the consistency of the classification of credit exposures on a European level, the EBA has issued a directive on “Non performing exposures” providing a definition of “Forbearance”.
Forbearance measures (“concessions”) refer to the modification of the original contract terms and conditions, or total or partial refinancing of an exposure, conceded to a debtor for the exclusive reason of addressing, or preventing, financial difficulties that could have a negative effect on the debtor's ability to fulfil his/her contractual obligations as originally undertaken, and that would not have been conceded to another debtor with a similar risk profile but not in financial difficulty.
The enforcement of a guarantee for the purpose of payment whenever such enforcement involves a new concession is also considered a modification.
Concessions must be identified at the level of single lines of credit (forborne exposures) and can refer to exposures of debtors that are classified as either performing or non-performing.
In any case, renegotiated exposures must not be considered forborne when the debtor is not in financial difficulty.
By way of example, forbearance measures conceded on non-performing exposures (or exposures that would have become non-performing in the absence of forbearance measures), refinancing used by customers for paying back other exposures that are already classified as non-performing, contractual modifications that involve a total or partial cancellation of debt; by definition restructured credit is included in forborne exposures.
The Banca Carige Group has defined the process of management of positions that are subject to forbearance by introducing the definition of forbearance and also by making provisions for the use of a minimum rating for all counterparties belonging to such segment, with a consequent increase in the coverage ratio.
As at 31 December 2017, the Banking Group had on-balance-sheet exposures in terms of 'forborne performing' and 'forborne non-performing' loans (past due, unlikely-to-pay exposures) for an amount of EUR 742 mln and EUR 1,157 mln respectively (EUR 1,899 mln in total).

Quantitative information

A. CREDIT QUALITY

A.1 NON-PERFORMING AND PERFORMING LOANS: AMOUNTS, VALUE ADJUSTMENTS, CHANGES, BREAKDOWN BY BUSINESS AND GEOGRAPHY

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

Portfolio / Quality		Bad loans	Unlikely-to-pay exposures	Non-performing past due exposures	Performing past due exposures	Performing exposures	Total
1. Financial assets available for sale		-	44,915	-	-	1,675,624	1,720,539
2. Financial assets held to maturity		-	-	-	-	-	-
3. Loans to banks		-	8,492	-	-	2,926,115	2,934,607
4. Loans to customers		600,292	1,973,716	66,226	444,846	12,668,854	15,753,934
5. Financial assets designated at fair value		-	-	-	-	-	-
6. Financial assets held for sale and discontinued operations		2,230	483	720	3,482	598,975	605,890
	31/12/2017	602,522	2,027,606	66,946	448,328	17,869,568	21,014,970
	31/12/2016	1,388,038	2,524,412	100,665	625,422	17,534,735	22,173,272

As at 31 December 2017, forborne (performing and non-performing) exposures totalled EUR 1,898,933 thousand (net of value adjustments) and were all attributable to both the Loans to customers portfolio and to the deposits from banks portfolio. For their classification into the various classes of credit quality, see details in table A1.3 *On- and Off-Balance Sheet credit exposures to banks and A.1.6 On- and Off-Balance Sheet credit exposures to customers*.

Breakdown of performing exposures by portfolio: past due aging analysis

Exposures/Quality	Exposures renegotiated under collective agreements					
	Past due up to 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Past due over 1 year	Not past due	Total (net exposure)
1. Financial assets available for sale	-	-	-	-	1,675,624	*1,675,624*
2. Financial assets held to maturity	-	-	-	-	-	-
3. Loans to banks	-	-	-	-	2,926,115	*2,926,15*
4. Loans to customers	278,534	54,687	79,206	32,419	12,668,854	13,113,700
5. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
6. Financial assets held for sale and discontinued operations	3,482	-	-	-	598,976	602,458
7. Hedging derivatives	-	-	-	-	-	-
Total 31/12/2017	282,016	54,687	79,206	32,419	17,869,569	18,317,897

A.1.2 Breakdown of credit exposures by portfolios and credit quality (gross and net values)

	Non-performing assets			Performing assets			Total (net exposure)
	Gross exposure	Specific write-downs	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets available for sale	44,915	-	44,915	1,675,624	-	1,675,624	1,720,539
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Loans to banks	12,780	(4,288)	8,492	2,926,115	-	2,926,115	2,934,607
4. Loans to customers	4,785,589	(2,145,355)	2,640,234	13,192,691	(78,991)	13,113,700	15,753,934
5. Financial assets designated at fair value through profit and loss	-	-	-			-	-
6. Financial assets held for sale and discontinued operations	24,202	(20,770)	3,432	608,112	(5,654)	602,458	605,890
31/12/2017	4,867,486	(2,170,413)	2,697,073	18,402,542	(84,645)	18,317,897	21,014,970
31/12/2016	7,351,614	(3,338,499)	4,013,115	18,296,673	(136,516)	18,160,157	22,173,272

Portfolio / Quality	Markedly poor credit quality assets		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	5	20	2,433
2. Hedging derivatives	-	-	29,581
31/12/2017	5	20	32,014
31/12/2016	65	67	46,849

It should be noted that, at the reporting date, the total amount of partial write-offs of non-performing loans totalled EUR 5.2 million with regard to the portfolio of loans to banks and EUR 256.5 million for the portfolio of Loans to customers. The amount does not include the EUR 3.4 million cancellation recognised by special purpose vehicle companies, Argo Finance One S.r.l. and Priamar Finance S.r.l., prior to transfer of their portfolios to Banca Carige.

A.1.3 Banking Group: on- and off-balance sheet credit exposures to banks: gross and net values and past due bands

	Gross exposure					Specific write-downs	Portfolio adjustments	Net exposure
	Non-performing assets				Performing assets			
	Up to 3 months	3 to 6 months	6 months to 1 year	Over 1 year				
A. BALANCE-SHEET EXPOSURES								
a) Bad loans	-	-	-	-	-	-	-	-
- of which: forborne	-	-	-	-	-	-	-	-
b) Unlikely- to- pay exposures	12,780	-	-	-	-	4,288	-	8,492
- of which: forborne	12,780	-	-	-	-	4,288	-	8,492
c) Non-performing past due exposures	-	-	-	-	-	-	-	-
- of which: forborne	-	-	-	-	-	-	-	-
d) Performing past due exposures	-	-	-	-	-	-	-	-
- of which: forborne	-	-	-	-	-	-	-	-
e) Other performing exposures	-	-	-	-	2,989,033	-	-	2,989,033
- of which: forborne	-	-	-	-	-	-	-	-
TOTAL A	12,780	-	-	-	2,989,033	4,288	-	2,997,525
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing exposure	-	-	-	-	-	-	-	-
b) Performing exposures	-	-	-	-	18,273	-	-	18,273
TOTAL B	-	-	-	-	18,273	-	-	18,273
TOTAL (A+B)	12,780	-	-	-	3,007,306	4,288	-	3,015,798

A.1.4 Banking Group - Balance-sheet credit exposures to banks: changes in gross non-performing loans

Description/category	Bad loans	Unlikely-to-pay exposures	Non-performing past due exposures
A. Opening balance (gross amount)	**18,718**	**-**	**-**
- of which: sold but not derecognised	-	-	-
B. Increases	**308**	**12,780**	**-**
B.1 transfers from performing exposures	-	-	-
B.2 transfers from other categories of non-performing exposures	-	12,716	-
B.3 other increases	308	64	-
C. Decreases	**19,026**	**-**	**-**
C.1 transfers to performing exposures	-	-	-
C.2 write-offs	5,246	-	-
C.3 collections	1,063	-	-
C.4 gains on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	12,717	-	-
C.7 other decreases	-	-	-
D. Closing balance (gross amounts)	**-**	**12,780**	**-**
- of which: sold but not derecognised		-	-

A.1.4bis - Banking Group – Balance-Sheet credit exposures to banks: trends in gross forborne exposures by credit quality

Description/category	Forborne: non-performing exposures	Forborne: performing exposures
A. Opening balance (gross amount)	**-**	**-**
- of which: sold but not derecognised	-	-
B. Increases	**12,780**	**-**
B.1 inflows from non-forborne performing exposures	-	-
B.2 inflows from forborne performing exposures	-	X
B.3 inflows from forborne non-performing exposures	X	-
B.4 other increases	12,780	-
C. Decreases	**-**	**-**
C.1 outflows to non-forborne performing exposures	X	-
C.2 outflows to forborne performing exposures	-	X
C.3 outflows to forborne non-performing exposures	X	-
C.4 write-offs	-	-
C.5 collections	-	-
C.6 gains on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Closing balance (gross amounts)	**12,780**	**-**
- of which: sold but not derecognised	-	-

A.1.5 Banking Group - Balance-sheet credit exposures to banks: changes in overall write downs

Description/category	Bad loans		Unlikely-to-pay exposures		Non-performing past due exposures	
	Total	of which: forborne	Total	of which: forborne	Total	of which: forborne
A. Opening total write-downs	7,813	-	-	-	-	-
- of which: sold but not derecognised	-	-	-	-	-	-
B. Increases	258	-	4,288	4,288	-	-
B.1 write-downs	-	-	1,464	1,464	-	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other categories of non-performing exposures	-	-	2,824	2,824	-	-
B.4 other increases	258	-	-	-	-	-
C. Decreases	8,071	-	-	-	-	-
C.1 write-backs from valuation	-	-	-	-	-	-
C.2 write-backs from collection	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	5,246	-	-	-	-	-
C.5 transfers to other non-performing exposures	2,825	-	-	-	-	-
C.6 other decreases	-	-	-	-	-	-
D. Total gross write-downs	-	-	4,288	4,288	-	-
- of which: sold but not derecognised	-	-	-	-	-	-

A.1.6 Banking Group – On- and off-balance sheet credit exposures to customers: gross and net values, and past due bands

	Gross exposure					Specific write-downs	Portfolio adjustments	Net exposure
	Non-performing assets				Performing assets			
	Up to 3 months	3 to 6 months	6 months to 1 year	Over 1 year				
A. BALANCE-SHEET EXPOSURES								
a) Bad loans	178	89	6,390	1,692,886	-	1,097,021	-	602,522
- of which: forborne	-	-	212	296,925	-	161,966	-	135,171
b) Unlikely-to-pay exposures	1,504,568	223,779	196,576	1,147,944	-	1,053,753	-	2,019,114
- of which: forborne	926,008	44,138	110,929	399,293	-	467,554	-	1,012,814
c) Non-performing past due exposures	7,984	12,520	46,540	15,252	-	15,350	-	66,946
- of which: forborne	8	-	93	-	-	12	-	89
d) Performing past due exposures	-	-	-	-	454,689	-	6,360	448,329
- of which: forborne	-	-	-	-	40,179	-	831	39,348
e) Other performing exposures	-	-	-	-	14,960,312	-	78,285	14,882,027
- of which: forborne	-	-	-	-	717,785	-	14,766	703,019
TOTAL A	**1,512,730**	**236,388**	**249,506**	**2,856,082**	**15,415,001**	**2,166,124**	**84,645**	**18,018,938**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	187,712	-	-	-	-	20,911	-	166,801
b) Performing	-	-	-	-	1,383,635	-	6,630	1,377,005
TOTAL B	**187,712**	**-**	**-**	**-**	**1,383,635**	**20,911**	**6,630**	**1,543,806**
TOTAL (A+B)	**1,700,442**	**236,388**	**249,506**	**2,856,082**	**16,798,636**	**2,187,035**	**91,275**	**19,562,744**

A.1.7 Banking group - On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Description/category	Bad loans	Unlikely-to-pay exposures	Non-performing past due exposures
A. Opening balance (gross amount)	3,725,608	3,486,957	120,331
- of which: sold but not derecognised	19,467	115,868	11,565
B. Increases	498,773	586,191	76,736
B.1 transfers from performing exposures	37,841	336,640	68,103
B.2 transfers from other categories of non-performing exposures	392,024	59,991	984
B.3 other increases	68,908	189,560	7,649
C. Decreases	2,524,838	1,000,281	114,771
C.1 transfers to performing exposures	1,163	216,449	15,203
C.2 write-offs	303,785	30,147	152
C.3 collections	78,793	279,528	30,707
C.4 gains on disposal	544,776	45,693	-
C.5 losses on disposal	1,595,077	35,950	-
C.6 transfers to other non-performing exposures	34	385,081	67,885
C.7 other decreases	1,210	7,433	824
D. Closing balance (gross amounts)	1,699,543	3,072,867	82,296
- of which: sold but not derecognised	13,885	20,366	9,960

A.1.7bis Banking group - On-Balance Sheet credit exposures to customers: changes in forborne gross non-performing exposures by credit quality

Description/category	Forborne: non-performing exposures	Forborne: performing exposures
A. Opening balance (gross amount)	1,875,879	666,530
- of which: sold but not derecognised	16,410	53,833
B. Increases	466,478	533,554
B.1 inflows from non-forborne performing exposures	37,586	313,762
B.2 inflows from forborne performing exposures	142,826	X
B.3 inflows from forborne non-performing exposures	X	202,608
B.4 other increases	286,066	17,184
C. Decreases	564,751	442,120
C.1 outflows to non forborne performing exposures	X	240,666
C.2 outflows to forborne performing exposures	202,608	X
C.3 outflows to forborne non-performing exposures	X	143,232
C.4 write-offs	18,862	31,131
C.5 collections	119,138	25,514
C.6 gains on disposal	75,890	-
C.7 losses on disposal	126,726	-
C.8 other decreases	21,527	1,577
D. Closing balance (gross amounts)	1,777,606	757,964
- of which: sold but not derecognised	9,512	31,479

(*)Data as at 31/12/2016 on forborne non-performing exposures were restated from EUR 1,777,649 to EUR 1,875,879 thousand

A.1.8 Banking group - On-balance Sheet credit exposures to customers: changes in overall write-downs

Description/category	Bad loans		Unlikely-to-pay exposures		Non-performing past due exposures	
	Total	of which: forborne	Total	of which: forborne	Total	of which: forborne
A. Opening balance: total write-downs	2,348,475	161,261	962,545	409,769	19,666	94
- of which: sold but not derecognised	10,751	35	25,248	2,104	1,734	-
B. Increases	709,839	145,318	384,899	172,105	13,064	693
B.1 write-downs	216,083	49,301	362,259	117,211	12,461	12
B.2 losses on disposal	307,941	47,727	13,584	-	-	-
B.3 transfers from other categories of non-performing exposures	141,356	42,826	9,002	721	463	4
B.4 other increases	44,459	5,464	54	54,173	140	677
C. Decreases	1,961,293	144,613	293,691	114,320	17,380	775
C.1 write-backs from valuation	48,231	7,012	50,782	38,487	1,473	4
C.2 write-backs from collection	12,948	1,221	36,217	15,616	5,202	10
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	303,785	9,610	30,147	16,207	152	-
C.5 transfers to other non-performing exposures	22	16	140,340	42,784	10,460	761
C.6 other decreases	1,596,307	126,754	36,205	1,226	93	-
D. Closing balance: total write-downs	1,097,021	161,966	1,053,753	467,554	15,350	12
- of which: sold but not derecognised	5,940	42	4,396	2,336	1,663	-

(*)Opening balance total write-downs of unlikely-to-pay forborne exposures were restated form EUR 395,686 to 409,769 thousand.

Item C.6 Other decreases includes the initial loan loss provisions taken on positions sold during the year, plus the losses on disposal included in item B.2. In particular, for exposures classified as bad loans, the amount of initial loan loss provisions taken on positions sold amounts to EUR 1,287,819 thousand and related losses on disposal amount to EUR 307,941 thousand.

A.2 LOAN CLASSIFICATION BASED ON INTERNAL AND EXTERNAL RATINGS

The internal rating models allow for an evaluation of creditworthiness extended to the majority of exposures to Corporate and Retail customers. The Bank's loans are concentrated in such areas; as a result, only a partial share of the overall exposures are evaluated by rating agencies.

The two tables show the breakdown of on- and off-balance sheet exposures by internal and external rating classes. Exposures classified as bad, unlikely-to-pay and past due loans, were included amongst default exposures.

A.2.1 Banking Group - Breakdown of on- and off-balance sheet exposures by external rating classes

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Balance-sheet exposures	431,415	392,042	3,032,426	2	15,951	62,835	17,095,508	21,030,179
B. Derivatives	890	7,077	41	-	-	1	11,795	19,804
B.1 Financial derivatives	890	7,077	41	-	-	1	11,795	19,804
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	-	50	10,913	51,377	3,773	1	528,471	594,585
D. Commitments to disburse funds	-	-	166	-	-	-	947,524	947,690
E. Other	-	-	-	-	-	-	-	-
Total	432,305	399,169	3,043,546	51,379	19,724	62,837	18,583,298	22,592,258

Reconciliation of internal rating classes with Moody's external ratings:
Class 1: Aaa/Aa3; Class 2: A1/A3; Class 3: Baa1/Baa3; Class 4: Ba1/Ba3; Class 5: B1/B3; Class 6: lower than B3.
In addition to units in UCITS, on- and off-balance-sheet exposures of tables A.1.3 and A.1.6 are included.

A.2.2 Banking Group - Breakdown of on- and off-balance sheet exposures by internal rating classes

Exposures	Internal rating classes							No rating	Total
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6	Default		
A. Balance sheet exposures	873,749	-	-	2,209,579	976,418	578,286	2,697,073	3,875,680	21,030,179
B. Derivatives	946	7,306	226	180	74	-	-	11,072	19,804
B.1 Financial derivatives	946	7,306	226	180	74	-	-	11,072	19,804
B.2 Credit derivatives	-	-	-	-	-	-	-	-	-
C. Guarantees issued	27,354	69,041	208,656	89,728	58,117	1,633	75,520	64,536	594,585
D. Commitments to disburse funds	1,056	7,825	42,274	37,402	4,877	2,101	91,282	760,873	947,690
E. Other	-	-	-	-	-	-	-	-	-
Total	903,105	2,089,155	8,065,567	2,336,889	1,039,486	582,020	2,863,875	4,712,161	22,592,258

Internal rating classes are shown in decreasing order of creditworthiness. Internal ratings are not used for calculation of prudential capital requirements. In addition to units in UCITS, on- and off-balance-sheet exposures of tables A.1.3 and A.1.6 are included.

