



BAC BANCA
AGRICOLA
COMMERCIALE
Istituto Bancario Sammarinese

BALANCE SHEET 2016



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Corporate position

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Corporate position

BOARD OF DIRECTORS

Luigi Lonfernini
PRESIDENT

Pier Paolo Fabbri
VICE PRESIDENT

Luca Lorenzi
CHIEF EXECUTIVE OFFICER

COUNCILORS

Giancarlo Protti
Maria Grazia Scapinelli
Emanuele Rossini

STATUTORY AUDITORS

Gian Enrico Casali
PRESIDENT

Alberto Vaglio
AUDITOR

Maria Stefania Gatti
AUDITOR

GENERAL MANAGEMENT

Luca Lorenzi
CHIEF EXECUTIVE OFFICER
AND GENERAL MANAGER

Sandro Spadoni
VICE GENERAL MANAGER



Shareholders' meeting

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Shareholders' meeting

On Friday **05 May 2017** – first meeting at 4.30 p.m. **and second meeting at 5.30 p.m.**, venue: meeting room – BANCA AGRICOLA COMMERCIALE – Istituto Bancario Sammarinese, Via 3 Settembre, 316 – 47891 Dogana, will hold the

SHAREHOLDERS' MEETING

To discuss the following

AGENDA

1. Reports of the Board of Directors and the Board of Auditors; presentation of the financial statements as of 31 December 2016 and relevant decisions;
2. Appointment of the Statutory Auditors for the three-year period 2017-2019;
3. Appointment of the President of the Board of Statutory Auditors for the three-year period 2017-2019;
4. Determination of the Auditors' remuneration;
5. Determination of the amount to be given for charity and humanitarian initiatives;
6. Approval of regulations governing the Shareholders' Meeting.

In accordance with Article 16 of Articles of Association:

"Only shareholders who are registered in the shareholders register at least five days before the date fixed for the first meeting are entitled to attend the meeting."

In accordance with Article 20 of Articles of Association:

"The meeting is duly constituted when it is attended by enough members who represent, in person or by proxy:

- at least 65% of the share capital at first meeting;
- at least 50% of the share capital at second meeting.

At first and second meeting, the Shareholders' Meeting shall decide by a majority vote of the shares represented at the meeting.

-----omissis-----."

San Marino, 11 April 2017

The President of the Board of Directors
Avv. Luigi Lonfernini



Report
of the board
of directors

**Macroeconomic
scenario**

The outcome of the United Kingdom's referendum in June has not significantly affected the global economy so far and growth has kept a moderate pace. According to the latest IMF forecasts¹, the global GDP – which recorded a 3.2% increase in 2015 – should reach +3.1% and +3.4% in 2016 and 2017, respectively (table 1).

Despite a slight improvement in emerging economies, outlooks are still uncertain in the main advanced countries, and the expected growth of international trade has been revised downward once again.

Risks are triggered by geopolitical tensions arising from the conflicts in the Middle East, the threat of terrorism and the concerns that political developments in many advanced countries may lead to forms of protectionism; moreover, global growth could be hampered by new turmoil in emerging economies related to the normalization of the US monetary policy.

Outlooks seem slightly better in emerging countries, while they remain uncertain in the main advanced economies; in the Euro Zone the cyclical expansion continues at a slow pace, restrained by the weakened global demand.

Expectations for the Euro Zone's economy foresee a decrease in its growth rate: compared to the +2.0% increase of the Real GDP in 2015, an increase of +1.7% and +1.5% is envisaged for the years 2016 and 2017, respectively.

The downward adjustment of US growth for the current year (+1.6%) reflects the anyhow humble trend of the GDP in the second quarter; for the year 2017 an increase of +2.2% is expected (anyway less than the 2.6% recorded in 2015).

For emerging economies, whose growth should strengthen up after five years of progressive weakening (against the +4.0% growth recorded in 2015), the IMF forecasts an increase of +4.2% and +4.6% for 2016 and 2017, respectively.

World trade, whose forecasts have been revised downward, is still weak: against +2.6% recorded in 2015, an increase of +2.3% and +3.8% is expected in 2016 and 2017, respectively.