A.3 BREAKDOWN OF SECURED EXPOSURES BY TYPE OF GUARANTEE

A.3.1 Banking Group - Secured credit exposures to banks

		Collateral (1)				Personal guarantees (2)									
						Credit derivatives					Signature loans				
							Other derivatives								
	Net exposure	Property, Mortgages	Property, finance leases	Securities	Other collateral	CLN	Governments and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities	Total (1) + (2)
1. Secured balance sheet credit exposures	1,049,785	-	-	1,029,251	-	-	-	-	-	-	-	-	-	8,492	1,037,743
1.1 totally secured	1,041,293	-	-	1,029,251	-	-	-	-	-	-	-	-	-	-	1,029,251
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	8,492	-	-	-	-	-	-	-	-	-	-	-	-	8,492	8,492
- of which non-performing	8,492	-	-	-	-	-	-	-	-	-	-	-	-	8,492	8,492
2. Secured off-balance sheet credit exposures	10,096	-	-	-	10,100	-	-	-	-	-	-	-	-	-	10,100
2.1 totally secured	10,096	-	-	-	10,100	-	-	-	-	-	-	-	-	-	10,100
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Secured credit exposures to customers

	Net exposure	Collateral (1): Property, Mortgages	Collateral (1): Property, finance leases	Collateral (1): Securities	Collateral (1): Other collateral	Personal guarantees (2): Credit derivatives: CLN	Personal guarantees (2): Credit derivatives: Other derivatives: Governments and central banks	Personal guarantees (2): Credit derivatives: Other derivatives: Other public entities	Personal guarantees (2): Credit derivatives: Other derivatives: Banks	Personal guarantees (2): Credit derivatives: Other derivatives: Other entities	Personal guarantees (2): Signature loans: Governments and central banks	Personal guarantees (2): Signature loans: Other public entities	Personal guarantees (2): Signature loans: Banks	Personal guarantees (2): Signature loans: Other entities	Total (1) + (2)
1. Secured Balance Sheet credit exposures:	12,390,873	8,984,583	548,960	203,461	337,593	-	-	-	-	-	526,870	28,003	1,034	1,572,208	12,202,712
1.1 totally secured	12,059,778	8,928,315	548,960	180,136	337,593	-	-	-	-	-	526,870	26,464	1,030	1,468,592	12,017,960
- of which non-performing	2,237,535	1,806,444	111,315	6,988	32,932	-	-	-	-	-	-	80	431	245,161	2,203,351
1.2 partially secured	331,095	56,268	-	23,325	-	-	-	-	-	-	-	1,539	4	103,616	184,752
- of which non-performing	96,522	28,601	-	2,590	-	-	-	-	-	-	-	171	4	38,121	69,487
2. Secured off-Balance Sheet credit exposures:	376,426	110,152	-	33,502	1,000	-	-	-	-	-	-	24	82	199,594	344,354
2.1 totally secured	351,363	107,615	-	26,010	1,000	-	-	-	-	-	-	24	82	189,654	324,385
- of which non-performing	100,806	49,669	-	2,176	-	-	-	-	-	-	-	-	-	22,284	74,129
2.2 partially secured	25,063	2,537	-	7,492	-	-	-	-	-	-	-	-	-	9,940	19,969
- of which non-performing	8,480	2,537	-	4,368	-	-	-	-	-	-	-	-	-	260	7,165

In tables A.3.1 and A.3.2, the columns headed “Collateral” and “Personal guarantees” provide the “fair value” of the guarantees estimated as at the reporting date or, lacking such information, their contractual value. It is noted that both values cannot be greater than the carrying amount of the secured exposures, in line with in the requirements of the 4th update of Bank of Italy's Circular no. 262.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURE

B.1 Banking Group - Breakdown by segment of on- and off-Balance Sheet credit exposure to customers (book value)

Exposures/Counterparties	Governments			Other public entities			Financial companies			Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments
A. On-balance sheet exposures																		
A.1 Bad loans	-	-		-	-		4,247	12,433		-	-		493,874	978,038		104,401	106,550	
- of which: forborne	-	-		-	-		2,187	5,537		-	-		106,916	138,477		26,068	17,951	
A.2 Unlikely-to-pay exposures	-	-		404	941		102,499	83,917		2	3		1,747,280	914,723		168,929	54,169	
- of which: forborne	-	-		404	941		48,018	20,059		-	-		875,937	421,191		88,457	25,362	
A.3 Non-performing past due exposures	-	-		9	3		1,410	457		-	-		45,718	10,317		19,809	4,573	
- of which: forborne	-	-		-	-		-	-		-	-		6	-		82	12	
A.4 Performing exposures	1,717,382		40	640,291		640	1,220,223		4,083	-		-	6,117,840		65,850	5,634,620		14,032
- of which: forborne	-		-	9,319		9	151,518		1,318	-		-	484,538		13,410	96,993		858
Total A	1,717,382	-	40	640,704	944	640	1,328,379	96,807	4,083	2	3	-	8,404,712	1,903,078	65,850	5,927,759	165,292	14,032
B. Off-balance-sheet exposures																		
B.1 Bad loans	-	-		-	-		4,000	-		-	-		14,351	7,903		1,359	278	
B.2 Unlikely-to-pay exposures	-	-		-	-		231	225		-	-		133,221	9,552		3,693	19	
B.3 Other non-performing assets	-	-		-	-		-	-	-	-	-		9,945	2,934		1	-	
B.4 Performing exposures	8,763		-	685,376		5	23,326		475	5,496		-	545,775		6,042	108,269		108
Total B	8,763	-	-	685,376	-	5	27,557	225	475	5,496	-	-	703,292	20,389	6,042	113,322	297	108
Total (A+B) 31/12/2017	1,726,145	-	40	1,326,080	944	645	1,355,936	97,032	4,558	5,498	3	-	9,108,004	1,923,467	71,892	6,041,081	165,589	14,140
Total (A+B) 31/12/2016	2,040,428	-	59	1,436,750	232	704	1,206,710	112,439	6,355	6,834	-	-	10,990,433	2,832,407	125,815	6,373,526	407,005	13,878

B.2 Banking Group - Breakdown by geographical area of on- and off-Balance Sheet credit exposure to customers (book value)

Exposures/Geographical area		Italy		Other European countries		America		Asia		Rest of the world	
		Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance sheet exposures											
A.1 Bad loans		581,965	1,086,846	18,046	9,486	2,511	689	-	-	-	-
A.2 Unlikely-to-pay exposures		2,014,367	1,052,664	4,423	1,003	141	39	-	-	183	47
A.3 Non-performing past due exposures		66,675	15,287	266	60	2	1	3	1	-	1
A.4 Performing exposures		15,238,201	76,791	87,418	7,841	2,438	5	1,629	5	670	3
Total A		17,901,208	2,231,588	110,153	18,390	5,092	734	1,632	6	853	51
B. Off-balance-sheet exposures											
B.1 Bad loans		19,710	8,181	-	-	-	-	-	-	-	-
B.2 Unlikely–to-pay exposures		137,145	9,796	-	-	-	-	-	-	-	-
B.3 Other non-performing assets		9,946	2,934	-	-	-	-	-	-	-	-
B.4 Performing exposures		1,373,371	6,596	3,549	34	3	-	-	-	82	-
Total B		1,540,172	27,507	3,549	34	3	-	-	-	82	-
Total A+B	31/12/2017	19,441,380	2,259,095	113,702	18,424	5,095	734	1,632	6	935	51
Total A+B	31/12/2016	21,830,148	3,427,778	196,103	57,359	6,084	3,509	17,283	117	5,063	10,131

B.2.1 Banking Group - Breakdown by geographical area of on- and off-Balance Sheet credit exposure to customers (book value) - Italy

Exposures/Geographical area		North West Italy		North East Italy		Central Italy		South and islands	
		Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance sheet exposures									
A.1 Bad loans		326,402	622,262	102,488	214,298	115,325	183,273	37,750	67,013
A.2 Unlikely-to-pay exposures		1,693,685	885,468	103,837	51,055	145,018	76,903	71,827	39,238
A.3 Non-performing past due exposures		38,632	7,697	10,171	3,731	12,776	2,677	5,096	1,182
A.4 Performing exposures		7,491,969	47,446	2,232,220	10,737	4,676,800	13,710	837,212	4,898
Total A		**9,550,688**	**1,562,873**	**2,448,716**	**279,821**	**4,949,919**	**276,563**	**951,885**	**112,331**
B. Off-balance-sheet exposures									
B.1 Bad loans		8,519	3,671	10,334	3,812	820	683	37	15
B.2 Unlikely-to-pay exposures		126,278	8,836	2,462	236	8,301	603	104	121
B.3 Other non-performing assets		65	16	9,881	2,918	-	-	-	-
B.4 Performing exposures		998,114	5,578	80,235	470	245,852	464	49,170	84
Total B		**1,132,976**	**18,101**	**102,912**	**7,436**	**254,973**	**1,750**	**49,311**	**220**
Total (A+B)	**31/12/2017**	**10,683,664**	**1,580,973**	**2,551,628**	**287,257**	**5,204,892**	**278,313**	**1,001,196**	**112,551**
Total (A+B)	**31/12/2016**	**12,119,644**	**2,210,410**	**2,723,767**	**408,194**	**5,880,016**	**580,850**	**1,106,721**	**228,324**

B.3 Banking Group - Breakdown by geographical area of on- and off-Balance Sheet credit exposure to banks (book value)

Exposures/Geographical area		Italy		Other European countries		America		Asia		Rest of the world	
		Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance sheet exposures											
A.1 Bad loans		-	-	-	-	-	-	-	-	-	-
A.2 Unlikely-to-pay exposures		-	-	-	-	8,492	4,288	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures		2,610,577	-	345,103	-	29,602	-	3,281	-	470	-
Total A		2,610,577	-	345,103	-	38,094	4,288	3,281	-	470	-
B. Off-balance-sheet exposures											
B.1 Bad loans		-	-	-	-	-	-	-	-	-	-
B.2 Unlikely-to-pay exposures		-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing assets		-	-	-	-	-	-	-	-	-	-
B.4 Performing exposures		7,054	-	10,993	-	20	-	132	-	74	-
Total B		7,054	-	10,993	-	20	-	132	-	74	-
Total A+B	31/12/2017	2,617,631	-	356,096	-	38,114	4,288	3,413	-	544	-
Total A+B	31/12/2016	1,421,204	-	510,561	-	47,174	7,813	5,275	-	583	-

B.3.1 Banking Group - Breakdown by geographical area of on- and off-Balance Sheet credit exposure to banks (book value)

Exposures/Geographical area		North West Italy		North East Italy		Central Italy		South and islands	
		Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance sheet exposures									
A.1 Bad loans		-	-	-	-	-	-	-	-
A.2 Unlikely-to-pay exposures		-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-	-	-
A.4 Performing exposures		1,513,132	-	-	-	1,097,445	-	-	-
Total A		1,513,132	-	-	-	1,097,445	-	-	-
B. Off-balance-sheet exposures									
B.1 Bad loans		-	-	-	-	-	-	-	-
B.2 Unlikely-to-pay exposures		-	-	-	-	-	-	-	-
B.3 Other non-performing assets		-	-	-	-	-	-	-	-
B.4 Performing exposures		7,054	-	-	-	-	-	-	-
Total B		7,054	-	-	-	-	-	-	-
Total (A+B)	31/12/2017	1,520,186	-	-	-	1,097,445	-	-	-
Total (A+B)	31/12/2016	132,648	-	5,321	-	1,283,235	-	-	-

B.4 Large exposures:

A) Amount (book value):	10,237,736
b) Amount (weighted value)	2,153,473
C) Number of positions:	12

C. SECURITISATIONS

C.1 Securitisations

Qualitative Information

<u>Traditional securitisations</u>

The Carige Group has five securitisations in place: 1) a securitisation of performing loans, which was carried out by the Parent Company in the first half of 2004 through the SPV Argo Mortgage 2 S.r.l., 2) a securitisation of performing loans under leasing arrangements which was carried out by the Parent Company in 2016 through the special purpose vehicle Lanterna Lease S.r.l., 3) a securitisation of performing consumer loans carried out by the subsidiary Creditis Servizi Finanziari S.p.A., through the special purpose vehicle Lanterna Consumer S.r.l., 4) a securitisation of non-performing loans carried out by the Parent Company through the special purpose vehicle Pillarstone Italy SPV s.r.l., in order to encourage restructuring of loans to a borrower and 5) a securitisation of non-performing loans realised in 2017 by the three banks of the group by means of the Brisca Securitisation s.r.l. special purpose vehicle.

In addition to these securitisations, medium- to long- term funding was raised via three Covered Bond issuances, which are further described in section E.4. A retained (or self-) securitisation of performing loans is also in place, which was structured in 2015 through the special purpose vehicle, Lanterna Finance S.r.l., as described in Section 3 "Liquidity Risk".

For the purpose of promoting a shared co-ordination and monitoring of the first three securitisation transactions originated by the Group, a specific operating unit was set up as part of the Planning and Control division, which makes sure that these transactions and related activities are constantly monitored with an across-the-board approach by multiple functions and units of the company.
Specifically, the assessment and control of risks deriving from the above-described securitisations are performed on the Carige Group's *Credit Risk Management (CRM)* system, which monitors transactions in performing loans; the performance of individual transactions is constantly assessed by the General Management: specific reports are submitted to the Board of Directors on a half-yearly basis.

As the first three securitisations do not fully meet the conditions for all risks and rewards to be transferred to third parties, they were maintained in the transferors' balance sheets.

The securitisation transactions are further explained below.

a) Securitisation of performing loans carried out through the SPV Argo Mortgage 2 S.r.l. in 2004.

The transaction involved transfer without recourse to the special purpose vehicle company Argo Mortgage 2 S.r.l. (in which Banca Carige currently has a 60% direct holding) of 13,272 mortgage loans for a total value of EUR 864.5 mln as at 30 June 2004, at a price of EUR 925.6 mln (of which EUR 61.1 mln as deferred price calculated by means of a profit extraction mechanism which specifically took account of the excess spread, net of transaction costs as at each payment date, the level of risk of the loans transferred and early repayment options).

To finance these transactions, Argo Mortgage 2 S.r.l. issued EUR 864.4 mln worth of securities, of which EUR 808.3 mln class A, EUR 26.8 mln class B, EUR 29.4 mln class C, all listed on the Luxembourg stock exchange, and was granted a subordinated loan by Banca Carige for an amount of EUR 22.8 mln which was fully repaid in 2009.

The securities issued as at 31 December 2017 are rated as follows:

SECURITY	CODE	FITCH	MOODYS
Class A	IT0003694129	AA+	Aa2
Class B	IT0003694137	AA+	Aa2
Class C	IT0003694145	A-	Aa3

Out of the initial EUR 808.3 mln in class A securities, a total of EUR 801.3 mln was repaid as at 31 December 2017 (increasing to EUR 805.2 mln after the repayments in January 2018).

The credit for deferred price to be paid to Carige as at 31 December 2017 amounted to EUR 42.1 mln.

Collections on pertaining receivables in 2017 amounted to EUR 18.0 mln and servicing commission income totalled EUR 0.1 mln.

b) Securitisation transaction of loans under leasing arrangements carried out through the SPV Lanterna Lease S.r.l. in 2016.

The transaction involved transfer without recourse to the special purpose vehicle company Lanterna Lease S.r.l. (in which Banca Carige currently has a 5% direct holding) of 1,372 performing financial lease contracts for a total value of EUR 273.3 mln. The financial lease contracts have Italian companies as counterparties and are guaranteed by property located in Italy.

The SPV Lanterna Lease S.r.l. issued EUR 120 mln worth of senior bonds and EUR 157 mln worth of junior bonds. The senior bond issuance was subscribed for by an institutional investor, whereas the Junior bond issuance was subscribed for by Banca Carige. As a guarantee for the senior bond holders a EUR 3.2 mln cash reserve was set up. Since the bonds issued were reserved for an institutional investor, they were not rated.

Out of the initial EUR 120 mln in class A securities, a total of EUR 70.2 mln was repaid as at 31 December 2017 (increasing to EUR 85.4 mln after the repayments in January 2018).

The Junior securities are used for refinancing through repurchase agreements with third parties.

c) A securitisation of consumer loans carried out by Creditis Servizi Finanziari S.p.A. in 2016 through the special purpose vehicle Lanterna Consumer S.r.l.

The transaction involved transfer without recourse to the special purpose vehicle company Lanterna Consumer S.r.l. (in which Banca Carige currently has a 5% direct holding) of 51,518 performing consumer loan contracts by the subsidiary Creditis Servizi Finanziari S.p.A., for a total value of EUR 431.8 mln.

The effective date of transfer was 16 April 2016 and the counterparties in the loans are consumer customers living in Italy.

In 2017, a second tranche of consumer loans, comprising 11,359 personal loans and 3,172 salary-baked loans, for a total amount of EUR 147.7 mln was sold to the vehicle, following the amendment of certain contractual conditions and two senior tranches amounting to EUR 73.5 million each were issued at the same time.

The SPV Lanterna Consumer S.r.l. issued the following securities:

Class	Amount EUR mln	Ratings	Legal maturity	Spread on 3-month Euribor	Characteristics
A1	158.4	unrated	28 January 2041	Bps 90	Floor 0.5% Cap 4.5%
A2	158.4	unrated	28 January 2041	Bps 90	Floor 0.5% Cap 4.5%
A3	73.5	unrated	28 January 2041	Bps 115	Floor 0.0%
A4	73.5	unrated	28 January 2041	Bps 115	Floor 0.0001%
Z	118.7	unrated	28 January 2041	N/A	N/A

Class A1, A2, A3 and A4 senior notes were underwritten by two institutional investors, whereas the Junior notes were underwritten by the subsidiary, Creditis Servizi Finanziari S.p.A.

Creditis granted a EUR 25.8 mln subordinated loan to the SPV for it to set up a EUR 16.3 mln Cash Reserve and a EUR 9.5 mln prepayment reserve.

As at 31 December 2017, class A1 and A2 Senior notes were reimbursed for EUR 275.4 against an issuance of EUR 316.8 million. These securities with payments made in January 2018 have been fully repaid and the repayment of the Class A3 and A4 senior notes has commenced.

d) Securitisation of non-performing loans through the SPV, Pillarstone Italy SPV S.r.l.

The securitisation was carried out in 2016 in order to favour the work-out of Banca Carige's non-performing loans to the Premuda Group. Pursuant to Italian law 130/99, the SPV, Pillarstone Italy S.P.V. S.r.l. (not belonging to the Carige Group) was transferred three ship mortgage loans denominated in US dollars to Four Handy Limited for an aggregate amount of EUR 63.2 mln and revolving loan facilities to Premuda SAH for an amount of EUR 25.3 mln.
The transaction is a multioriginator securitisation, the securitised portfolio being made up of loans that were transferred to Pillarstone Italy SPV by several banks.
In exchange for the foregoing transfer, Banca Carige was paid the cash equivalent of 5% of the gross amount of the collateralised loans (EUR 2.7 mln) plus USD 56.2 mln in class B USD-denominated Senior notes and USD 24.5 mln and USD 5 mln in class C Junior notes in exchange for the difference.
The work-out transaction was backed by new liquidity provided to the SPV by an investor. The funds were raised by underwriting class A SuperSenior securities with repayment priority over the two other types of notes.
Pillarstone Italy S.p.A. was engaged as the servicer in the transaction.

In March 2017, a granting of credit amounting to EUR 1.15 mln was transferred to the SPV.

Following the considerable losses of Premuda S.p.A., based on the contractual agreements of the transaction, interventions were carried out on the securitisation transaction which profoundly modified the amount of the Bank's exposures thereto, to both significant amounts of exposure in terms of “swap to equity” or “Write Off” and to the modification of the shipping loans mortgage amortisation schedule.
Therefore, pursuant to paragraph 21 of IAS 39, the Bank fully cancelled the transferred loans and recorded the securitisation held at fair value in the IAS category Available Assets for the Sale of Securities.

As at 31 December 2017, class B securitisation notes were posted in the assets on the financial statements for EUR 31.7 mln and Junior notes were shown amounting to EUR 13.2 mln.

e) A securitisation of non-performing loans was carried out by the three banks of the group in 2017 through the special purpose vehicle Brisca Securitisation S.r.l.

Banca Carige S.p.A., Banca del Monte di Lucca S.p.A. and Banca Cesare Ponti S.p.A., in order to reduce the exposure of non-performing loans, completed, with date of effect 16 June 2017, a non-recourse sale of non-performing loans to the SPV Brisca Securitisation s.r.l., for a total gross value of approximately EUR 961.1 mln.
The consideration of the transfer of loans amounted to a total of EUR 309.7 million, of which EUR 281.4 million for loans transferred by Banca Carige, EUR 27.4 million for loans transferred by Banca del Monte di Lucca S.p.A. and EUR 0.9 million for loans transferred by Banca Cesare Ponti S.p.A.
A series of positions have been excluded from the portfolio in order to comply with the retention obligation provided for by the relevant legislation and these loans consist solely of Banca Carige S.p.A. loans.
The transaction was carried out with the support of Banca Imi S.p.A. in its capacity of arranger, DBRS and Moody’s, as “Rating agencies”, Prelios Credit Servicing S.p.A. as servicer of the transaction and Zenith Service S.p.A. as “Monitoring Agent”.
The roles of Corporate Service Provider, Back-Up Servicer, Calculation Agent and Representative of the Noteholders are covered by Securitisation Service S.p.A..
On 5 July 2017, the following notes were issued, which were subscribed to by the three transferring banks:

Securities	Carige	B.M.L	B.C.P	Total nominal amount	Rating Dbrs/Moody's	Yield
Senior	242,952	23,632	816	267,400	BBB (High)/A3	Euribor 6M+0,65%
Mezzanine	27,705	2,695	100	30,500	B (low)/B3	Euribor 6M+6%
Junior	10,657	1,043	100	11,800	unrated	Variable
Total	281,314	27,370	1,016	309,700		

At the same time, the three banks sent the state guarantee application for the Tranche Senior notes (so-called GACS).
In August 2017, the Mezzanine and Junior notes of the three Banks of the groups were fully transferred to third parties.

Given that the sustainability of the risks and benefits associated therewith were transferred (IAS 39 paragraph 20 a), as well as the related rights to receive the cash flows (IAS 39 paragraph 18 a) the Consolidated Financial Statements and individual financial statements of the transferred loans were derecognised and the Senior notes guaranteed by the so-called GACS were recorded under "loans and receivables".
The transfer of the loans to the SPV led to the recognition, under Item 100 of the income statement "Profit/loss from the transfer of Loans" of losses from the transfer amounting to a total of EUR 98.0 mln (of which EUR 87.7 for Banca Carige, EUR 10.0 million for Banca del Monte di Lucca and EUR 0.3 million for Banca Ponti).
As at 31 December 2017, the Senior notes of the securitisation were recorded under receivables for a total of EUR 243.9 mln (of which EUR 221.6 mln by Carige, EUR 21.6 mln by Banca del Monte di Lucca and EUR 0.7 million by Banca Ponti).
The securities issued as at 31 December 2017 are rated as follows:

SECURITY	CODE	MOODYS	DBRS
Class A	IT0005274599	A3	BBB (high)
Class B	IT0005274607	B3	B (low)
Class J	IT0005274615	-	-

<u>Synthetic securitisations</u>

The Liguria Region (Regione Liguria) entrusted FI.L.S.E. S.p.A. with the role of managing a fund to facilitate access to credit for Ligurian SMEs through portfolios of loans made available with a 'Tranched Cover' structure by multiple Banks operating in Liguria. The foregoing loan portfolios are subdivided into two different tranches: a Junior Tranche, exposed to first loss risk, and a lower-risk Senior Tranche. The guarantee consists in a tranched-cover mechanism whereby the risk of losses on loans within the portfolios will be broken down into the following tranches:

a) Junior tranche, accounting for 6.75% of the portfolio upper limit to cover any first losses occurring with respect to the overall upper limit amount

b) Senior tranche, accounting for the remaining 93.25% risk of the bank; it incurs losses if the junior tranche has been exhausted, i.e. whenever total losses exceed 6.75% of loans granted.

Losses on loans granted as part of the "FI.L.S.E. Liguria 2015 Tranched Cover" loan pools, are sequentially assigned to tranches a) and b). Therefore, should losses exceed 6.75% of the asset pool drawn amount, the senior tranche becomes due, with risk being borne entirely by the bank.
Synthetically securitised loans were not derecognised. As at 31 December 2017, said loans were all performing (gross amount EUR 19,600 thousand - value adjustments: EUR 69 thousand). Deposits pledged as collateral in the name of FILSE S.p.A. are accounted for in Item 20 - Loans to customers in the Liabilities. (EUR 1,567 thousand as at 31 December 2017).

Quantitative information

C.1 Exposures arising from major 'own' securitisation transactions broken down by type of securitised asset and exposure

Type of securitised asset/Exposure	On-balance-sheet exposures						Guarantees issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Value adjustments/write-backs	Carrying amount	Value adjustments/write-backs	Carrying amount	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs
A. Totally derecognised	243,871	-	31,739	-	13,176	-	-	-	-	-	-	-	-	-	-	-	-	-
A.1 Pillarstone Italy SPV S.r.l.																		
- non-performing loans			31,739		13,176													
A.2 Brisca Securitisation SPV s.r.l																		
- performing loans	243,871		-		-													
B. Partially derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	782	-	3,786	-	391,688	5,198	-	-	-	-	-	-	-	-	-	-	-	-
C.1 Argo Mortgage 2 S.r.l																		
- performing loans	782	-	3,786	-	36,913	5,198	-	-	-	-	-	-	-	-	-	-	-	-
C2 Lanterna Lease s.r.l.																		
Lease receivables					166,954													
C3 Lanterna Consumer																		
Performing consumer loans					187,821													

The figures shown in the table refer to traditional securitisations and constitute the risk retained by the Group towards: 1) the securitisation carried out through the SPV Argo Mortgage 2 S.r.l., made up of receivables linked to deferred price payment, net of write-downs (EUR 36.9 mln, with write-down amounting to EUR 5.2 mln), and the SPV securities repurchased by Carige (EUR 0.8 mln Senior Class and EUR 3.8 mln Mezzanine Class), 2) a securitisation of lease receivables carried out through the special purpose vehicle, Lanterna Lease S.r.l. 3) securitisation of consumer loans of the subsidiary Creditis Servizi Finanziari S.p.A., carried out through the SPV Lanterna Consumer S.r.l., 4) the securitisation of non-performing loans carried out through the SPV Pillarstone Italy SPV S.r.l., comprising Mezzanine notes (EUR 31.8 million) and Junior notes (EUR 13.2 million) held, 5) securitisation of bad loans carried out through the SPV Brisca Securitisation s.r.l., comprising senior notes (EUR 243.9 mln) guaranteed by the so-called "GACS".
Synthetically securitised loans were not derecognised. As at 31 December 2017, said loans were all performing (gross amount EUR 19,600 thousand - value adjustments: EUR 69 thousand). Deposits pledged as collateral in the name of F.I.L.S.E. S.p.A. are accounted for in Item 20 - Loans to customers in the Liabilities. (EUR 1,567 thousand as at 31 December 2017).

C.3 Securitisation vehicle

Name of securitisation/ Name of securitisation vehicle	Registered office	Consolidation	ASSETS			LIABILITIES		
			Loans and receivables	Debt securities	Other	Senior	Mezzanine	Junior
Argo Mortgage 2 s.r.l. (1)	Genoa	YES	76,083	-	30,344	7,097	56,150	43,182
Lanterna Lease s.r.l. (2)	Genoa	YES	198,586	-	19,027	51,109	-	166,504
Lanterna Consumer s.r.l.(2)	Genoa	YES	312,935	-	63,891	188,893	-	187,932
Pillarstone Italy SPV S.p.a.	Milan	NO	136,368		146,022	47,934	166,378	68,078
Brisca Securitisation s.r.l.	Conegliano (TV)	NO	260,700		17,744	243,865	30,500	11,800

1) Banca Carige holds 60% of the investment in the vehicle
2) Banca Carige holds 5% of the investment in the vehicle

E. DISPOSALS

A. Financial assets sold and not fully derecognised

Qualitative Information

Assets sold and not fully derecognised from the Bank's financial statements include:

1) loans transferred as part of the securitisations performed through the SPVs Argo Mortgage 2 S.r.l., Lanterna Lease S.r.l. and Lanterna Consumer S.r.l., as described in paragraph C of Section E in the Explanatory Notes. With regard to the first transaction, non-derecognition follows recognition of a receivable from the SPV, linked to deferred price payment, which involves first-loss risk as well as excess spread securitisation benefits for the Group; for the two other transactions, non-derecognition results from the subscription of junior securities by the transferors. Receivables sold, recognised as assets, are offset by the securities issued by the Special Purpose Vehicle and outstanding as at the reporting date net of those repurchased by the transferors.

2) securities (assets) underlying repurchase agreements (liabilities), entered into with banks and customers. The non-derecognition of securities subject to a repurchase transaction, is due to the fact that the Group substantially retains all risks and rewards connected with the securities as it is committed to repurchasing them at a contractually agreed price. These securities are therefore disclosed in the pertaining accounting portfolios. The amount of the transfer is recognised among liabilities by type of counterparty.

Quantitative information

E.1 Banking Group - Financial assets sold and not derecognised: book value and full value

Type / Portfolio	Financial assets held for trading			Financial assets designated at fair value through profit and loss			Financial assets available for sale			Financial assets held to maturity			Loans to banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/2017	31/12/2016
A. On-balance sheet assets	-	-	-	-	-	-	528,860	-	-	-	-	-	-	-	-	1,212,836	-	-	1,741,696	1,623,521
1. Debt securities	-	-	-	-	-	-	528,860	-	-	-	-	-	-	-	-	243,780	-	-	772,640	351,144
2. Equity instruments	-	-	-	-	-	-	-	-	-	x	x	x	x	x	x	x	x	x	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	x	x	x	x	x	x	x	x	x	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	969,056	-	-	969,056	1,272,377
B. Derivative instruments	-	-	-	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	-	-
Total 31/12/2017	-	-	-	-	-	-	528,860	-	-	-	-	-	-	-	-	1,212,836	-	-	1,741,696	x
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	34,465	-	-	34,465	x
Total 31/12/2016	-	-	-	-	-	-	351,144	-	-	-	-	-	-	-	-	1,272,377	-	-	x	1,623,521
of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	109,397	-	-	x	109,397

Key:
A = Financial assets sold: fully recognised (book value)
B = Financial assets sold: partially recognised (book value)
C = Financial assets sold:partially recognised (full value)

Line A.4 'Loans', in column 'Loans to customers', includes EUR 315,882 thousand (of which non-performing for an amount of EUR 3,048 thousand) referring to the securitisation of consumer loans carried out by Creditis Servizi Finanziari S.p.A classified under assets in item 150 "Non-current assets held for sale and discontinued operations" of the consolidated Balance Sheet.

E.2 Banking Group - Financial liabilities associated with financial assets sold and not derecognised: book value

Liabilities/assets portfolio	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Financial assets held to maturity	Loans to banks	Loans to customers	Total
1. Due to customers	-	-	-	-	-	-	-
a) relating to fully recognised assets	-	-	-	-	-	-	-

b) relating to partially recognised assets		-	-	-	-	-	-	-
2. Due to banks		-	-	541,931	-	-	205,013	746,944
a) relating to fully recognised assets		-	-	541,931	-	-	205,013	746,944
b) relating to partially recognised assets		-	-	-	-	-	-	-
3. Securities issued		-	-	-	-	-	444,634	444,634
a) relating to fully recognised assets		-	-	-	-	-	444,634	444,634
b) relating to partially recognised assets		-	-	-	-	-	-	-
Total	31/12/2017	-	-	541,931	-	-	649,647	1,191,578
Total	31/12/2016	-	-	351,226	-	-	471,209	822,435

Line 3. 'Securities issued' in column 'Loans to customers', includes EUR 188.636 thousand referring to the securitisation of consumer loans carried out by Creditis Servizi Finanziari S.p.A classified under assets in item 90 "Liabilities associated with groups of assets held for sale" of the consolidated Balance Sheet.

E.3 Sales transactions relating to financial liabilities with recourse only to assets sold :fair value

Type/Portfolio	Financial assets held for trading		Financial assets designated at fair value through profit and loss		Financial assets available for sale		Financial assets held to maturity (fair value) (fair value)		Loans to banks (fair value)		Loans to customers (fair value)		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	31/12/2017	31/12/2016
A. On-balance sheet assets	-	-	-	-	-	-	-	-	-	-	1,054,010	-	1,054,010	1,379,612
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-	x	x	x	x	x	x	-	-
3. UCITS	-	-	-	-	-	-	x	x	x	x	x	x	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	1,054,010	-	1,054,010	1,379,612

B. Derivative instruments	-	-	x	x	x	x	x	x	x	x	x	x	-	-
Total assets	-	-	-	-	-	-	-	-	-	-	1,054,010	-	1,054,010	1,379,612
C. Associated liabilities	-	-	-	-	-	-	-	-	-	-	444,634	-	x	x
1. Due to customers	-	-	-	-	-	-	-	-	-	-	-	-	x	x
2. Due to banks	-	-	-	-	-	-	-	-	-	-	-	-	x	x
3. Securities issued	-	-	-	-	-	-	-	-	-	-	444,634	-	x	
Total liabilities	-	-	-	-	-	-	-	-	-	-	444,634	-	444,634	471,209
Net value 31/12/2017	-	-	-	-	-	-	-	-	-	-	609,376	-	609,376	x
Net value 31/12/2016	-	-	-	-	-	-	-	-	-	-	908,403	-	x	908,403

Key:
A = financial assets sold and fully recognised
B = financial assets sold and partially recognised

With reference to the securitisation of consumer loans carried out by Creditis Servizi Finanziari S.p.A, the column 'Loans to customers' (fair value) includes EUR 315,882 thousand in line A.4 'Loans' and EUR 188,636 thousand in line C.3 Securities issued. Said amounts are respectively recognised under assets in item 150 "Non-current assets held for sale and discontinued operations" and under liabilities in item 90 'Liabilities associated with groups of assets held for sale' of the consolidated Balance Sheet.

E.4 COVERED BOND TRANSACTIONS

Banca Carige S.p.A. launched three medium/long-term funding programmes, via the issuance of covered bonds, backed by underlying primarily consisting in residential and commercial mortgages.

As part of the programmes, Banca Carige adopted the internal control procedures (also at Group level) suitable for the working plan prescribed for the covered bonds, given the high level of operational and legal innovation and complexity of such transactions and pursuant to applicable regulatory provisions and, in particular, to the supervisory instructions issued by the Bank of Italy with Circular no. 263 of 27 December 2006, as amended (hereinafter referred to as the "Supervisory Instructions").
At the meeting held on 29 August 2008, the Board of Directors acknowledged the organisational model prepared by the Organisation Division for the implementation and management of the Programmes. This organisation model was subsequently updated according to the changes made to the Group's organisational structure.
As part of these programmes, Banca Carige plays the role of issuer, transferor of eligible assets and Master Servicer.
The subsidiary, Banca del Monte di Lucca, takes part in the three programmes as transferor and additional servicer.
The "*Asset Monitor*" activities of the three covered bond issuance programmes are performed by BDO Italia S.p.A., which monitors the correctness of the transactions and the integrity of the guarantees for investors. The checks performed and the assessment of the progress of the transactions are reported in a specific annual report addressed also to the Board of Auditors and the Board of Directors of Banca Carige.
The Internal Auditing Department of the Parent Company carries out a comprehensive audit of the checks performed, at least on an annual basis, also making use of the information received and the opinions expressed by the Asset Monitor. The results of these audits are reported to the Banca Carige Board of Directors.
On a regular basis, and for each transaction, the risk monitoring department of Banca Carige controls:
- the quality and integrity of the assets transferred, in particular the estimated property value – both residential and non-residential – mortgaged in relation to the land and property loans transferred;
- maximum ratio compliance between the covered bonds issued and the assets transferred as collateral;
- compliance with transfer limits and integration methods;
- the real and adequate risk hedging offered by any derivative contracts signed in relation to the transaction.

In order for the originator to fulfil the obligations of the collateral pledged, Banca Carige uses suitable Asset & Liability Management techniques to ensure a substantial balance between the maturities of cash flows generated by the transferred assets and the maturities of payments due by the issuing bank on the covered bonds issued and other transaction costs.

The programmes were structured in compliance with applicable legal and regulatory provisions allowing the issuance of covered bonds if certain capital requirements for the Group are met.

The Bank periodically carries out the assessments required in accordance with the Supervisory Instructions concerning capital requirements for transferors or issuers in covered bond issuance transactions, all necessary checks for compliance with transfer limits, together with thorough assessments of the objectives pursued and the risks associated with Programme implementation.

With respect to the first transfer of assets, each individual transferor, for its pertaining portion, granted a subordinated loan to the special purpose vehicle for it to have the funds necessary to purchase the assets. In subsequent transfers, the SPV used both new subordinated financing and its own liquidity.

From an accounting point of view, the transferors will continue to recognise the transferred mortgage loans in their financial statements under item 70 of the Assets "Loans to customers", since the associated risks and rewards were not transferred to the transferee.

The subordinated loan is not recognised in the accounts and therefore it is not measured for the purposes of credit risk due to the fact that this risk is entirely reflected in the measurement of mortgage loans transferred, which are still recognised in the financial statements of the transferors.

Banca del Monte di Lucca receives a commission from the Parent Company Banca Carige for the guarantee given and discloses the assets transferred in part B of the Explanatory Notes, Other information section, table “1. Guarantees issued and commitments" under item no. 5) “Assets pledged as collateral for third party obligations”.

Loans transferred are described by the issuer Banca Carige S.p.A. in part B of the Explanatory Notes, 'Other information' section, Table "2. Assets pledged as collateral for own liabilities and commitments" under item no. 6) “Loans to customers”.

a) First medium-/long-term funding programme through the issuance of Covered Bonds.

   The first Covered Bond issuance programme was implemented through the SPV, Carige Covered Bond S.r.l., in 2008 and was renewed by the Board of Directors on 16 September 2013.

   As at 31 December 2017, residential and commercial mortgages amounting to EUR 4,222 mln were segregated in the special purpose entity, of which EUR 4,072 mln were transferred from Banca Carige and EUR 150 mln from Banca del Monte di Lucca.

   The issuances launched by the Parent Company until 31 December 2017 and not yet coming to maturity are listed below and amount to EUR 3,080.5 mln in total.

Amount issued	Date of Issuance	Maturity date
75,000,000	20.09.2010	20.09.2030
20,000,000	04.10.2010	25.10.2022
20,000,000	25.10.2010	25.10.2040
20,000,000	25.10.2010	25.10.2040
18,500,000	15.11.2010	25.11.2030
20,000,000	25.11.2010	25.11.2030
40,000,000	27.12.2010	27.12.2030
30,000,000	23.04.2012	23.04.2032
150,000,000	31.10.2012	25.10.2022
17,000,000	02.11.2012	02.11.2032
50,000,000	05.11.2012	05.11.2032
10,000,000	06.11.2012	26.10.2032
5,000,000	16.01.2013	25.01.2023
5,000,000	25.01.2013	25.01.2028
10,000,000	29.08.2013	29.08.2033
750,000,000	24.10.2013	24.10.2018
10,000,000	05.06.2014	25.05.2029
500,000,000	28.10.2015	28.01.2021
500,000,000	25.02.2016	25.02.2021
830,000,000	28.11.2016	25.01.2022
3,080,500,000.00		

Securities issued in 2016 are held by Banca Carige and are used for refinancing operations with the European Central Bank.

At the reporting date, the securities issued were assigned the following *ratings*: BBB+ by Fitch, Baa1 by Moody's and BBB- by DBRS.

b) Second medium-/long-term funding programme in the period through the issuance of Covered Bonds.

The second Covered Bond issuance programme was implemented in 2012, through the SPV, Carige Covered Bond 2 S.r.l., and commercial mortgages originated by the Parent Company and other Group Banks were primarily used as collateral.

As at 31 December 2017, residential and commercial mortgages amounting to EUR 686 mln were segregated in the special purpose entity, of which EUR 636 mln were transferred from Carige and EUR 49 mln from Banca del Monte di Lucca.

As at 31 December 2017, there was an amount of EUR 350 mln outstanding in bonds issued by the Parent Company, currently held in the securities portfolio and used for refinancing operations with the European Central Bank.

As at the reporting date of the financial statements, the following ratings were assigned to the issued securities: by Moody's, A3 and by DBRS, A (Low), then BBB (High) on 20 February 2018.

c) Third medium-/long-term funding programme through the issuance of Covered Bonds.

The third Covered Bond issuance programme was implemented in 4Q 2016, through the SPV, Carige Covered Bond S.r.l., with residential and commercial mortgages originated by the Parent Company and the subsidiary Banca del Monte di Lucca S.p.a. used as a collateral.

As at 31 December 2017, residential and commercial mortgages amounting to EUR 520 mln were segregated in the special purpose entity, of which EUR 504 mln were transferred from Banca Carige and EUR 16 mln from Banca del Monte di Lucca.

As at 31 December 2017, there was an amount of EUR 370 mln outstanding in bonds issued by the Parent Company, currently held in its securities portfolio, used for refinancing operations with the European Central Bank.

At the reporting date, the securities issued were assigned an A1 rating by Moody's.

F. BANKING GROUP - CREDIT RISK MEASUREMENT MODELS

The provisioning policies for the Group's loan portfolio are based on a specific Credit Assessment Model which envisages differentiated value adjustment measurement methods, based on asset quality.
In particular, with regard to the performing loans portfolio, adjustment provisions are determined as a product of the application on each individual loan exposure of the related *Probability of Default* (PD) and *Loss Given Default* (LGD). As regards the retail component only (households, small market players and small businesses), the Loss Confirmation Period is applied on performing loans. This is the correction factor which allows for the expected loss, calculated on a prudential supervisory basis, to be put in correlation with the incurred but not reported loss, as set out by the international accounting standards, through measurement of the average timing required for a default to occur, starting from an event which is a potential leading indicator of impairment.
With regard to non-performing loans, the evaluation takes place using statistical mechanisms (by means of LGD) for entries of irrelevant dimensions and an individual analytical assessment for positions of a significant amount. With specific reference to the aggregate being analysed, which forms a predominant share of non-performing loans, the loss forecasts are determined on the basis of rigorous policies, which involve, among other things, the application of prudential haircuts when assessing the real estate collateral for bad loans.
The PD and LGD parameters, which are used for the collective write-downs of performing loans and those of a statistical nature for the part of the non-performing portfolio have been recalibrated in order to incorporate the most recent developments in the risk profile of the Group's loan portfolio.

1.2 BANKING GROUP - MARKET RISK

1.2.1 INTEREST RATE RISK AND PRICE RISK – REGULATORY TRADING PORTFOLIO

Qualitative Information

Organizational structure

The Board of Directors of the Parent Company defines the strategic policies and guidelines related to the assumption of market risk and identifies the levels of Risk Appetite and Risk Tolerance within the scope of the Risk Appetite Framework.
The Risk Control Committee monitors the dynamics of market risk and compliance with the limits, whereas the Finance and ALM Committee monitors the market risk management actions, operationally implemented by the Finance department.
The Risk Management Function guarantees the ongoing measurement and control of Group exposure to market risk by monitoring the Value at Risk (VaR) on a daily basis, also under stress scenarios.