The dynamics of consumer prices in advanced economies are still weak, especially in Japan and the Euro Zone.

More specifically, inflation has risen cautiously in the Euro Zone even if the overall trend does not seem likely to increase and is still cause for concerns.

1. World Economic Outlook, October 2016

In the main emerging economies, price dynamics seemed restrained in China (+1.3%), while it maintained a more sustained pace in India (+5.0%), accordingly with the Central Bank target, and most of all in Brazil and Russia (+9.0% and +6.9%, respectively).

This framework allows for a differentiated trend in the monetary policies of advanced countries, with a more accommodating stance² in Europe, United Kingdom, Japan, China and India, and more restrictive policies in Brazil and Russia.

During the meeting held in December 2016, Federal Reserve increased by +0.25% the rate on federal funds; the labour market strengthening and the expansive politics announced by the new president of the United States suggest further rate increases by the end of 2017.

In the Euro Zone the growth continues at a moderate - albeit gradually strengthening - pace, and deflation risks have been reduced; inflation rose in December and in the first months of 2017, but core inflation still remains low.

In order to preserve proper expansive monetary conditions and to ensure an increase in inflation, the Governing Council of ECB extended the duration of the security purchase program up to at least December 2017 or even more, if necessary.

As of April 2017, monthly purchases are deemed to reach 60 billion once again, just like in the program's early stage.

2. In August, the Bank of England reduced the reference rate from 0.5 to 0.25 per cent to oppose the possible economic slowdown after the Brexit referendum, in addition to having resumed the purchase of public securities and launched a new purchase plan of private bonds (10 billion in the next six months); finally, in order to ease this new monetary trend, the Bank of England set a new medium-term funding scheme in favour of banks which is linked to the amount and the trend of the loans granted to the economy. Taking into account the persistent deflationary pressures, the Bank of Japan carried out an overall evaluation of its own strategy and adopted new measures to control the rates on the various maturities; moreover, in order to meet the expectations, it announced that monetary expansion will continue until inflation has exceeded the 2% target.

The Chinese and Indian Central Banks kept on implementing expansive measures, the first one by pumping liquidity into the system through open market operations, the second one by further cutting down reference rates. In Brazil and Russia, in view of high inflation rates, monetary authorities maintained a restrictive stance.

Macroeconomic scenarios (changes and percent points)	Real GDP			Inflation			Unemployment		
	Forecast			Forecast			Forecast		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
World Trade	2.6	2.3	3.8	...	...	...	...	...	...
USA	2.6	1.6	2.2	0.1	1.2	2.3	5.3	4.9	4.8
Euro Zone	2.0	1.7	1.5	0.0	0.3	1.1	10.9	10.0	9.7
Germany	1.5	1.7	1.4	0.1	0.4	1.5	4.6	4.3	4.5
France	1.3	1.3	1.3	0.1	0.3	1.0	10.4	9.8	9.6
Italy	0.8	0.8	0.9	0.1	-0.1	0.5	11.9	11.5	11.2
Japan	0.5	0.5	0.6	0.8	-0.2	0.5	3.4	3.5	3.5
Great Britain	2.2	1.8	1.1	0.1	0.7	2.5	6.2	5.6	5.5
San Marino	0.5	1.0	1.2	0.1	0.6	0.7	8.4	7.9	7.3
Emerging Countries	4.0	4.2	4.6	4.5	4.4	4.0	...	...	...
China	6.9	6.6	6.2	1.4	2.1	2.3	4.1	4.1	4.1
India	7.6	7.6	7.6	4.9	5.5	5.2	...	...	...
Russia	-3.7	-0.8	1.1	15.5	7.2	5.0	5.6	5.8	5.9
Brazil	-3.8	-3.3	0.5	9.0	9.0	5.4	8.5	11.2	11.5

Fonte: FMI, World Economic Outlook, October 2016

San Marino macroeconomic scenario

As for the Republic of San Marino, both the IMF in the Executive Board Concludes in May 2016³ and the rating agency Fitch⁴ – who downgraded San Marino from BBB+ to BBB with negative outlook in June 2016 – detected two (2) main weak points in the country system: i) the financial system's relatively low capitalization and ii) the high level of non-performing loans

3. IMF Executive Board Concludes 2016 Article IV Consultation with the Republic of San Marino - Press Release No. 16/207 --- "May 10, 2016: On May 6, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of San Marino."