A. General aspects

The main sources of interest rate risk are activities carried out on bond-related financial assets and interest rate derivatives, both regulated and OTC.
The main sources of price risk are activities carried out on equity-related financial assets, equity funds and equity derivatives.
The regulatory trading portfolio has a prudential risk profile, mainly due to the very limited size of the portfolio. The modified duration of the portfolio – net of the intra-group component – was approx. 0.02 as at 31/12/2017 whereas the average value throughout 2017 was around 1.48.

B. Management processes and measurement methods for interest rate and price risk

For operational management purposes, the Parent Company Risk Management Function ensures daily monitoring of interest rate risk and price risk in the regulatory trading portfolio, at the same time checking compliance with the established operational limits.

Interest rate risk and price risk are measured by calculating the Value at Risk (VaR) and its breakdown into Interest Rate and Stock Risk factors. Risk Management uses VaR for operational management purposes, with the objective of measuring both the risks associated with financial instruments held in HFT portfolios and the risks associated with financial instruments allocated in AFS portfolios, monitoring dynamics over time and constantly verifying compliance with the operational limits defined in the Risk Appetite Framework.

The VaR is calculated using a methodology based on a 1-year historical approach, with a 99% confidence interval and a 10-day holding period. Stress test analyses are also carried out that highlight the impact in terms of both VaR and present value resulting from pre-set shocks that refer to specific past events. Stress scenarios are defined by Risk Management on the basis of particularly severe market conditions, taking into account the actual portfolio composition.

The Balance Sheet impact is analysed hereunder, in terms of interest income, net interest and other banking income, profit and shareholders' equity in parallel shifts of the curve (+100 bps up, and -100 bps down). The table reflects the overall impact and breakdown of the regulatory trading portfolio (figures in EUR/mln):

	+100 bp	-100 bp
Net Interest Income	51.05	-47.28
- of which Trading book	0.03	-0.03
Net interest and other banking income	51.15	-47.35
- of which Trading book	0.12	-0.10
Profit [1]	34.23	-31.69
- of which Trading book	0.08	-0.07
Shareholders' equity	-4.58	10.68
- of which Trading book	0.08	-0.07

1 Amounts estimated assuming a 33.07% tax rate.

Quantitative information

1. Regulatory trading book: breakdown of balance sheet assets/liabilities and financial derivatives by term to maturity (repricing date)

Currency: EURO

Type/Residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	Indefinite life
1. Balance-sheet assets	-	-	1,314	9	1	160	5	-
1.1 Debt Securities	-	-	1,314	9	1	160	5	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	1,314	9	1	160	5	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Balance-sheet liabilities	-	-	-	-	-	-	-	-
2.1 Sell/buy back repos (liabilities)	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-

3. Financial derivatives								
3.1 With underlying securities								
- Option								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	166	8,602	-	38	120	-	-
+ Short positions	-	8,763	5	-	38	120	-	-
3.2 Without underlying securities								
- Option								
+ Long positions	-	26,808	48,178	-	-	-	-	-
+ Short positions	-	499	-	-	1,062	13,210	60,215	-
- Other derivatives								
+ Long positions	130	71,985	48,419	11,595	27,730	18,907	25,000	-
+ Short positions	-	79,773	48,074	11,271	27,221	19,561	25,000	-

1. Regulatory trading book: breakdown of balance sheet assets/liabilities and financial derivatives by term to maturity (repricing date)

Currency: OTHER CURRENCIES

Type/Term to maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	Indefinite life
1. Balance-sheet assets	-	-	-	-	-	-	-	-
1.1 Debt Securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Balance-sheet liabilities	-	-	-	-	-	-	-	-
2.1 Sell/buy back repos (liabilities)	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities								
- Option								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities								
- Option								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	17,840	8,657	5,713	267	-	-	-
+ Short positions	127	10,056	8,911	5,949	275	-	-	-

1.2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

Qualitative Information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

The interest rate risk of the banking book is the risk that a variation in market interest rates may have a negative effect on the value of equity (a risk associated with equity) and on Net Interest Income (a risk associated with earnings) in relation to assets and liabilities in the Financial Statements that are not allocated to the trading book for Supervisory purposes.
The exposure to such type of risk, with reference to transactions with a floating interest rate, is a direct consequence of balance sheet structures that are mismatched in terms of both maturity dates (maturity gap) and interest refixing (refixing gap). Exposure for transactions with a fixed interest rate depends on the maturity gap.

The Board of Directors of the Parent Company defines the strategic policies and guidelines related to the assumption of interest rate risk in the banking book and identifies the levels of Risk Appetite and Risk Tolerance within the scope of the Risk Appetite Framework. The Risk Control Committee monitors the dynamics of interest rate risk in the banking book and compliance with the limits, whereas the Finance and ALM Committee monitors the actions for managing interest rate risk in the banking book, which are operationally implemented by the Finance department.
The Risk Management Function guarantees the ongoing measurement and control of Group exposure to interest rate risk for the banking book, from both an equity and earnings perspective.

From an equity point of view, the objective of monitoring the interest rate risk in the banking book consists in measuring the impact of variations in interest rates on the fair value of the equity in order to maintain its stability. The variability in the economic value of the equity followed by a market interest rate shock is measured according to two distinct approaches:

i) Duration analysis: the variation in the economic value of the equity is approximated by applying the duration to aggregates of transactions classified in a time bucket according to the date of expiry or repricing. As at 31 December 2017, this indicator was lower than the 20% of own funds requirement.
ii) Sensitivity analysis: the variation in the economic value of equity is measured, for each individual transaction, as the fair value difference before and after the indicated shock. As at 31 December 2017, this indicator was lower than the 15% of own funds requirement set as the warning threshold.

From an income point of view, the objective of monitoring the interest rate risk in the banking book consists in measuring the impact of variations in interest rates on the interest income expected over a predefined time period (gapping period).
The variability in the interest income following a market interest rate shock is measured via a gap analysis approach, according to which this variability depends on both the reinvestment (refinancing) at new market conditions -not known ex ante- of the capital cash flows maturing during the period of reference, and on the variation of interest cash flows (for floating interest rate transactions).

The Balance Sheet impact is analysed hereunder, in terms of interest income, net interest and other banking income, profit and shareholders' equity in parallel shifts of the curve (+100 bps up, and -100 bps down). The table reflects the overall impact and breakdown of the banking book (figures in EUR/mln):

	+100 bp	-100 bp
Net Interest Income	51.05	-47.28
- of which Banking book	51.03	-47.25
Net interest and other banking income	51.15	-47.35
- of which Banking book	51.03	-47.25
Profit [1]	34.23	-31.69
- of which Banking book	34.15	-31.62
Shareholders' equity	-4.58	10.68
- of which Banking book	-4.66	10.75

[1] Amounts estimated assuming a 33.07% tax rate.

Please see paragraph 1.2.1 B for the price risk component of the banking book.

B. Fair value hedging

Interest risk hedged transactions mainly concern the funding and lending component with an original medium/long-term duration. Fair value hedging aims to immunise changes in the fair value of deposits and loans against changes in the financial market.
The Risk Management Department monitors hedge effectiveness for hedge accounting purposes in compliance with international accounting standards, with particular reference to the identification and documentation of the hedging relation through the production of hedging cards. Effectiveness controls are performed through both prospective and retrospective testing on a quarterly basis.
The types of financial instruments with fair value hedges are interest-bearing postal bonds, current securities, loans and bonds issued. Overall, assets for a nominal amount of EUR 277.1 mln and liabilities for a nominal amount of EUR 734.6 mln have been hedged as of 31 December 2017.
The aims and strategies underlying these hedging transactions are to reduce interest rate risk by entering into unquoted OTC derivative contracts.

C. Cash flow hedging

Risk hedging transactions carried out according to the Cash Flow Hedge methodology are aimed at avoiding that unexpected variations in market interest rates may have negative repercussions on Net Interest Income. In particular, the aim of cash flow hedges is to immunise changes in cash flows against changes in the interest rate curve.
Interest rate risk is hedged using unlisted derivative instruments (interest rate swaps). The effectiveness of this hedge is checked periodically by the Risk Management Department. As part of a broader strategy to downsize the derivatives portfolio, Cash Flow Hedge contracts were discontinued in the course of financial year 2015.

Quantitative information

1. Banking book: breakdown of financial assets and liabilities by term to maturity (repricing date)

Currency: EURO

Type/Residual maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	Indefinite life
1. Balance-sheet assets	2,944,370	9,716,608	1,368,429	500,086	2,585,548	1,759,224	1,559,695	-
1.1 Debt Securities	38,534	676,106	635,156	-	-	581,503	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	38,534	676,106	635,156	-	-	581,503	-	-
1.2 Loans to banks	388,534	2,166,200	-	-	845	2,817	420,847	-
1.3 Loans to customers	2,517,302	6,874,302	733,273	500,086	2,584,703	1,174,904	1,138,848	-
- current accounts	1,396,973	-	-	-	105,927	2,158	-	-
- other loans	1,120,329	6,874,302	733,273	500,086	2,478,776	1,172,746	1,138,848	-
- with early repayment option	297,165	6,642,548	520,982	379,272	1,457,769	694,265	980,066	-
- other	823,164	231,754	212,291	120,814	1,021,007	478,481	158,782	-
2. Balance-sheet liabilities	11,568,569	6,219,432	442,663	1,082,541	1,768,151	16,811	359,933	-
2.1 Due to customers	11,236,964	308,904	194,336	183,152	562,459	3,123	7,384	-
- current accounts	10,253,102	301,317	193,253	181,395	555,603	-	-	-
- other liabilities	983,862	7,587	1,083	1,757	6,856	3,123	7,384	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	983,862	7,587	1,083	1,757	6,856	3,123	7,384	-
2.2 Due to banks	288,826	4,130,931	113,721	1,332	10,683	8,726	-	-
- current accounts	42,005	-	-	-	-	-	-	-
- other liabilities	246,821	4,130,931	113,721	1,332	10,683	8,726	-	-
2.3 Debt securities	40,353	1,779,597	134,606	898,057	1,195,009	4,962	352,549	-
- with early repayment option	418	-	100	-	-	-	60,443	-
- other	39,935	1,779,597	134,506	898,057	1,195,009	4,962	292,106	-
2.4 Other liabilities	2,426	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	2,426	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities								
- Option								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities								
- Option								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	688,338	200,459	500,000	67,337	-	68,500	-
+ Short positions	-	50,335	59,118	567,908	178,415	145,291	25,000	-
4. Other off-balance sheet transactions								
+ Long positions	732,650	311,144	76,721	23,960	10,954	4,295	73	-
+ Short positions	931,968	227,829	-	-	-	-	-	-

1. Banking book: breakdown of financial assets and liabilities by term to maturity (repricing date)

Currency: OTHER CURRENCIES

Type/Term to maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	over 10 years	Indefinite life
1. Balance-sheet assets	159,048	7,942	78,879	6,332	56,246	88,742	72,371	-
1.1 Debt Securities	-	-	33,488	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	33,488	-	-	-	-	-
1.2 Loans to banks	18,193	-	-	-	-	-	-	-
1.3 Loans to customers	140,855	7,942	45,391	6,332	56,246	88,742	72,371	-
- current accounts	1,830	-	-	-	-	-	-	-
- other loans	139,025	7,942	45,391	6,332	56,246	88,742	72,371	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	139,025	7,942	45,391	6,332	56,246	88,742	72,371	-
2. Balance-sheet liabilities	50,089	2,782	1,592	-	-	73,342	27,306	-
2.1 Due to customers	48,331	2,782	1,592	-	-	-	-	-
- current accounts	48,331	2,782	1,592	-	-	-	-	-
- other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	1,758	-	-	-	-	73,342	27,306	-
- current accounts	109	-	-	-	-	-	-	-
- other liabilities	1,649	-	-	-	-	73,342	27,306	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities								
- Option								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities								
- Option								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	302,749	191,779	-	-	-	-	-
4. Other off-balance sheet transactions								
+ Long positions	9	-	-	-	-	4,438	-	-
+ Short positions	4,447	-	-	-	-	-	-	-

1.2.3 FOREIGN EXCHANGE RATE RISK

Qualitative Information

A. Foreign exchange risk: general aspects, management procedures and measurement methods

The various Group companies mainly operate in euros: therefore, foreign exchange risk within the Carige Group is entirely residual and the Treasury department takes steps to systematically match foreign currency positions.

B. Hedging of exchange rate risk

The exchange position of individual Group banks is constantly monitored by the Finance department for compliance with the operational threshold values.

Quantitative information

1. Breakdown of assets and liabilities and derivatives by currency

Items	Currency					
	USD	CHF	GBP	CAD	JPY	OTHER CURRENCIES
A. Financial assets	**463,268**	**2,499**	**642**	**404**	**1,474**	**1,279**
A.1 Debt securities	33,488	-	-	-	-	-
A.2 Equity instruments	5	-	-	-	-	-
A.3 Loans to banks	14,477	452	479	345	1,226	1,214
A.4 Loans to customers	415,298	2,047	163	59	248	65
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**4,269**	**2,107**	**1,377**	**356**	**198**	**1,370**
C. Financial liabilities	**149,236**	**2,060**	**1,773**	**582**	**548**	**912**
C.1 Due to banks	102,406	-	-	-	-	-
C.2 Due to customers	46,830	2,060	1,773	582	548	912
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**1,960**	**131**	**28**	**99**	**156**	**47**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	23,818	1,437	4,149	152	606	2,103
+ Short positions	504,051	6,256	4,349	134	1,568	3,276
Total assets	**491,355**	**6,043**	**6,168**	**912**	**2,278**	**4,752**
Total liabilities	**655,247**	**8,447**	**6,150**	**815**	**2,272**	**4,235**
Difference (+/-)	(163,892)	(2,404)	18	97	6	517

1.2.4 DERIVATIVES

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading portfolio: end-of-period notional amounts

	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	209,410	-	222,833	-
a) Options	27,801	-	37,016	-
b) Swaps	181,609	-	185,817	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and stock indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	39,318	-	64,833	-
a) Options	1,453	-	25,030	-
b) Swaps	-	-	-	-
c) Forward	37,865	-	39,803	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	-	-	-	-
5. Other underlying	-	-	-	-
Total	248,728	-	287,666	-

A.2 Banking book: end-of-period notional amounts

A.2.1 Hedging derivatives

	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	1,026,067	-	1,201,232	-
a) Options	-	-	-	-
b) Swaps	1,026,067	-	1,201,232	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
Equity instruments and stock indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	494,527	-	618,903	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	494,527	-	618,903	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	-	-	-	-
5. Other underlying	-	-	-	-
Total	1,520,594	-	1,820,135	-

A.2.2 Other derivatives

	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	-	-	56,451	-
a) Options	-	-	-	-
b) Swaps	-	-	56,451	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and stock indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	-	-	-	-
5. Other underlying	-	-	-	-
Total	-	-	56,451	-

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

	Positive Fair Value			
	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	36,063	-	39,347	-
a) Options	75	-	389	-
b) Interest rate swaps	35,655	-	38,237	-
c) Cross currency swaps	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	333	-	721	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking book - Hedging	29,581	-	39,233	-
a) Options	-	-	-	-
b) Interest rate swaps	23,096	-	38,817	-
c) Cross currency swaps	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	6,485	-	416	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - Other derivatives	-	-	4,479	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	4,479	-
c) Cross currency swaps	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	65,644	-	83,059	-

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

	Negative Fair Value			
	Total 31/12/2017		Total 31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	35,951	-	39,456	-
a) Options	62	-	372	-
b) Interest rate swaps	35,603	-	38,380	-
c) Cross currency swaps	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	286	-	704	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking book - Hedging	224,970	-	259,037	-
a) Options	-	-	-	-
b) Interest rate swaps	224,932	-	232,345	-
c) Cross currency swaps	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	38	-	26,292	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - Other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity Swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	260,921	-	298,493	-

A.5 OTC financial derivatives: regulatory trading book - notional amounts, gross positive and negative fair value by counterparties - contracts not subject to netting agreements

Contracts not subject to netting agreements	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	-	-	1,537	9,798	-	33,096	11,825
- positive fair value	-	-	3	17	-	424	68
- negative fair value	-	-	-	-	-	46	15
- future exposure	-	-	23	40	-	148	-
2. Equity instruments and stock indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	18,336	-	-	20,172	83
- positive fair value	-	-	82	-	-	295	1
- negative fair value	-	-	218	-	-	68	-
- future exposure	-	-	194	-	-	219	1
4. Other amounts							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives: regulatory trading book - notional amounts, gross positive and negative fair value by counterparties - contracts subject to netting agreements

Contracts subject to netting agreement	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	-	-	153,154	-	-	-	-
- positive fair value (before netting)	-	-	35,171	-	-	-	-
- negative fair value (before netting)	-	-	35,557	-	-	-	-
2. Equity instruments and stock indices							
- notional value	-	-	-	-	-	-	-
- positive fair value (before netting)	-	-	-	-	-	-	-
- negative fair value (before netting)	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	726	-	-	-	-
- positive fair value (before netting)	-	-	-	-	-	-	-
- negative fair value (before netting)	-	-	46	-	-	-	-
4. Other amounts							
- notional value	-	-	-	-	-	-	-
- positive fair value (before netting)	-	-	-	-	-	-	-
- negative fair value (before netting)	-	-	-	-	-	-	-

A.7 OTC financial derivatives: banking book - notional amounts, gross positive and negative fair value by counterparties - contracts not subject to netting agreements

Contracts not subject to netting agreements	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	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2. Equity instruments and stock indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	494,527	-	-	-	-
- positive fair value	-	-	6,485	-	-	-	-
- negative fair value	-	-	38	-	-	-	-
- future exposure	-	-	4,945	-	-	-	-
4. Other amounts							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives: banking book - notional amounts, gross positive and negative fair value by counterparties - contracts subject to netting agreements

Contracts subject to netting agreement	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	-	-	926,067	100,000	-	-	-
- positive fair value	-	-	22,096	1,000	-	-	-
- negative fair value	-	-	224,932	-	-	-	-
2. Equity instruments and stock indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Currencies and gold							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
4. Other amounts							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 Term to maturity of OTC financial derivatives: notional amounts

Underlying assets/Term to maturity		Up to 1 year	1 to 5 years	Over 5 year	Total
A. Regulatory trading book		78,672	64,885	105,171	248,728
A.1 Financial derivatives on debt securities and interest rates		39,895	64,343	105,171	209,409
A.2 Financial derivatives on equities and stock indices		-	-	-	-
A.3 Financial derivatives on exchange rates and gold		38,777	542	-	39,319
A.4 Financial derivatives on other values		-	-	-	-
B. Banking book		1,036,050	245,752	238,791	1,520,593
B.1 Financial derivatives on debt securities and interest rates		541,523	245,752	238,791	1,026,066
B.2 Financial derivatives on equities and stock indices		-	-	-	-
B.3 Financial derivatives on exchange rates and gold		494,527	-	-	494,527
B.4 Financial derivatives on other values		-	-	-	-
Total	31/12/2017	1,114,722	310,637	343,962	1,769,321
Total	31/12/2016	971,273	734,402	458,577	2,164,252

B. CREDIT DERIVATIVES

No credit derivative contracts were in place as at 31 December 2017 or as at 31 December 2016.

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) Financial derivatives, bilateral agreements	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
2) Credit derivatives, bilateral agreements	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) "Cross product" agreements	-	-	291,081	1,000	-	-	-
- positive fair value	-	-	46,528	1,000	-	-	-
- negative fair value	-	-	229,862	-	-	-	-
- future exposure	-	-	3,693	-	-	-	-
- net counterparty risk	-	-	10,998	-	-	-	-

1.3 BANKING GROUP - LIQUIDITY RISK

Qualitative Information

A. Liquidity risk: general information, operational processes and measurement methods

Liquidity risk, in its main meaning as funding liquidity risk, is the risk of the Bank not being able to meet its cash outflow obligations (both expected and unexpected) and its need for collateral at an economical price, without jeopardising the core business or financial situation of the Group. Liquidity risk can be generated by events that are closely connected with the Group and its core business (idiosyncratic) and/or with external events (systemic).

The Parent Company's Board of Directors defines the guideline and strategic approaches relating to the assumption of liquidity risk. The Risk Control Committee monitors the dynamics of liquidity risk and compliance with the limits, whereas the Finance and ALM Committee monitors the actions for managing liquidity risk, which are operationally implemented by the Finance department. The Risk Management Department regularly guarantees the measurement and control of the exposure of the Group to the liquidity risk, both operational (short-term) and structural.

The objective of controlling operational liquidity (short-term) is to guarantee that the Group will be able to face its expected and unexpected payment obligations over a reference period of 12 months, without jeopardising day-to-day operations. The measurement and monitoring of operational liquidity are carried out daily using the operational maturity ladder. The operational maturity ladder enables an analysis of the distribution of positive and negative cash flows over time, any gaps, as well as the reserves (counterbalancing capacity) that are available to deal with such gaps.

The Risk Management Department constantly monitors the observance of the operating limits that apply to the balances of cash flows only as well as to the total balances of the cash flows and reserves. The Group also performs a stress test activity with regard to the maturity ladder in use with a view to analysing the effect of exceptional albeit realistic crisis scenarios on the liquidity position and assessing the adequacy of liquidity reserves in place.

In addition to liquidity indicators, the Liquidity Coverage Ratio (LCR) is monitored, which compares the value of high-liquidity assets with that of net cash outflows in a 30-day stress scenario. As at the end of 2017, the ratio was 156%.

The Group's treasury position as at 31 December 2017 confirmed that liquidity reserves are adequate to meet future commitments.

The objective of controlling structural liquidity is to guarantee the maintenance of a suitable ratio between assets and liabilities, establishing constraints regarding the possibility to finance medium term assets with short term liabilities and therefore limiting pressure on short-term funding.

Medium to long term liquidity is measured and monitored with the structural maturity ladder. The structural maturity ladder is based on the maturity mismatch model and includes demand items covering a period of up to 20 years and beyond and includes certain or modelled capital flows generated by all the balance sheet items. The report defines the indicators in terms of gap ratios on maturities over 12 months and the related limits subject to monitoring by the Risk Management Department.

In addition to monitoring operating indicators, the Net Stable Funding Ratio (NSFR) is monitored, which compares the amount of funding available with compulsory funding, according to the characteristics of liquidity and the residual useful life of the various assets held.

Medium-/long-term liquidity management policies at the Group level take these limits into account when planning strategies and budget.

Lastly, the Group has adopted a Liquidity Contingency Plan (LCP), to protect the Group and its individual companies from stress conditions or from any other type of crisis, guaranteeing business continuity when faced with a sudden reduction of available liquidity. For this reason, Early Warning Indicators (EWI) that can forecast the emergence of stress conditions or liquidity crisis are monitored.

1. Time breakdown of financial assets and liabilities by contractual term to maturity

Currency: EURO

Items/time bands	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 year	Indefinite life
Balance-sheet assets	2,869,380	228,774	460,094	218,023	1,385,229	1,079,102	875,438	5,002,755	7,574,183	1,105,725
A.1 Government securities	25,024	-	150,564	25,009	505,192	331,693	7,273	50,015	600,086	1
A.2 Other debt securities	5	-	-	-	-	63	67	254	248,388	11,427
A.3 Units in UCITS	13,716	-	-	-	-	-	-	-	-	-
A.4 Financing	2,830,635	228,774	309,530	193,014	880,037	747,346	868,098	4,952,486	6,725,709	1,094,297
- Banks	325,706	209,076	290,317	58,222	557,327	64	127	845	443,515	1,094,297
- Customers	2,504,929	19,698	19,213	134,792	322,710	747,282	867,971	4,951,641	6,282,194	-
Balance-sheet liabilities	11,617,623	16,245	29,013	228,738	1,028,479	256,892	1,363,274	6,195,977	860,457	-
B.1 Deposits and current accounts	11,236,857	16,068	27,762	60,214	197,274	193,253	181,396	557,171	-	-
- Banks	67,773	-	-	-	-	-	1	-	-	-
- Customers	11,169,084	16,068	27,762	60,214	197,274	193,253	181,395	557,171	-	-
B.2 Debt securities	18,022	177	-	166,401	288,081	47,797	1,160,864	2,011,631	776,876	-
B.3 Other liabilities	362,744	-	1,251	2,123	543,124	15,842	21,014	3,627,175	83,581	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	130	17,572	19,165	70,464	208,279	209,327	4,545	310	124	-
- Short positions	-	21,208	557	1,414	3,706	6,895	4,297	301	124	-
C.2 Financial derivatives without exchange of principal										
- Long positions	583	-	-	1,187	2,516	2,074	9,208	-	-	-
- Short positions	35,597	-	-	-	-	412	610	-	-	-
C.3 Deposits and borrowings to be received										
- Long positions	-	-	-	-	75,987	-	-	-	-	-
- Short positions	-	-	-	-	75,987	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	508,815	98,584	-	213	91,341	29,589	84,270	126,936	144,062	-
- Short positions	931,968	-	-	-	-	-	-	-	151,842	-
C.5 Financial guarantees given	9,378	-	-	-	-	-	-	28	22	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Time breakdown of financial assets and liabilities by contractual term to maturity

Currency: OTHER CURRENCIES

Items/time bands	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 year	Indefinite life
Balance-sheet assets	61,468	570	495	2,164	4,719	37,002	17,647	94,219	232,283	33,488
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	33,488
A.3 Units in UCITS	-	-	-	-	-	-	-	-	-	-
A.4 Financing	61,468	570	495	2,164	4,719	37,002	17,647	94,219	232,283	-
- Banks	18,193	-	-	-	-	-	-	-	-	-
- Customers	43,275	570	495	2,164	4,719	37,002	17,647	94,219	232,283	-
Balance-sheet liabilities	50,080	940	523	1,048	271	1,592	-	-	100,648	-
B.1 Deposits and current accounts	48,431	940	523	1,048	271	1,592	-	-	-	-
- Banks	109	-	-	-	-	-	-	-	-	-
- Customers	48,322	940	523	1,048	271	1,592	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	1,649	-	-	-	-	-	-	-	100,648	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	12,516	296	1,271	3,547	8,657	5,713	267	-	-
- Short positions	127	17,296	18,093	69,756	207,447	200,690	5,949	275	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and borrowings to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	9	-	-	-	-	-	-	3,701	-
- Short positions	3,710	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	416	1,293	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

SELF-SECURITISATIONS

The Carige Group has a self-securitisation transaction in place of commercial mortgages carried out in 2015 through the special purpose vehicle, Lanterna Finance S.r.l.

The transaction was originated by Banca Carige S.p.A., Banca del Monte di Lucca S.p.A. and the three banks merged into the Parent Company, Cassa di Risparmio di Savona S.p.A., Cassa di Risparmio di Carrara S.p.A. and Banca Carige Italia S.p.A.

On 2 December 2015, the SPV issued Senior class securities for an amount of EUR 385 mln and Junior class securities for an amount of EUR 331,8 mln. These securities were underwritten by the originator banks in proportion to the assets transferred, as shown in the table below:

Securities	Category	Banca Carige	Banca Carige Italia	Banca del Monte di Lucca	Total
CLASS A	SENIOR	226.30	127.80	30.90	385.00
CLASS B	JUNIOR	194.90	110.10	26.80	331.80
Total		421.20	237.90	57.70	716.80

Figures in mln

In the transaction Banca Carige acted as Master Servicer and the other transferring banks acted as Servicers.

BNP Paribas group held the following positions: Account Bank, Cash Manager, Bondholder representative, Calculation Agent and Paying Agent.

The transaction was structured by Unicredit AG.

The securities issued as at 31.12.2017 have the following characteristics:

Class	Amount EUR mln	Ratings by Moody's/DBRS	Legal maturity	Spread on Euribor
A	64.0	Aa2/AAA	October 2065	Bps 120
B	331.8	No rating	October 2065	Bps 220

The class A securities are listed on the Luxembourg stock exchange.

Following the repayments made in January 2018, the class A securities remained at EUR 28.6 million.

The transaction structure involved the establishment of a Cash Reserve of EUR 9.5 mln, on the date of issuance of the securities, with subordinated loans of an equal amount granted to the special purpose entity by the transferors; as at 31 December 2017 the cash reserve amounted to EUR 5.7 million.

The subsidiary Banca del Monte di Lucca transferred the class A securities issued by the special purpose entity to Banca Carige on a repurchase basis, which were used by the Parent Company for refinancing operations with third parties.

Disclosure on financial instruments which the marketplace considers to be high-risk

The exposure to financial instruments that the market considers as ‘high-risk’ according to the definition in the Recommendation issued by the Financial Stability Forum on 7 April 2008, as later confirmed by joint document no. 2 issued by the Bank of Italy/CONSOB/ISVAP on 6 February 2009, amounted to approximately EUR 4 thousand. This exposure entirely concerns securities relating to leveraged finance transactions, in guaranteed/protected format, which provides for repayment at par value upon maturity.

LEVERAGED SECURITIES/DERIVATIVES *(EUR/000)*

	carrying amount	% share of total securities portfolio
Unhedged leveraged instruments:	**4**	**0.00017%**
Credit	0	0.00%
of which with repayment at par	*0*	*0.00%*
Interest rate	4	0.00017%
of which with repayment at par	*4*	*0.00017%*
Hedged leveraged instruments:	**-**	**-**
Total	**4**	**0.00017%**

1.4 BANKING GROUP - OPERATIONAL RISK

Qualitative Information

Operational risk consists in the risk of incurring losses deriving from internal or external fraud, inadequacy or incorrect functioning of company procedures, human resource or internal system errors or deficiencies, interruptions or malfunctioning of services or systems (including IT), errors or omissions when performing the offered services, or exogenous events. Operational risk also includes legal risk (for example, customer claims and risks connected with the distribution of products that do not comply with regulations governing the provision of banking, investment and insurance services, and sanctions deriving from regulatory violations as well as non-compliance with procedures relative to the identification, monitoring and management of risks), but not strategic or reputational risk. The main sources of operating risk include the instability of operating processes, poor IT security, increasing use of automation, outsourcing of company functions, use of a reduced number of suppliers, changes in strategy, fraud, errors, recruitment, training and retaining the loyalty of personnel, and finally, social and environmental impacts. It is not possible to identify a permanently prevalent source of operational risk: operational risk differs from credit and market risks as it is not assumed by the Group company based on strategic choices, but is inherent in its operations.

In order to increase its control on these risks, the Banca Carige Group implemented a framework for measuring, managing and monitoring operational risks in line with the best practices in the banking system, which was adopted in the same year by the Parent Company's Board of Directors; the framework was put in operation between the end of 2015 and the beginning of 2016.

During 2017, the fine-tuning of both processes and measurement models continued. As regards the process of collection of operating losses – Historical data collection (HDC) – some adjustments were made with a view to gradually migrating from the previously in use method of centralised data collection to a decentralised collection as laid down in the ORM framework with an ever-increasing involvement of all organisational units and, in particular, of the function-holders playing specific roles within the ORM framework (e.g. ORM coordinator, Risk Owners). Concerning the Risk Self-Assessment (RSA) process, used to investigate the future level of risk perceived by the various Risk Owners identified in the project activities, it is noted that the second RSA campaign on operational and IT risks is at an advanced stage and that the results shall be submitted to the Board of Directors and used in the ICAAP 2018 Report.

As regards the measurement and quantification of operational risk, the Standardised Approach was adopted for regulatory purposes (title 3 of Regulation EU 575/2013), whereas an ad-hoc Operational Risk VaR model was developed to measure internal capital based on the time-series of operational losses registered at Group level.

Finally, a report on loss trends and key events was prepared which is quarterly submitted to the Board of Directors.

As part of the ORM Framework, appropriate links and synergies were planned to be established with reputational risk monitoring and management (see below: Reputational risk) and with the aspects of IT Risk management monitored in the ICT field, in compliance with the provisions of the 15th update of Circular 285 of the Bank of Italy.

As part of the Operational Risk Management processes, the activities for preparing and populating the Italian Operating Loss Database (Database Italiano Perdite Operative - DIPO) established in 2003 by the Italian Banking Association (ABI), and which the Carige Group has supported since its establishment, were suitably integrated.

For informational purposes only[1], it should be noted that, in parallel to quantitative analysis, the Group is systematically analysing the processes using a self-assessment approach in order to integrate the aspects of a quantitative nature with the analyses of a qualitative nature. The IT system of all Group companies is centralised in the Parent Company which, with regard to the risks connected with business disruption, has defined a Business Continuity and Disaster Recovery plan designed to identify the actions required to restore the Group's business as usual in the event of a crisis situation. Furthermore, in light of the need to define standard criteria for the management of processes (mapping, archiving, use, etc.) and to identify appropriate methodological and IT solutions, the "Business Process Management" continues to be constantly updated. In this context, the Carige Group has adopted a methodological framework aimed at rationalising and standardising the information present in the company and at simplifying the mechanisms for producing and using the company regulations; organisational guidelines and related models have therefore been formulated with regard to the processes, risks and checks defined for each operational area of the company.

Quantitative information

The impact, in terms of operating losses[2] as at 31 December 2017 at consolidated level was EUR 7.9 mln[3].

Risks related to ongoing proceedings

Further to the investigations initiated by the Genoa Public Prosecutor's Office, criminal proceedings no. 10688/2013 of the General Register of Crimes were instituted, in which the Bank's former Chairman Giovanni Berneschi is indicted for the offences set out in articles 2622, paragraphs 3 and 4 (false corporate communications to the detriment of the company, shareholders or creditors) and 2637 (market manipulation) of the Italian Civil Code, as well as embezzlement under art. 646 of the Italian Criminal Code. To the Bank's knowledge, the facts involved in the charge were partly inferred from the findings identified by the Bank of Italy and Consob as a result of their inspections.

As part of the above, with regard to the offences that constitute a precondition for the entity's liability pursuant to Legislative Decree no. 231, being such offences attributed to a person in a senior position, the Bank was recorded in the roll of suspects due to the administrative offence resulting from a crime under article 25-ter of Legislative Decree no. 231 for false corporate communications to the detriment of the company, shareholders or creditors (art. 2622 of the Italian Civil Code) and for market manipulation (art. 2637 of the Italian Civil Code). The investigations focused, among other aspects, on the regularity of loan granting and the overall management of relations with borrowers, as well as on the compliance of the internal organisational models for loan granting and management and the preparation of financial statements with the banking industry's legislation. It should be noted that, regardless of any evaluation of

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[1] This activity is excluded from the scope of the project related to the definition and implementation of a framework for measuring and managing operational risks.

[2] Data refers to gross losses, including provisions to the fund for risks and charges, recognised for the first time in 2016.

[3] It should be noted that a considerable share of provisions for risks and charges (around EUR 16 mln) on issues relating to specific contractual clauses for the disposal of the Insurance Companies to Amissima, do not fall within the definition of operating losses and are therefore not included in the recognised amount.

the legitimacy of the charge levelled against the Bank, the risks resulting from the most severe sanctioning treatment theoretically applicable to the Bank for the unlawful acts contested are estimated not to exceed EUR 2 mln.

After the foregoing proceedings no. 10688/2013 of the General Register of Crimes were transferred to the Public Prosecutor's office of Rome for reasons of territorial jurisdiction, proceedings no. 61126/2015 of the General Register of Crimes were initiated at the Public Prosecutor's office in Rome, levelling charges of obstruction of public regulators (pursuant to article 2638 of the Italian Civil Code) and market manipulation (pursuant to article 2637 of the Italian Civil Code). The above-mentioned charges were addressed to representatives of the Board of Directors in office at the time of the facts for both cases, whereas the criminal offence of obstruction of public regulators was also levelled against the then General Manager and other bank executives. Banca Carige is being investigated under Legislative Decree no. 231/2001 in relation to the Company’s direct liability for administrative offences committed in its interest or for its benefit pursuant to Article 25-*ter* section s) Legislative Decree 231/01 and Article 25-*ter* section r) Legislative Decree 231/2001. In this proceeding, the preliminary hearing was scheduled, which shall commence on 4 May 2018 and shall continue on dates yet to be set.

Also pending before the Court of Genoa (proceedings no. 17008/2014 General Registry of the Public Prosecutor's Office of Genoa - no. 4281/2015 General Registry of the Court of Genoa), is a further proceedings for offences (criminal association, fraud, money laundering and others) connected with the management of the Group’s former Insurance companies, levelled against Mr Berneschi and other individuals. The Bank is the civil claimant in the foregoing proceedings.
At the end of the trial phase, on 22 February 2016 the Court of Genoa delivered a judgement of first instance against, among others, Mr. Giovanni Berneschi, sentencing him to eight years and two months in prison, in addition to the confiscation of assets for an amount of EUR 26.8 mln and payment of damages to the Bank, to be determined in civil proceedings.
Further to a jurisdictional plea raised by the defence of one of the defendants in the foregoing proceedings, the indictment position of the afore-mentioned defendant was ordered to be tried separately and transferred to the Court of Milan as part of new criminal proceedings, now in the trial phase; the Bank is likewise the civil claimant in the latter proceedings (Proceedings no. 27020/2015 of the general register of criminal offences of the Milan Public Prosecutor's Office - no. 7015/16 Court of Milan).
Lastly, additional criminal proceedings (no. 7577/2015 of the general register of criminal offences, Genoa Public Prosecutor’s Office) are being conducted in relation to the criminal offences of obstruction of public regulators, money-laundering and concurrence in income tax evasion for which the Bank's former Chairman Giovanni Berneschi is indicted, together with three seconded employees with management duties at the Centro Fiduciario C.F. S.p.A., and the Centro Fiduciario itself, pursuant to articles 25-ter and 25-octies of Legislative Decree no. 231. At the hearing of 7 December 2016, the Preliminary Hearing Judge delivered a 'no case to answer' judgement for Mr. Giovanni Berneschi and the three foregoing employees of Centro Fiduciario on some charges, and adjourned the hearing for Mr Berneschi and other indictees for the offences of money laundering, omitted tax return, fraudulent conveyance of assets and abetting.
At the end of the preliminary hearing, Centro Fiduciario defined its position by filing a petition for plea bargain which led to the payment of a EUR 400,000.00 administrative sanction.

Part F

CONSOLIDATED SHAREHOLDERS' EQUITY

SECTION 1 – CONSOLIDATED SHAREHOLDERS' EQUITY

A. Qualitative Information

The new Basel III supervisory regulations defined by EU Regulation 575/2013 (CRR) came into force on 01 January 2014. These were implemented by the Bank of Italy in its Circular 285/2013 and subsequent updates based on which the Banca Carige Group adopts the measures required in order to maintain an adequate amount of capital in order to face the risks connected with its operations.

In its SREP Decision of December 2016, the ECB required the Banca Carige Group for 2017 to maintain a minimum shareholders’ equity requirement in terms of Common Equity Tier 1 Ratio (CET1 Ratio) on a consolidated basis of 9% (composed of a minimum coefficient of 4.5%, an additional own funds requirement of 3.25% and a combined buffer requirement of 1.25%). The ECB additionally required the Bank to maintain, on a consolidated basis, a minimum total SREP capital requirement (TSCR) of 11.25%, and specified that it might be reviewed once the amount of non-performing exposures has been reduced; a minimum Overall Capital Requirement (OCR) of 12.50% was also requested.

In December 2017, the new SREP Decision was disclosed to the Bank, with which the ECB confirmed the additional own funds requirement for 2017 also for 2018, but with a reduction of the Capital Guidance on the CET1 Ratio which, from 2.25% in 2017, is reduced to 1.55% for 2018. Finally, there was an increase in the phase-in[4] of the Capital Conservation Buffer which increased from 1.25% in 2017 to 1.875% for 2018.