4. LONDON, June 03 (Fitch) Fitch Ratings has downgraded San Marino's Long-term foreign currency Issuer Default Rating (IDR) to 'BBB' from 'BBB+'. The Outlook is Negative. --- Link: <http://www.reuters.com/article/idUSFit960829> -- Markets | Fri Jun 3, 2016 4:02pm EDT

(hereinafter NPLs) for the whole December 2015 equal to 52.6% of total gross loans.

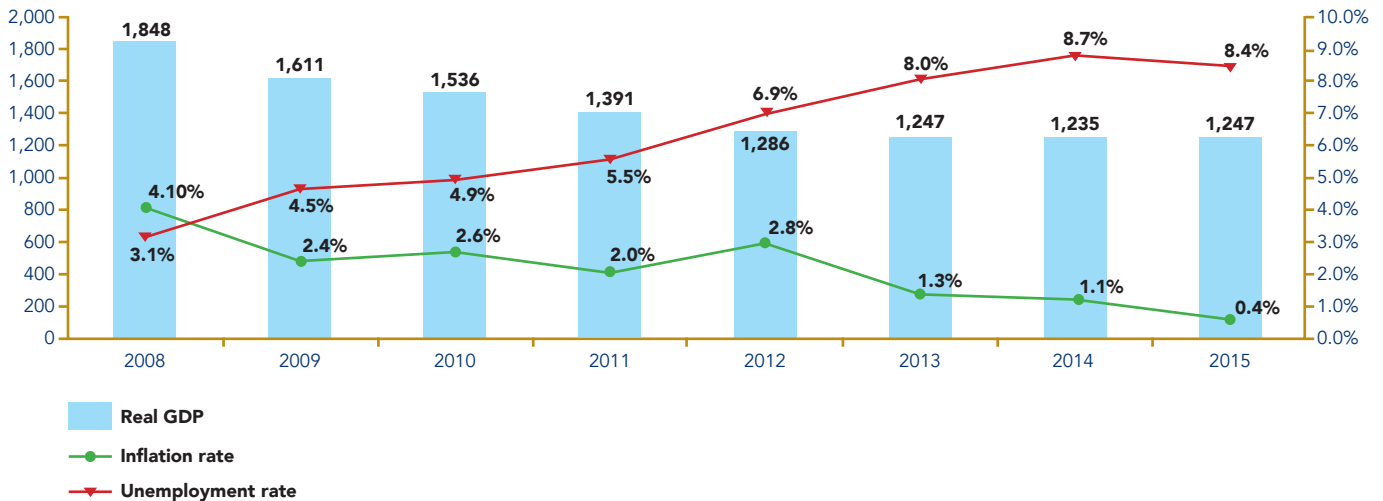
As for NPLs, in November 2016 the Central Bank, with the cooperation of a specialized company, performed an evaluation/review analysis of the asset quality of credit institutions based in San Marino (Asset Quality Review, AQR), whose outcome will be announced in 2017.

According to IMF's statement about its last visit in San Marino (which ended in February 2017), the macroeconomic situation is characterized by a slow recovery and outstanding challenges, including the need to make the Country internationally competitive by means of structural reforms.

Moreover, IMF sees as fundamental AQR's results in order to identify a strategy to solve the NPLs' issue and, more generally, to reorganize the bank sector.

The financial and economic crisis that started in 2007 struck San Marino more severely than the main Euro Zone countries, since it has been related to multiple external stress factors such as: the liquidation of the companies belonging to Gruppo Delta, the several years-long stay of San Marino in the black list of the main economic and commercial partner and the repeated foreign provisions on capital repatriation undermining an economic/financial system which has not been granted access to foreign capital markets so far and thus cannot rely on a "lender of last resort".