418 update to Banca d’Italia Circular 285/2013

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by type of company

Net equity items	Banking group	Insurance companies	Other companies	Netting-off and adjustments from consolidation	Total
Share capital	2,874,249	-	-	-	2,874,249
Share premium reserve	630,211	-	-	-	630,211
Reserves	(685,916)	-	-	-	(685,916)
Equity instruments	-	-	-	-	-
Treasury shares (-)	(15,572)	-	-	-	(15,572)
Valuation reserves	(140,759)	-	-	-	(140,759)
Financial assets available for sale	(21,278)	-	-	-	(21,278)
- Property and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-
- Cash flow hedges	(100,970)	-	-	-	(100,970)
- Exchange differences	-	-	-	-	-
Non-current assets classified as held for sale	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(19,870)	-	-	-	(19,870)
Share of valuation reserves of equity investments valued at equity	1,359	-	-	-	1,359
- Special revaluation laws	-	-	-	-	-
Profit (loss) for the year: Group and non-controlling interests	(393,364)	-	-	-	(393,364)
Shareholders' equity	2,268,849	-	-	-	2,268,849

B.2 Valuation reserves of financial assets available for sale: breakdown

Asset / Amount	Banking group		Insurance companies		Other companies		Netting-off and adjustments from consolidation		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	31	(23,077)	-	-	-	-	-	-	31	(23,077)
2. Equity instruments	1,644	-	-	-	-	-	-	-	1,644	-
3. Units in UCITS	124	-	-	-	-	-	-	-	124	-
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2017	1,799	(23,077)	-	-	-	-	-	-	1,799	(23,077)
Total 31/12/2016	2,046	(24,005)	-	-	-	-	-	-	2,046	(24,005)

B.3 Valuation reserves of financial assets available for sale: annual changes

	Debt securities	Equity instruments	Units in UCITS	Loans
1. Opening balance	(23,031)	1,061	11	-
2. Increases	1,165	657	1,481	-
2.1 Increases in fair value	1,057	632	85	-
2.2 Reversal to profit and loss of negative reserves	108	25	1,396	-
- from impairment	-	25	1,347	-
- from disposal	108	-	49	-
2.3 Other increases	-	-	-	-
3. Decreases	1,180	74	1,368	-
3.1 Decreases in fair value	504	74	1,185	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to profit and loss of positive reserves: following disposal	676	-	183	-
3.4 Other decreases	-	-	-	-
4. Closing balance	(23,046)	1,644	124	-

B.4 Valuation reserves relating to defined benefit plans: annual changes

	Banking group	Insurance companies	Other companies	Total
Opening balance	**(19,822)**	**-**	**-**	**(19,822)**
Increase due to reversal to retained earnings	-	-	-	-
Other changes	(48)	-	-	(48)
Closing balance	**(19,870)**	**-**	**-**	**(19,870)**

SECTION 2 – OWN FUNDS AND REGULATORY RATIOS

2.1 The regulatory framework - scope of application

The Company's own funds were determined on the basis of the new harmonised legislation for banks and investment entities included in the EU Regulation no. 575/2013, (CRR), and the EU Directive 36/2013 (CRDIV) which transpose the standards defined by the Basel Committee on Banking Supervision in the European Union. The provisions issued by the Bank of Italy with circulars Nos. 285/2013 and 286/2013 and their relative updates were also taken into account with specific reference to the right to exercise national discretion.

The scope of consolidation used to prepare the annual report remains unchanged from the scope of consolidation used for supervisory purposes.
As at 31 December 2017, no material or legal restrictions or constraints exist that may hinder the prompt transfer of capital resources within the Group. The only existing constraints are the ones that can be traced to (i) regulatory provisions, which may require a minimum amount of own funds or a Liquidity Coverage Ratio (LCR) to be held, and a ban on dividend pay-out, and (ii) the Italian Civil Code provisions on reserves and profit distribution.

2.2 Own funds

A. Qualitative Information

It should be noted that, as explained in BoI's circular letter of 26/01/2017, following the introduction of EU Regulation no. 2016/445 of the European Central Bank, from October 2016, the institutions deemed significant shall respectively include in -or deduct from- their CET1 the unrealised profits and losses relative to amounts due from central administrations classified as Financial assets available for sale, by the following percentages: 60% for 2016; 80% for 2017.

The residual amounts after the application of these percentages (i.e. 40% in 2016; 20% in 2017) shall not be included in the calculation of own funds as they continue to be sterilised. Therefore, under the transitional arrangements provided for by the CRR, the national regime, effective as of 31 December 2013, shall apply.

It must be noted that the Group had exercised the option to sterilise unrealised profits and losses relative to amounts due from central administrations classified as Financial assets available for sale within the terms set out in a communication which was sent to the Bank of Italy.

1. Common Equity Tier 1– CET 1

Common Equity Tier 1, prior to the application of prudential filters, consists of the following positive or negative elements:

- share capital
- share premium reserve
- reserves net of negative reserve
- treasury shares in the securities portfolio
- loss for the period
- other accumulated items in the Income Statement
- non-controlling interests

The prudential filters of CET 1 consist of the following elements:

- cash flow hedges
- gains or losses from own liabilities evaluated at fair value due to credit rating
- fair value gains or losses arising from its own credit risk correlated to derivative liabilities
- regulatory value adjustments

The deductions from CET 1 consist of:

- intangible assets
- deferred tax assets that are based on future income and that do not derive from temporary differences net of related tax liabilities
- Other negative elements

The impacts on CET 1 resulting from the transitional arrangements must be added to the elements listed above.

2. Additional Tier 1 capital (AT1)

This additional tier 1 capital consists of:

- Paid-in capital (savings shares)
- Share premium on savings shares

- Interest belonging to third parties that can be calculated both under the scheme and as a result of transitional provisions.

The AT1 capital instrument with a nominal value of EUR 160,000,000 previously calculated under temporary provisions was extinguished in the final quarter, being subject to the LME transaction referred to in the Directors' Report.

3. Tier 2 capital (T2)

Tier 2 capital consists of:

- T2 instruments subject to transitional provisions (grandfathering)
- Impacts on T2 due to the transitional arrangements

AT2 also includes the portion of third-party interest eligible for inclusion as a result of transitional provisions

The Upper Tier II subordinated bond loan issued by the Bank and subject to transitional provisions, has the following characteristics:

- nominal value issued: EUR 150,000,000 divided into bonds with a unit par value of EUR 50,000, outstanding securities as at 31.12.2017 for a nominal amount of EUR 135,000,000 and an amount qualifying for inclusion in T2 of EUR 26,837,349;
- rate: 7% p.a. for the first coupon payable on 29 March 2009; subsequently, at a gross annual rate equal to the 3-month Euribor plus 200 basis points (2%) spread.
- maturity: 29.12.2018;
- subordination clause: in the event of winding-up, bondholders will be repaid after all other creditors of the Bank not equally subordinated. If losses for the period result in a reduction of paid-up share capital and reserves to below the minimum regulatory capital requirement for authorised banking activity, amounts relating to capital and accrued interest can be used to offset losses. If operating performance proves negative, the right to payouts may be suspended;
- bond redemption shall be possible only with prior authorisation from the Bank of Italy;

The other subordinated securities calculated as at 31.12.2016 in Tier II Capital expired (Lower Tier II subordinated bond with a nominal value of EUR 20,000,000) or were extinguished during the final quarter, being subject to the LME transaction referred to in the Directors' Report (Lower Tier II subordinated bond with a nominal value of EUR 50,000,000, expiring on 17.09.2020 and Lower Tier subordinated bond with a nominal value of EUR 200,000,000, expiring on 20.12.2020).

B. Quantitative information

	Total 31/12/2017	Total 31/12/2016
A. Common Equity Tier 1 (CET1) prior to the application of prudential filters	2,258,572	2,120,523
o.w. CET1 instruments subject to grandfathering/transitional adjustments	13,852	11,379
B. CET1 prudential filters (+/-)	87,117	80,190
C. CET1 gross of deductions and effects from transitional adjustments (A+/-B)	2,345,689	2,200,713
D. Items to be deducted from CET1	(549,895)	(407,399)
E. Transitional adjustments – Effect on CET1 (+/-), including non-controlling interests subject to transitional adjustments	106,368	149,131
F. Total Common Equity Tier 1 capital (CET1) (C-D+/-E)	1,902,162	1,942,445
G. Additional Tier 1 Capital (AT1) gross of deductions and effects from transitional adjustments	427	96,091
o.w. AT1 instruments subject to grandfathering/transitional adjustments	426	96,000
H. Items to be deducted from AT1	-	-
I. Transitional adjustments – Effect on AT1 (+/-), including qualifying instruments issued by subsidiaries and computable in AT1 due to transitional adjustments	1,575	1,633
L. Total Additional Tier 1 capital (AT1) (G-H+/-I)	2,002	97,724
M. Tier 2 Capital (T2) gross of deductions and effects from transitional adjustments	26,837	316,305
o.w. T2 instruments subject to grandfathering/transitional adjustments	26,837	64,000
N. Items to be deducted from T2	-	-
O. Transitional adjustments – Effect on T2 (+/-), including qualifying instruments issued by subsidiaries and computable in T2 due to transitional adjustments	1,249	1,434
P. Total Tier 2Capital (T2) (M-N+/-O)	28,086	317,739
Q. Total own funds (F+L+P)	1,932,250	2,357,908

Capital losses on debt securities issued by central governments of member countries of the European Union, included in the "Available-for-sale assets" portfolio, amounted to EUR 23 mln. As specified above, these losses have the same treatment as for other losses on debt securities, except as provided for by the national regime. If the option had not been adhered to, CET 1 would have fallen by EUR 2.6 mln, AT1 would have cleared to zero, T2 would have been unchanged; therefore, the overall positive impact on own funds due to this option amounts to EUR 4.6 mln.

2.3 Capital adequacy

A. Qualitative Information

As part of its risk management policies, the Parent Company periodically monitors all risk profiles of its assets as against its capital base. The purpose of the analysis is to check compliance with the capital ratios (Total Capital ratio, Tier 1 ratio, Common equity Tier 1 ratio) both in a current and forward-looking perspective and to prevent possible tensions on unencumbered assets available (capital surplus over minimum requirements to cover risks). The Parent Company's monitoring activity is carried out both from a supervisory point of view and to comply with the RAF (Risk Appetite Framework) indicators approved by the Board of Directors of the Parent Company, which was used to define the target risk/return profile the Group intends to pursue in compliance with its business model and business plan.

B. Quantitative information

Categories/Values	Unweighted amounts		Weighted amounts/ requirements	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
A. RISK ASSETS				
A.1 Credit and counterparty risk	26,395,455	27,376,508	14,291,741	15,915,609
1. Standardised	26,350,540	27,368,814	14,224,368	15,914,070
2. Internal rating-based (IRB) approach (1)				
2.1 Foundation				
2.2 Advanced				
3. Securitisations	44,915	7,694	67,373	1,539
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			1,143,339	1,273,249
B.2 Credit valuation adjustment risk			194	570
B.3 Settlement risk				
B.4 Market risk			148	260
1. Standardised			148	260
2. Internal models				
3. Concentration risk				
B.5 Operational risk			82,693	87,685
1. Foundation approach				
2. Standardised			82,693	87,685
3. Advanced				
B.6 Other calculation elements				
B.7 Total prudential requirements (2)			1,226,374	1,362,302
C. RISK ASSETS AND REGULATORY CAPITAL RATIOS				
C.1 Risk-weighted assets			15,329,671	17,028,774
C.2 Common Equity Tier 1 capital/Risk Weighted Assets (CET1 capital ratio)			12.4%	11.4%
C.3 Tier 1 capital/Risk Weighted Assets (Tier 1 capital ratio)			12.4%	12.0%
C.4 Total Own Funds/Risk Weighted Assets (Total capital ratio)			12.6%	13.8%

(1) Exposures in equity instruments are included.

(2) Basel 3 regulations do not provide for a 25% discount on capital requirements for banks belonging to banking groups.

Capital ratios as at 31 December 2017 were significantly higher than the minimum requirements set out by prevailing regulations:

- Common Equity Tier 1 ratio ("CET1 ratio"): the ratio was 12.4% with respect to a minimum level of 5.75% (4.5% + Capital Conservation Buffer: "CCB" of 1.25%);
- Tier 1 ratio: the ratio was 12.4% with respect to a minimum level of 7.25% (6% + 1.25% of CCB);
- Total Capital Ratio: the ratio was 12.6% with respect to a minimum level of 9.25% (8% + 1.25% of CCB).

For completeness of disclosure, it is pointed out that EU Regulation no.1024 of 15 October 2013 confers specific tasks on the European Central Bank to impose higher additional own funds on supervised entities than the minimum capital requirements set by the prevailing legislation.

As stated above, in its SREP Decision of December 2016, the ECB required the Banca Carige Group for 2017 to maintain a minimum shareholders' equity requirement in terms of Common Equity Tier 1 Ratio (CET1 Ratio) on a consolidated basis of 9% (composed of a minimum coefficient of 4.5%, an additional own funds requirement of 3.25% and a combined buffer requirement of 1.25%). The ECB additionally required the Bank to maintain, on a consolidated basis, a minimum total SREP capital requirement (TSCR) of 11.25%, and specified that it might be reviewed once the amount of non-performing exposures has been reduced; the Bank is also subject to a minimum Overall Capital Requirement (OCR) of 12.50%.

In December 2017, the new SREP Decision was disclosed to the Bank, with which the ECB confirmed the additional own funds requirement for 2017 also for 2018, but with a reduction of the Capital Guidance on the CET1 Ratio which, from 2.25% in 2017, is reduced to 1.55% for 2018. Finally, there was an increase in the phase-in[5] of the Capital Conservation Buffer which increased from 1.25% in 2017 to 1.875% for 2018.

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5 18 update to Banca d'Italia Circular 285/2013

Part G

BUSINESS COMBINATIONS

SECTION 1 – TRANSACTIONS PERFORMED DURING THE YEAR

1.1. Business combinations

During the year, no business combinations, as regulated by IFRS 3, paras 59.a, 60 and 63 were carried out.

Conventionally, this section includes "business combinations between entities under common control", but during the reporting period, no transactions of this type were carried out.

SECTION 2 – TRANSACTIONS PERFORMED AFTER THE END OF THE REPORTING PERIOD

2.1. Business combinations

No business combinations were performed after the end of the reporting period.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

No retrospective adjustments were made after the end of financial year 2017.

Part H

RELATED-PARTY TRANSACTIONS

This section contains information regarding related parties as required by IAS 24 "Related Party Disclosures" and Consob regulations.

This section also supplies information on most significant transactions excluded from the application of procedures set out pursuant to Consob notice no. 17221 of 12 March 2010, in accordance with the provisions set forth by the regulation on transactions with related parties adopted by the Board of Directors of Banca Carige.

1. Information on compensation of Key Management Personnel

1.1 Information on compensation paid to directors, statutory auditors and executives with strategic responsibilities

	31/12/2017
Remuneration for Directors (*)	3,490
Remuneration for Auditors (**)	480
Remuneration for executives with strategic responsibility	2,481
Total	6,451

(*) Remuneration gross of amounts paid to Directors ceasing to be in office on 31/12/2017.
(**) Payments net of VAT and social security contributions for the industry

The amounts indicated refer to compensation paid to directors, statutory auditors and executives with strategic responsibilities of both the Parent Company and other Group companies.

2. Information on related-party transactions

2.1 Relations with shareholders exercising significant influence and investees

RELATIONS WITH SHAREHOLDERS EXERCISING SIGNIFICANT INFLUENCE AND INVESTEES[1] *(EUR/000)*

	Assets	Liabilities	Guarantees and commitments	Income	Expenses	Dividends[2]
Carige shareholders exercising significant influence	6,562	23,354	1,805	203	17,662	-
Companies subject to significant influence	-	21,035	51	11	62	-
TOTAL	6,562	44,389	1,856	214	17,724	-

(1) Relations with subsidiaries included in the scope of consolidation were not taken into account.
(2) The item includes losses for an amount of EUR 17,465 thousand referring to an account closed with Fondazione Cassa di Risparmio di Genova e Imperia.
(3) Dividends collected by companies subject to significant influence netted off in the consolidation process are not shown and Banca Carige did not distribute dividends in 2017.

As regards the Expenses item, the amount reported is mainly composed of the economic effects resulting from the specific transaction, the agreement for which was signed on 21 December 2017 and which, as at the date of approval of these financial statements, is fully executed, with which the Bank has defined all

the aspects of litigation, both current and potential, which emerged in the context of the overall relationships with the transferring entity, Fondazione Carige.
As a result of this transaction, inter alia, Fondazione Carige fully repaid the outstanding debt owed to the Bank and the Bank believes that it has positively defined every potential observation made by the Supervisory Authority regarding the accuracy of the calculation of its equity position.
The economic effects of the transaction are included in these financial statements, as part of the cost item Net Adjustments to Loans.
It should be recalled that Fondazione Carige exclusively pursues purposes of public interest and promotion of the economic development of the areas pertaining thereto (metropolitan city of Genoa and province of Imperia).

2.2 Relations with other related parties

RELATIONS WITH OTHER RELATED PARTIES *(EUR/000)*

Assets	Liabilities	Guarantees and commitments	Income	Expenses	Purchase of assets and provision of services
10,072	24,454	2,665	174	250	1
10,072	24,454	2,665	174	250	1

Other related parties include:

a) “executives with strategic responsibility for the entity".
This refers to those who have the power and responsibility, directly or indirectly, for the management and control of the Bank's activities, including Directors, Statutory Auditors, the Chief Executive Officer and key Managers.

b) "close relatives of one of the parties referred to under item a) above"
This refers to persons who are expected to influence, or be influenced by, the interested party in their relations with the Bank and therefore, by way of example, may include the cohabitant partner and dependents of the interested party or cohabitant partner.

c) “parties controlled by, jointly controlled by or subject to the significant influence of one of the parties referred to under the points a) and b) above or in which such parties hold significant direct or indirect voting rights”.

AMOUNT/% SHARE OF TRANSACTIONS WITH OTHER RELATED PARTIES AS AT 31/12/2017*(EUR/000)*

	Amount of transactions with related parties	Amount of financial statement item	% share
Assets			
Item 70 - Loans to customers	16,634	15,753,934	0.1%
Other assets	-	9,169,299	0.0%
Liabilities			
Item 20 - Due to customers	68,843	12,624,541	0.5%
Other liabilities (1)	-	10,029,843	0.0%
Income Statement			
Item 10 - Interest income	294	464,312	0.1%
Item 20 - Interest expense	(457)	(230,699)	0.2%
Other positive items in the income statement	94	707,788	0.0%
Other negative items in the income statement (2)	(17,518)	(1,504,049)	1.2%

(1) The % share is calculated on 'other liabilities', except for those referring to the shareholders' equity.
(2) The % share is calculated on 'other negative items', except for value adjustments on goodwill, taxes and profit attributable to non-controlling interests.

2.3 Most significant transactions

Below is a list of most significant transactions with related parties and connected persons resolved upon during the financial year, all falling under the assumption of exemption from the decision-making process laid down in the Regulation for related parties and connected persons:

- the disposal -to be completed by the end of 2017- of one or more portfolios of eligible residential and commercial mortgage loans - originated or renegotiated by Carige S.p.A. and Banca del Monte di Lucca S.p.A. - for a maximum total nominal amount of EUR 600 mln - to the special-purpose vehicles, Carige Covered Bond S.r.l. and Carige Covered Bond 2 S.r.l., under the scope of the OBG1 and OBG2 issuing programmes, as well as the granting of subordinated debt, in one or more tranches, to the foregoing vehicles by the transferring Bank in connection with each portfolio sold, for a maximum amount equal to the value of the assets sold;
- implementation by subsidiary Creditis Servizi Finanziari S.p.A. of a securitisation for an amount of approximately EUR 140 mln via the disposal of a fifth-of-salary/pension-backed and personal loan portfolio to the special purpose vehicle Lanterna Consumer S.r.l.;
- vesting the Chief Executive Officer with the power to determine, define, negotiate and sign -in the name and on behalf of Banca CARIGE S.p.A.- all documents, deeds, certificates, modifying agreements and/or contracts which should become necessary and/or appropriate with regard to the EMTN, OBG1, OBG2 and OBG3 programmes, including the granting of credit lines and the disposal of one or more portfolios of eligible loans.

  Under this mandate, the following transactions were completed during the second quarter:

  - the disposal to Carige Covered Bond S.r.l, by Banca Carige S.p.A. and Banca del Monte di Lucca S.p.A., of additional eligible assets, pursuant to the Ministry for Economy and Finance Decree no. 310 of 14/6/ 2006, consisting in residential and/or commercial mortgage loans for a total amount of EUR 203 mln as part of the OBG3 covered bond issuance programme;
  - granting to Carige Covered Bond S.r.l., by Banca Carige S.p.A. and Banca del Monte di Lucca S.p.A., of lines of liquidity for the purchase of the above-mentioned assets;
  - the disposal to Carige Covered Bond S.r.l, by Banca Carige S.p.A. and Banca del Monte di Lucca S.p.A., of additional eligible assets, pursuant to the Ministry for Economy and Finance Decree no. 310 of 14/6/ 2006, consisting in residential and/or commercial mortgage loans for a total amount of EUR 35 mln as part of the OBG2 covered bond issuance programme.

Part I

SHARE-BASED PAYMENTS

A. Qualitative Information

1. Description of share-based payment agreements

The Remuneration Policies of the CARIGE Group for 2017, last approved by the Ordinary Shareholders' Meeting of the Parent Company, Banca Carige S.p.A., on 28 March 2017, define the structure of the variable component for the different personnel categories of the Group Banks, providing for the use of incentives for the Banca Carige S.p.a. Group’s Identified Staff, paid in part up-front and in part deferred in cash and financial instruments (shares and/or other instruments linked to the value of shares).
During 2017, no group-wide incentive scheme was established and therefore no financial instruments (shares and/or other instruments linked to the value of the Parent Company shares) were assigned during the year to any potential recipient of the aforementioned scheme.

B. Quantitative information

1. Other information

There are no remaining deferred shares of incentives schemes for prior periods.

Part L

SEGMENT REPORTING

In accordance with the "management approach" defined by IFRS 8, the Carige Group has identified as its main operating segments the customer segments selected according to the customer segmentation approach used by the Group.
In line with the introduction above and in connection with the Group’s distribution and management model, the business units identified are:

- the Retail segment, reflecting information on customers who have been segmented as retail consumers and who are classified as Mass Market, Affluent or Private banking customers; this segment includes data and figures from Centro Fiduciario;
- the Corporate segment, which includes customers segmented as legal persons and belonging to the Large Corporate, Corporate, Public Institutions and Small Business categories;
- the Corporate Centre, including both the ancillary activities of the Group's vehicle companies and banking activities items not related to corporate customers;
- cancellations, i.e. the intragroup relations treated as intragroup ancillary cancellations or as revenues/costs from external customers.

Creditis results are not shown under P&L and balance sheet items in segment reporting due to the fact that the Company’s accounts were classified as “Assets held for sale” following the application of IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”.

In 2017, the customer segments reported the following operating results:

- the Consumer segment’s Net interest and other banking income totalled EUR 235 mln (61.6% of the Group's total); net income from banking and insurance amounted to EUR 222.6 mln and operating expenses came to EUR 431.4 mln (68.9% of the Group's total). These values are reflected in a loss from continuing operations of EUR 208.8 mln.
  With regard to volumes, loans to customers stood at EUR 5,226 mln (33.2% of the Group's total), loans to customers totalled EUR 10,211 mln (80.9% of the Group's total); debt securities in issue and financial liabilities designated at fair value through profit and loss amounted to EUR 1,274 mln; indirect funding amounted to EUR 15,067 mln. Overall funding totalled EUR 26,552 mln and accounts for 69.6% of the Group's total.
- the Corporate segment’s Net interest and other banking income totalled EUR 263.2 mln (69% of the Group’s total), income from banking and insurance activities amounted to EUR -147.7 mln and operating expenses came to EUR 171.1 mln (27.3% of the Group’s total): these figures are expressive of a loss from continuing operations of EUR 318.8 mln.
  From a funding/lending volumes standpoint, loans to customers amounted to EUR 10,081 mln (64% of the Group's total), loans to customers totalled EUR 2,379 mln (18.8% of the Group's total), debt securities issued amounted to EUR 40 thousand and indirect funding amounted to EUR 6,225 mln and is mostly traceable to relationships with the insurance companies, Amissima Vita and Amissima Assicurazioni. Overall funding totalled EUR 8,644 mln and accounts for 22.7% of the Group's total.

  The Corporate Centre reported a EUR 41.7 mln operating loss in 2017, whereas funding/lending volumes were affected by the reduction in repurchase agreements (loans to customers) and institutional bonds (debt securities issued).

Customer segments (EUR/000)

	Consumer	Corporate	Corporate Center	Cancellations	Total consolidated
Net interest and other banking income					
12 months 2017	235,047	263,214	-86,734	-30,195	381,332
12 months 2016 (1)	247,565	302,659	52,555	-29,492	573,287
Net income from banking and insurance activities(2)					
12 months 2017	222,607	-147,696	-16,917	-20,138	37,856
12 months 2016 (1)	218,153	-121,761	-29,648	25,131	91,875
Operating expenses					
12 months 2017	-431,423	-171,080	-24,737	666	-626,574
12 months 2016 (1)	-384,632	-146,076	-25,448	602	-555,554
Profit (loss) from continuing operations					
12 months 2017	-208,816	-318,776	-41,654	-19,472	-588,718
12 months 2016 (1)	-166,479	-267,837	-55,096	25,733	-463,679
Loans to customers					
31/12/2017	5,225,855	10,081,432	1,283,682	-837,035	15,753,934
31/12/2016 (3)	5,590,614	11,768,679	934,441	-572,413	17,721,321
Due to customers					
31/12/2017	10,210,587	2,378,950	151,679	-116,675	12,624,541
31/12/2016 (3)	11,103,923	2,208,327	575,235	-177,277	13,710,208
Securities issued and financial liabilities designated at fair value through profit					
31/12/2017	1,274,460	40,120	2,886,937	32,771	4,234,288
31/12/2016 (3)	2,195,012	80,050	3,398,449	4,461	5,677,972
Other financial assets					
31/12/2017	15,066,949	6,225,190	0	0	21,292,139
31/12/2016 (3)	15,114,305	6,373,569	0	0	21,487,874
Overall funding					
31/12/2017	26,551,996	8,644,260	3,038,616	-83,904	38,150,968
31/12/2016 (3)	28,413,240	8,661,946	3,973,684	-172,816	40,876,054

(1) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

(2) Including gains (losses) on equity investments, disposal of investments and impairment of goodwill.

(3) Figures restated to take account of changes made to groups of assets held for sale.

Customer segments (of total)

	Consumer	Corporate	Corporate Center	Cancellations	Total consolidated
Net interest and other banking income					
12 months 2017	61.6	69.0	-22.7	-7.9	100.0
12 months 2016 (1)	43.2	52.8	9.1	-5.1	100.0
Net income from banking and insurance activities (2)					
12 months 2017	588.0	-390.2	-44.6	-53.2	100.0
12 months 2016 (1)	237.4	-132.5	-32.3	27.4	100.0
Operating expenses					
12 months 2017	68.9	27.3	3.9	-0.1	100.0
12 months 2016 (1)	69.2	26.3	4.6	-0.1	100.0
Profit (loss) from continuing operations					
12 months 2017	35.5	54.1	7.1	3.3	100.0
12 months 2016 (1)	35.9	57.8	11.8	-5.5	100.0
Loans to customers					
31/12/2017	33.2	64.0	8.1	-5.3	100.0
31/12/2016 (3)	31.5	66.4	5.3	-3.2	100.0
Due to customers					
31/12/2017	80.9	18.8	1.2	-0.9	100.0
31/12/2016 (3)	81.0	16.1	4.2	-1.3	100.0
Securities issued and financial liabilities designated at fair value through profit					
31/12/2017	30.1	0.9	68.2	0.8	100.0
31/12/2016 (3)	38.7	1.4	59.8	0.1	100.0
Other financial assets					
31/12/2017	70.8	29.2	0.0	0.0	100.0
31/12/2016 (3)	70.3	29.7	0.0	0.0	100.0
Overall funding					
31/12/2017	69.6	22.7	7.9	-0.2	100.0
31/12/2016 (3)	69.5	21.2	9.7	-0.4	100.0

(1) As shown in the paragraph "Accounting policies" of the Explanatory Notes, balances as at 31/12/2016 reflect, with respect to those published, changes resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations".

(2) Including gains (losses) on equity investments, disposal of investments and impairment of goodwill.

(3) Figures restated to take account of changes made to groups of assets held for sale.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

Certification of the consolidated financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions

1. The undersigned Paolo Fiorentino, in his capacity as Chief Executive Officer, and Mauro Mangani, in his capacity as Manager responsible for preparing the Company's financial reports, of Banca CARIGE S.p.A., certify, taking also into consideration Article 154-bis, paragraphs 3 and 4, of the Italian Legislative Decree no. 58 of 24 February 1998:
   - the adequacy in relation to the Company's features and
   - the actual application,

   of the administrative and accounting procedures put in place for preparing the consolidated financial statements during the year 2017.

2. The assessment of the adequacy of the administrative and accounting procedures put in place for preparing the consolidated financial statements as at 31 December 2017 is based on a Model defined by Banca CARIGE S.p.A. consistently with the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents the international commonly accepted standard for internal control system.

3. The undersigned also certify that:

   3.1 the consolidated financial statements:

   a. have been drawn up in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation no. 1606/2002 of 19 July 2002;

   b. correspond to the results of the accounting books and records;

   c. are suitable to provide a true and correct representation of the assets and liabilities and of the economic and financial situation of the issuer and of the group of companies included in the scope of consolidation.

   3.2 The report on operations contains a reliable analysis of the trend and operating results, as well as the situation of the issuer and of the group of companies included in the scope of consolidation, together with a description of the main risks and uncertainties that they face.

Genoa, 6 March 2018

Chief Executive Officer	Manager responsible for preparing the Company's financial reports
Paolo Fiorentino	Mauro Mangani

This document has been translated into the English language solely for the convenience of international readers. It has been signed on the Italian original version.

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Banca Carige S.p.A.
Cassa di Risparmio di Genova e Imperia

Consolidated financial statements at 31 December 2017

Independent auditor’s report in accordance with
article 14 of Legislative Decree n. 39, dated 27 January 2010
and article 10 of EU Regulation n. 537/2014

EY S.p.A.
Via XX Settembre, 42
16121 Genova

Tel: +39 010 5308111
Fax: +39 010 588636
ey.com

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Banca Carige S.p.A. – Cassa di Risparmio di Genova e Imperia

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Banca Carige Group (the "Group"), which comprise the balance sheet at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended and the related explanatory notes.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at 31 December 2017, and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued to implement article 9 of Legislative Decree n. 38, dated 28 February 2005 and article 43 of Legislative Decree n. 136, dated 18 August 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are described in detail in the section *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* of this report. We are independent of the Banca Carige S.p.A. - Cassa di Risparmio di Genova e Imperia pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without modifying our conclusions, we draw attention to the disclosure provided by the directors in the report on operations and in paragraph "Going concern" of the explanatory notes with reference to the approval by the Board of Directors of the 2017-2020 Business Plan, to the capital strengthening measures and to the liability management exercise already completed and to the further actions in course of execution.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
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Key Audit Matters

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

We identified the following key audit matters:

Key audit matters	Audit responses
Capital strengthening measures and related actions	
The 2017-2020 Business Plan, approved by the Board of Directors on 13 September 2017, sets out a series of actions aimed to the capital strengthening, the improvement of asset quality and the intervention on the structural components of the operating costs, which, in the financial year ended at 31 December 2017, included in summary: · the capital increase for approximately euro 544 million, completed in December 2017, which resulted in an increase in consolidated shareholders' equity of approximately euro 507 million; · the liability management exercise, which implied, as a whole, the cancellation of subordinated notes for a nominal amount of euro 510 million, the issue of new notes for a nominal amount of approximately euro 189 million, the conversion of notes into shares for an amount of approximately euro 46 million (included in the capital increase of approximately euro 544 million), the recognition of the profit on the repurchase of financial liabilities of approximately euro 222 million and the cash payment for the notes not settled through the issue of new securities; · the disposals of a prestigious building located in Milan, with an impact in the consolidated income statement, reported in the line item profits on disposal of investments, of approximately euro 85 million;	With reference to this matter, the audit procedures performed included, among others: · the analysis of the documentation concerning the significant 2017 transactions; · the analysis of the accounting treatment of the effects of the above significant transactions in accordance with applicable International Financial Reporting Standards; · the analysis of the elements considered by the directors with reference to the Group's ability to continue as a going concern, also considering the effects of these significant transactions on the Group capital position; · the analysis of the adequacy of the disclosure in the explanatory notes.

Key audit matters	Audit responses
· the disposal through a securitization transaction, applying the Italian Government guarantee scheme (GACS) and in line with the 2016-2020 Business Plan, of a portfolio of non performing loans for a gross amount of approximately euro 940 million and the sale of an additional portfolio of non performing loans for a gross amount of approximately euro 1.2 billion. The income effects of the disposal of such portfolios, amounting to approximately euro 308 million, are reported in the consolidated income statement in the line item losses on disposal of loans; · the conclusion of the agreement with the trade unions for the application of the solidarity allowance mechanism for the banking sector ("*Fondo di Solidarietà*") with an estimated effect of approximately euro 50 million provided for in the allowances for risks and charges. The above described transactions constituted a key audit matter since the relevant financial effects for their completion were significant to the consolidated financial statements as a whole. The disclosure of the effects of the above described transactions and of their compliance with the capital requirements as required by the ECB in the SREP Decision of December 2016 is included in the report on operations and in the specific sections of the explanatory notes with reference to each relevant line item of the consolidated financial statements.	
Classification and valuation of loans to customers	
Loans to customers, reported in line 70 of the consolidated balance sheet, amount to approximately euro 15.8 billion at 31 December 2017 and represent approximately 63% of total consolidated assets. The guidance for the classification of loans to customers in the different risk categories and the guidance for the application of their analytical or collective valuation are described in the accounting policies included in section A of the explanatory notes.	With reference to this matter, the audit procedures performed included, among others: · the understanding of the Group policies, processes and controls with reference to the classification and valuation of loans to customers and compliance procedures on the identified key controls; · substantive procedures on a sample basis to verify the proper classification and

Key audit matters	Audit responses
This financial statement item is a relevant matter for the audit because the amount is significant to the financial statements taken as a whole and the value of the provision is quantified through the use of estimates characterized by high level of subjectivity, principally for i) the identification of the evidence of impairment indicators of the loans, ii) the realization value of guarantees, iii) the calculation of the expected future cash flows and the related timing of recovery, iv) the definition of homogeneous loan categories in terms of credit risk and v) the determination of probability of default and the relevant loss estimate, on the basis of the historical observation of data for each risk category.	valuation of loans to customers, through the analysis of i) existence of the evidence of impairment indicators, ii) the realization value of guarantees, iii) the expected future cash flows and the related timing of recovery; · the understanding of the methodology, used for the collective loan valuation, approved by the involved Group functions; these procedures were performed with the support of risk management experts, and included the reasonableness analysis of the assumptions used for the loss estimate; · for each risk category, a comparative analysis of the portfolios of loans to customers and the relevant coverage percentages through comparison with prior years and market data and discussion with management of the variances considered most relevant; · the analysis of the adequacy of the disclosure in the explanatory notes.
Recoverability of deferred tax assets	
Deferred tax assets (DTA), reported in line 140 of the consolidated balance sheet, amount to approximately euro 1,156 million at 31 December 2017. The amount is composed as follows: · approximately euro 528 million for DTA related to loan provisions and goodwill, for which the recovery process is regulated by the transformability regime into tax credit in accordance with Law n. 214/2011 and, given the applicable law content, do not present recoverability risk; · approximately euro 628 million for DTA related to losses and other deductible temporary differences which are not attributable to the above mentioned Law n. 214/2011 (“non-convertible DTA”). With reference to the latter, the recoverability assessment (probability test), required by International Accounting Standard IAS 12, is a relevant matter for the audit because the amount is significant to the financial statements taken as a whole and because the	With reference to this matter, the audit procedures performed included, among others: · the understanding of the processes and controls established by the Group with the support of their external advisors with reference to the execution of the DTA recovery probability test; · the analysis, also with the support of valuation and quantitative experts, of i) the reasonableness of the model, the assumptions and parameters adopted by the Group to develop the probability test, considering the applicable tax rules, ii) the 2017-2020 Business Plan and iii) the long-term hypothesis; · substantive procedures on the completeness of data and on the accuracy of the computations made to determine the expected taxable incomes; · the analysis of the adequacy of the disclosure in the explanatory notes.

Key audit matters	Audit responses
recoverability assessment is based on a model which requires the use of assumptions and estimates with a high level of subjectivity. Among these are particularly relevant: · the determination of the taxable incomes, which are expected to occur in the timeframe considered for the recovery of the DTA on the basis of the business plan and other hypothesis adopted by the directors with regard to the future projections, the growth rates assumed and their probability of occurrence; · the extension of the foreseeable timeframe for the DTA recovery. The Group includes in section “Tax assets and tax liabilities – Item 140 (Assets) and item 80 (Liabilities)” of Part B of the explanatory notes, the description of the process finalized to verify the existence of the conditions for the recognition of the deferred tax assets as required by International Accounting Standard IAS 12, particularly with reference to the hypothesis and probabilistic scenarios and to the timeframe of occurrence of the expected taxable incomes on which is based the recoverability of the non-convertible DTA.	

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

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing Article 9 of Legislative Decree n. 38, dated 28 February 2005, and with Article 43 of Legislative Decree n. 136, dated 18 August 2015, and, in the terms prescribed by law, for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group’s ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the application of the going concern assumption, and for appropriate disclosure thereof. The directors prepare consolidated financial statements on a going concern basis unless they either intend to liquidate the parent company Banca Carige S.p.A. – Cassa di Risparmio di Genova e Imperia or to cease trading, or have no realistic alternative but to do so.

The Board of Statutory Auditors is responsible, in the terms provided by the law, for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgment and maintained professional skepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’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 consolidated financial statements or, if such disclosures are inadequate, to evaluate that circumstance while forming 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 Group to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in such a manner to give a fair view;
- we obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, as properly identified in accordance with 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 provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated to them any circumstances that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to those charged with governance, we identified those that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We described these matters in our auditor's report.

Other Information Pursuant to article n. 10 of EU Regulation n. 537/2014

The Shareholders meeting of Banca Carige S.p.A. - Cassa di Risparmio di Genova e Imperia held on 29 April 2011 engaged us to perform the audit of the separate and consolidated financial statements for the years ending from 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, par. 1, of EU Regulation n. 537/2014, and that we remained independent of the Banca Carige S.p.A. - Cassa di Risparmio di Genova e Imperia in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the Board of Statutory Auditors, in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on Other Legal and Regulatory Requirements

Opinion pursuant to article 14, par. 2, subpar. e), of Legislative Decree 27 January 2010 n. 39 and to article 123-bis, par.4, of Legislative Decree 24 February 1998, n.58

The directors of Banca Carige S.p.A. - Cassa di Risparmio di Genova e Imperia are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Banca Carige S.p.A. - Cassa di Risparmio di Genova e Imperia at 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) n. 720B, in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on the corporate governance and ownership structure referred in article 123-bis, par. 4, of Legislative Decree 24 February 1998, n. 58, with the consolidated financial statements of the Banca Carige Group at 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on the corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Banca Carige Group at 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, par. 2, subpar. e), of Legislative Decree 27 January 2010 n. 39, issued on the basis of our knowledge and understanding of the entity and its environment obtained in the course of the audit, we have nothing to report.

Certification pursuant to article 4 of Consob Regulation of Implementation of Legislative Decree 30 December 2016, n. 254

The directors of Banca Carige S.p.A. - Cassa di Risparmio di Genova e Imperia are responsible for the preparation of the non-financial information disclosure in accordance with the Legislative Decree 30 December 2016 n. 254. We have verified the approval by the directors of the non-financial information disclosure.

Pursuant to article 3, par. 10, of the Legislative Decree December 30 2016, n. 254, the non-financial information disclosure is subject to a separate report issued by us.

Genoa, 7 March 2018

EY S.p.A.
Signed by: Guido Celona, Partner

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

ANNEXES

Country-by-Country Reporting

GRUPPO BANCA CARIGE S.P.A.

Information pursuant to sub-sections a), b) and c) of Annex A to Part 1, Title III, Chapter 2 of Bank of Italy's Circular no. 285 of 17 December 2013.

Situation as at 31 December 2017

Sub-section a) - legal form and structure of established companies and nature of business activity

	Country of establishment		Summary description of key business activities
	Italy	France	
Banks			
BANCA CARIGE S.P.A. - CASSA DI RISPARMIO DI GENOVA E IMPERIA - Capogruppo	X	X	Funding and lending via a network of branches, trading for third parties, receipt and transmission of orders, placement of financial instruments, payments and settlements, asset custody/management
BANCA DEL MONTE DI LUCCA S.P.A.	X		Funding and lending via a network of branches, trading for third parties, receipt and transmission of orders, placement of financial instruments, payments and settlements, asset custody/management
BANCA CESARE PONTI S.P.A.	X		Funding and lending via a network of branches, trading for third parties, receipt and transmission of orders, placement of financial instruments, payments and settlements, asset custody/management
Financial companies			
CREDITIS SERVIZI FINANZIARI S.P.A.	X		Consumer lending
ARGO MORTGAGE 2 S.R.L.	X		Securitisation of receivables under Law no. 130/1999
CARIGE COVERED BOND S.R.L.	X		Bank-bond guarantees under Law no. 130/1999
CARIGE COVERED BOND 2 S.R.L.	X		Bank-bond guarantees under Law no. 130/1999
LANTERNA FINANCE S.R.L.	X		Special-purpose vehicle for self-securitisations
LANTERNA LEASE S.R.L.	X		Securitisation of receivables under Law no. 130/1999
LANTERNA CONSUMER S.R.L	X		Securitisation of receivables under Law no. 130/1999
Trust companies			
CENTRO FIDUCIARIO CF spa	X		Fiduciary custody activities
Other companies			
CARIGE REOCO S.P.A.	X		Real estate activities ancillary to the Group's business

Sub-section b) - BANCA CARIGE GROUP turnover broken down by Country of establishment and business activity (Net interest and other banking income as per Item 120 of the Income Statement, in EUR/000)

	Country of establishment			
	Italy	France	Value adjustments and cancellations	TOTAL
Banks	410,504	439		410,943
Financial companies	-9			-9
Trust companies	594			594
Other companies	-1			-1
Value adjustments and cancellations			-30,195	-30,195
T O T A L	411,088	439	-30,195	381,332

Sub-section c) - Number of FTEs

	Country of establishment		
	Italy	France	TOTAL
No. of employees	4,526	5	4,531

Letter d) - BANCA CARIGE Group profit (loss) before tax broken down by Country of establishment and business activity (sum of items 280 and 310, the latter before tax, of the Income Statement, in EUR/000)

	Country of establishment			
	Italy	France	Value adjustments and cancellations	TOTAL
Banks	-566,082	-2,946		-569,028
Financial companies	25,270			25,270
Trust companies	62			62
Other companies	-185			-185
Value adjustments and cancellations			-10,265	-10,265
TOTAL	-540,935	-2,946	-10,265	-554,146

Letter e) - Tax on profit or loss of the BANCA CARIGE Group, broken down by Country of establishment and business activity (sum of taxes referred to under item 290 of the Consolidated Income Statement and income taxes on groups of assets held for sale, in EUR/000)

	Country of establishment			
	Italy	France	Value adjustments and cancellations	TOTAL
Banks	169,032			169,032
Financial companies	-8,502			-8,502
Trust companies	-6			-6
Other companies	45			45
Value adjustments and cancellations			213	213
TOTAL	160,569		213	160,782

Disclosure pursuant to art. 149-*duodecies* of the Consob Issuers' Regulation

This table reports the fees for the year 2017 relating to auditing services and services other than auditing provided by the independent auditing firm Reconta EY S.p.A. and/or entities belonging to the auditing firm's network.

Type of services	Service provider	User of the service	Remuneration (EUR/000)
Auditing	EY S.p.A.	Banca Carige S.p.A.	491
Auditing	EY S.p.A.	Other Group companies	340
Certification	EY S.p.A.	Banca Carige S.p.A.	173
Certification	EY S.p.A.	Other Group companies	24
Services relating to the share capital increase	EY S.p.A.	Banca Carige S.p.A.	1,140
Other services	Ernst & Young Financial Business Advisory S.p.A.	Banca Carige S.p.A.	104
Total			2,272

(*)Fees net of VAT and out-of-pocket expenses

List of IAS/IFRS standards endorsed by the European Commission as at 31.12.2017

1) International accounting standards (IAS/IFRS)

IAS/IFRS	DESCRIPTION	ENDORSING EC REGULATION (Date of publication in the Official Journal of the European Community)
Framework (1)	Framework	
IAS 1	Presentation of Financial Statements	Reg. 1274/2008 (18/12/2008); Reg. 53 (22/01/2009), Reg. 70 (24/01/2009), Reg. 494 (12/06/2009), Reg. 243/2010 (24/03/2010); Reg. 149/2011 (19/02/2011); Reg. 475/2012 (06/06/2012); Reg. 301/2013 (28/03/2013); Reg. 1255/2012 (29/12/2012); Reg. 2113/2015 (24/11/2015); Reg. 2406/2015 (19/12/2015); Reg. 2067/2016 (29/11/2016), Reg. 2016/1905 (22/09/2016)
IAS 2	Inventories	Reg. 1126/2008 (29/11/2008), Reg. 70 (24/01/2009); Reg. 1255/2012 (29/12/2012); Reg. 2067/2016 (29/11/2016), Reg. 2016/1905 (22/09/2016)
IAS 7	Statement of Cash Flows	Reg. 1126/2008 (29/11/2008), Reg. 1260 (17/12/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 494/2009 (12/06/2009); Reg. 243/2010 (24/03/2010); (EU) Reg. 1174/2013 (20/11/2013); (EU) Reg. 1990/2017 (6/11/2017)
IAS 8	Accounting Policies, Changes in Estimates and Errors	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 1255/2012 (29/12/2012); Reg. 2067/2016 (29/11/2016)
IAS 10	Events after the Reporting Period	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (23/01/2009), Reg. 1142 (27/11/2009); Reg. 1255/2012 (29/12/2012); Reg. 2067/2016 (29/11/2016)
IAS 11	Construction Contracts	Reg. 1126/2008 (29/11/2008), Reg. 1260 (17/12/2008), Reg. 1274 (18/12/2008), Reg. 2016/1905 (22/09/2016)
IAS 12	Income tax	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 495 (12/06/2009); Reg. 1255/2012 (29/12/2012); (EU) Reg. 1174/2013 (20/11/2013); Reg. 2067/2016 (29/11/2016), Reg. 2016/1905 (22/09/2016); (EU) Reg. 1989/2017 (6/11/2017)

IAS 16	Property, Plant and equipment	Reg. 1126/2008 (29/11/2008), Reg. 1260 (17/12/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 495 (12/06/2009); Reg. 1255/2012 (29/12/2012); Reg. 301/2013 (28/03/2013); Reg. 28/2015 (9/01/2015); Reg. 2113/2015 (24/11/2015); Reg. 2231/2015 (03/12/2015), Reg. 2016/1905 (22/09/2016)
IAS 17	Leasing	Reg. 1126/2008 (29/11/2008), Reg. 243/2010 (24/03/2010); Reg. 1255/2012 (29/12/2012); Reg. 2113/2015 (24/11/2015)
IAS 18	Revenue	Reg. 1126/2008 (29/11/2008), Reg. 69 (24/01/2009); Reg. 1255/2012 (29/12/2012); Reg. 2016/1905 (22/09/2016)
IAS 19	Employee Benefits	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 475/2012 (06/06/2012); Reg. 1255/2012 (29/12/2012); Reg. 29/2015 (09/01/2015); Reg. 2343/2015 (16/12/2015)
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 1255/2012 (29/12/2012); Reg. 2067/2016 (29/11/2016)
IAS 21	The Effects of Changes in Foreign Exchange Rates	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 69 (24/01/2009), Reg. 494 (12/06/2009); Reg. 149/2011 (19/02/2011); Reg. 1255/2012 (29/12/2012); Reg. 2067/2016 (29/11/2016); Reg. 2067/2016 (29/11/2016)
IAS 23	Financial charges	Reg. 1260 (17/12/2008), Reg. 70/2009 (24/01/2009); Reg. 2113/2015 (24/11/2015); Reg. 2067/2016 (29/11/2016)
IAS 24	Related Party Disclosures	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 632/2010 (20/07/2010); (EU) Reg. 1174/2013 (20/11/2013); Reg. 28/2015 (9/01/2015)
IAS 26	Accounting and Reporting by Retirement Benefit Plans	Reg. 1126/2008 (29/11/2008)
IAS 27	Separate Financial Statements	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 69/2009 (24/01/2009), Reg. 70/2009 (24/01/2009), Reg. 494/2009 (12/06/2009); Reg. 1254/2012 (29/12/2012); Reg. 1174/2013 (21/11/2013); Reg. 2441/2015 (18/12/2015)
IAS 28	Investments in Associates and Joint Ventures	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009), Reg. 494 (12/06/2009), Reg. 495 (12/06/2009); Reg. 149/2011 (19/02/2011); (EU) Reg. 1254/2012 (29/12/2012); (EU) Reg. 1255/2012 (29/12/2012); (EU) Reg. 2441/2015 (18/12/2015); (EU) Reg. 1703/2016 (22/09/2016); (EU) Reg. 2067/2016 (29/11/2016); (EU) Reg. 2067/2016 (29/11/2016)

IAS 29	Financial Reporting in Hyperinflationary Economies	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009)

IAS 32	Financial instruments: presentation	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 53/2009 (22/01/2009), Reg. 70/2009 (24/01/2009), Reg. 494 (12/06/2009), Reg. 495 (12/06/2009), Reg. 1293/2009 (24/12/2009); Reg. 149/2011 (19/02/2011); Reg. 1255/2012 (29/12/2012); Reg. 1256/2012 (29/12/2012); Reg. 301/2013 (28/03/2013); (EU) Reg. 1174/2013 (20/11/2013); Reg. 2067/2016 (29/11/2016), Reg. 2016/1905 (22/09/2016)
IAS 33	Earnings per Share	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 494 (12/06/2009), Reg. 495 (12/06/2009); Reg. 1255/2012 (29/12/2012); Reg. 2067/2016 (29/11/2016)
IAS 34	Interim Financial Reporting	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009), Reg. 495 (12/06/2009); Reg. 149/2011 (19/02/2011); Reg. 1255/2012 (29/12/2012); Reg. 301/2013 (28/03/2013); (EU) Reg. 1174/2013 (20/11/2013); Reg. 2343/2015 (16/12/2015); (EU) Reg. 2406/2015 (19/12/2015), Reg. 2016/1905 (22/09/2016)
IAS 36	Impairment of Assets	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 69/2009 (24/01/2009), Reg. 70/2009 (24/01/2009), Reg. 495 (12/06/2009), Reg. 243/2010 (24/03/2010); Reg. 1255/2012 (29/12/2012); Reg. 1374/2013 (20.12.2013); Reg. 2113/2015 (24/11/2015); Reg. 2067/2016 (29/11/2016), Reg. 2016/1905 (22/09/2016)
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 495 (12/06/2009); Reg. 28/2015 (09/01/2015); Reg. 2067/2016 (29/11/2016), Reg. 2016/1905 (22/09/2016)
IAS 38	Intangible assets	Reg. 1126/2008 (29/11/2008), Reg. 1260 (17/12/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009), Reg. 495 (12/06/2009), Reg. 243/2010 (24/03/2010); Reg. 1255/2012 (29/12/2012); Reg. 28/2015 (09/01/2015); Reg. 2231/2015 (03/12/2015), Reg. 2016/1905 (22/09/2016)
IAS 39	Financial Instruments: recognition and measurement	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 53 (22/01/2009), Reg. 70 (24/01/2009); Reg. 494 (12/06/2009), Reg. 495 (12/06/2009), Reg. 824/2009 (10/09/2009); Reg. 839/2009 (16/09/2009); Reg. 1171/2009 (01/12/2009); Reg. 243/2010 (24/03/2010); Reg. 149/2011 (19/02/2011); Reg. 1255/2012 (29/12/2012); (EU) Reg. 1174/2013 (20/11/2013); Reg. 1375/2013 (20/12/2014); Reg. 28/2015 (09/01/2015); Reg. 2343/2015 (16/12/2015); Reg. 2067/2016 (29/11/2016), Reg. 2016/1905

		(22/09/2016)
IAS 40	Investment Property	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 1255/2012 (29/12/2012); Reg. 1361/2014 (18/12/2014); Reg. 2113/2015 (23/11/2015), Reg. 2016/1905 (22/09/2016)

IAS 41	Agriculture	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 1255/2012 (29/12/2012); Reg. 2113/2015 (24/11/2015)
IFRS 1	First-time Adoption of International Financial Reporting Standards	Reg. 1126/2008 (29/11/2008), Reg. 1260 (17/12/2008), Reg. 1274 (18/12/2008), Reg. 69 (24/01/2009), Reg. 70 (24/01/2009), Reg. 254 (26/03/2009), Reg. 494 (12/06/2009), Reg. 495 (12/06/2009), Reg. 1136 (26/11/2009), Reg. 1164 (01/12/2009), Reg. 550/2010 (24/06/2010), Reg. 574/2010 (01/07/2010), Reg. 662/2010 (24/07/2010); Reg. 149/2011 (19/02/2011); Reg. 1255/2012 (29/12/2012), Reg. 183/2013 (05/03/2013), Reg. 301/2013 (28/03/2013), Reg. 313/2013 (04/04/2013); (EU) Reg. 1174/2013 (20/11/2013); Reg. 2173/2015 (25/11/2015); Reg. 2343/2015 (16/12/2015); Reg. 2441/2015 (18/12/2015); Reg. 2067/2016 (29/11/2016), Reg. 2016/1905 (22/09/2016)
IFRS 2	Share-based Payment	Reg. 1126/2008 (29/11/2008), Reg. 1261 (17/12/2008), Reg. 495 (12/06/2009), Reg. 243/2010 (24/03/2010); (EU) Reg. 244/2010 (24/03/2010); (EU) Reg. 1255/2012 (29/12/2012); (EU) Reg. 28/2015 (09/01/2015); (EU) Reg. 2067/2016 (29/11/2016)
IFRS 3	Business Combinations	Reg. 1126/2008 (29/11/2008), Reg. 495/2009 (12/06/2009); Reg. 149/2011 (19/02/2011); Reg. 1255/2012 (29/12/2012); (EU) Reg. 1174/2013 (20/11/2013); Reg. 1361/2014 (18/12/2014); Reg. 28/2015 (09/01/2015); Reg. 2067/2016 (29/11/2016), Reg. 2016/1905 (22/09/2016)
IFRS 4	Insurance Contracts	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 494/2009 (12/06/2009), Reg. 1165/2009 (01/12/2009); Reg. 1255/2012 (29/12/2012); Reg. 2406/2015 (19/12/2015); Reg. 2067/2016 (29/11/2016), Reg. 2016/1905 (22/09/2016); Reg. 2017/1988 (03/11/2017)

IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 494/2009 (12/06/2009), Reg. 1142/2009 (27/11/2009), Reg. 243/2010 (24/03/2010); Reg. 1255/2012 (29/12/2012); Reg. 2343/2015 (16/12/2015); Reg. 2067/2016 (29/11/2016)
IFRS 6	Exploration for and Evaluation of Mineral Resources	Reg. 1126/2008 (29/11/2008); Reg. 1255/2012 (29/12/2012);
IFRS 7	Financial instruments: disclosures	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 53/2009 (22/01/2009), Reg. 70/2009 (24/01/2009), Reg. 495/2009 (12/06/2009), Reg. 824/2009 (10/09/2009); Reg. 1165/2009 (01/12/2009), Reg. 574/2010 (01/07/2010); Reg. 149/2011 (19/02/2011); Reg. 1205/2011 (22/11/2011); Reg. 1256/2012 (29/12/2012); (EU) Reg. 1174/2013 (20/11/2013); Reg. 2343/2015 (16/12/2015); Reg. 2406/2015 (19/12/2015); Reg. 2067/2016 (29/11/2016)

IFRS 8	Operating segments	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 243/2010 (24/03/2010); Reg. 632/2010 (20/07/2010); Reg. 28/2015 (01/01/2015); Reg. 2406/2015 (19/12/2015)
IFRS 10	Consolidated Financial Statements	Reg. 1254/2012 (29/12/2012); Reg. 313/2013 (04/04/2013); Reg. 1174/2013 (21/11/2013); Reg. 2441/2015 (18/12/2015); Reg. 1703/2016 (22/09/2016)
IFRS 9	Financial instruments	Reg. 2016/1905 (22/09/2016); (EU) Reg. 2067/2016 of 22 November 2016 - published on 29/11/2016
IFRS 11	Joint arrangements	Reg. 1254/2012 (29/12/2012); Reg. 313/2013 (04/04/2013); Reg. 2173/2015 (25/11/2015); Reg. 2441/2015 (18/12/2015)
IFRS 12	Disclosure of interests in other entities	Reg. 1254/2012 (29/12/2012); Reg. 313/2013 (04/04/2013); Reg. 1174/2013 (21/11/2013); Reg. 1703/2016 (22/09/2016)
IFRS 13	Fair Value Measurement	Reg. 1255/2012 (29/12/2012); Reg. 1361/2014; Reg. 28/2015 (18/12/2014); Reg. 2067/2016 (29/11/2016)
IFRS 15	Revenue from Contracts with Customers	Reg. 2016/1905 (22/09/2016); Reg. 2017/1987 (31/10/2017)
IFRS 16	Leasing	Reg. 1986/2017 (31/10/2017)

2) Interpretations (SIC/IFRIC)

SIC / IFRIC	DESCRIPTION	ENDORSING EC REGULATION (Date of publication in the Official Journal of the European Community)
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Reg. 1126/2008 (29/11/2008), Reg. 1260/2008 (17/12/2008), Reg. 1274/2008 (18/12/2008)
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	Reg. 1126/2008 (29/11/2008), Reg. 53/2009 (22/01/2009), Reg. 301/2013 (28/03/2013); Reg. 2067/2016 (29/11/2016)
IFRIC 4	Determining Whether an Arrangement Contains a Lease	Reg. 1126/2008 (29/11/2008), Reg. 254/2009 (26/03/2009)
IFRIC 5	Rights arising from interests in Decommissioning, Restoration and Environmental Rehabilitation Funds	Reg. 1126/2008 (29/11/2008); Reg. 2343/2015 (16/12/2015); Reg. 2067/2016 (29/11/2016)

IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Reg. 1126/2008 (29/11/2008)
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008); Reg. 2343/2015 (16/12/2015)
IFRIC 10	Interim Financial Reporting and Impairment	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008); Reg. 2067/2016 (29/11/2016)
IFRIC 12	Service Concession Arrangements	Reg. 254/2009 (26/03/2009); Reg. 2231/2015 (03/12/2015); Reg. 2067/2016 (29/11/2016), Reg. 2016/1905 (22/09/2016)
IFRIC 13	Customer Loyalty Programmes	Reg. 1262/2008 (17/12/2008); Reg. 149/2011 (19/02/2011), Reg. 2016/1905 (22/09/2016)
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Reg. 1263/2008 (17/12/2008); Reg. 1274/2008 (18/12/2008), Reg. 633/2010 (20/07/2010)
IFRIC 15	Agreements for the Construction of Real Estate	Reg. 636/2009 (23/07/2009), Reg. 2016/1905 (22/09/2016)
IFRIC 16	Hedges of Net Investment in a Foreign Operation	Reg. 460/2009 (05/06/2009); Reg. 243/2010 (24/03/2010); Reg. 2067/2016 (29/11/2016)
IFRIC 17	Distributions of Non-cash Assets to Owners	Reg. 1142/2009 (27/11/2009)
IFRIC 18	Transfers of Assets from Customers	Reg. 1164/2009 (01/12/2009), Reg. 2016/1905 (22/09/2016)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Reg. 662/2010 (24/07/2010); Reg. 2067/2016 (29/11/2016)

IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Reg. 1255/2012 (29/12/2012)
IFRIC 21	Levies	Reg. 634/2014 (14/06/2014) (see amendment to Reg. 634 of 08.2014, page 11)
SIC 7	Introduction of the Euro	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 494/2009 (12/06/2009)
SIC 10	Government Assistance – No Specific Relation to Operating Activities	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008)
SIC 15	Operating Leases – Incentives	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008)
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008)
SIC 27	Evaluating the Substance of Transactions in the Legal Form of a Lease	Reg. 1126/2008 (29/11/2008), Reg. 2016/1905 (22/09/2016)
SIC 29	Disclosure – Service Concession Arrangements	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 254/2009 (26/03/2009)
SIC 31	Revenue – Barter Transactions Involving Advertising Services	Reg. 1126/2008 (29/11/2008), Reg. 2016/1905 (22/09/2016)
SIC 32	Intangible Assets – Web Site Costs	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 2016/1905 (22/09/2016)

(1) The framework of the international accounting standards is not an applicable accounting standard and it cannot be used to justify exceptions to the standards adopted.
However, it can be used to interpret and apply existing standards. The objectives of the reference framework include support to the IASB and national accounting standard boards for the development of new standards and the implementation of convergence projects for national and international standards.
In case of conflict between the reference framework and some accounting standards, the international accounting standard shall always prevail.
It is divided into four main sections: a) the objective of the financial statements; b) the qualitative characteristics that determine the usefulness of information in financial statements; c) the definition, recognition and measurement of the elements that form the financial statements; d) concepts of capital and capital conservation.

(2) The IASB Annual Improvements to IFRS 2010-2012 only envisages a change to the Basis for conclusion of IFRS 13 which was not subsequently reported in the endorsing regulation no. 28 2015 (17/12/2014 - published on 9/1/2015).

Note: IFRIC 9 was repealed by EU Reg. 2016/2067 of 22/11/2016, published in the Official Journal of 29/11/2016 (endorsement of IFRS 9).