For the financial system of San Marino, the impossibility to access – like all other intermediaries being part of the Euro system – the conventional and unconventional measures applied by the ECB results in less flexible active and passive rates. In addition, the further reduction of financing sources induced by the capital repatriation provision (on the liabilities side) and the small size of the reference domestic market (as for loans to customer) should be taken into account.



According to IMF's latest estimates⁵, the steady-priced GDP⁶ in 2015 recorded a +0.5% rise to 1,241 million; this is the first increase since 2008, the year against which the GDP marks an overall contraction equal to -33%; an increase by +1.0% and +1.2% is expected for 2016 and 2017, respectively.

Despite the contraction in real GDP referred to hereinabove, the latest IMF publications still see the Republic of San Marino ranking among the first 10 positions as for GDP per capita with purchasing power parity (PPP GDP). With a PPP GDP value equal to \$0.063 million, San Marino ranks at the 9th position, closely followed by Switzerland (rank no. 10); amongst European countries, it is preceded only by Luxembourg (rank no. 2) and Norway (rank no. 6).

Inflationary pressures remain moderate as well as in the whole Euro Zone, the 2015 inflation rate marked +0.1% and it is expected to rise up to +0.6% and +0.7% in 2016 and 2017, respectively.

The 2015 unemployment rate is equal to 8.4%, while IMF projections foresee a decrease to 7.9% and 7.3% in 2016 and 2017, respectively.

5. World Economic Outlook, October 2016

6. The Gross Domestic Product (GDP) is the sum of goods and services sold within a country over a defined period of time; a distinction must be made between nominal GDP, which is calculated on current prices, and real GDP, which is measured at constant prices (IMF estimates, base year 2007). Identifying the Real or the constant price-based GDP is essential to separate the dynamics of the produced value from the inflation effect.

The first Voluntary Disclosure expired in November 2015 has been closed and, even though the related outflows continued for the whole 2016, the financial system is headed towards a phase of gradual normalization of the reference scenario.

In this respect, the Decree Law 193/2016 connected to the 2017 Budget Law re-opened the possibility to regularise financial resources illegally deposited abroad; the application deadline is the next 31/07/2017.

The agreement with Italy against double taxation, which allowed the exit from the Italian tax blacklist, and the OECD multilateral agreement on the automatic exchange of information (Common Reporting Standard) signed by San Marino in October 2014⁷ represent two important “steps” toward a financial system compliant with international standards.

However, the transition process to a more sophisticated financial model is not yet completed: the weak “foreign demand” is also reflected in the lack of competitiveness of the country.

An analysis of this competitiveness based on the World Bank ranking pointed out that, at the beginning of 2016, the Republic of San Marino ranked at position no. 76⁸ in “The Ease of Doing Business” index, that is +2 points compared to 2015 (rank 78). The World Bank analysis took into account a panel of 189 countries, where Singapore is the leader (rank 1) and Italy ranks in forty-fifth position (rank 45).

Another element informing the current economic scenario is the deterioration of credit quality: in addition to the above-mentioned gross NPLs/total gross loans ratio, that reached 52.6% during December 2015, the NPLs/total loans ratio is also relevant; according to the latest statistics published by the Central Bank of the Republic of San Marino (BCRSM), the latter ratio reached 18.1% during September 2016.

In this framework, at 31/12/2016 the BAC Bank Group expresses a contained default rate of 8.01% (net bad loans / net loans), decreasing by 60 bps compared to the previous year and thus confirming its role as

7. See the admission of San Marino among the countries defined as *Early Adopter*.

8. It is to be noted that the implementation of the Risk Database is subject to the conclusion of the banks’ asset quality review process; hence it is not included in the World Bank analysis. This procedure could significantly improve the indicators referred to the Depth of the Credit Information Index, and therefore the Topics related to Getting Credit.

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Report of the board of directors on 2016 financial statements

a reference player for households and businesses in the field of credit supply. This ratio falls to 2.93% if we analyse the estate collaterals set to guarantee these loans.

San Marino Laws and Regulations and Compliance Activity

During 2016, BAC Compliance Function adjusted internal regulation, procedures and processes to the evolution of San Marino regulatory framework, which is increasingly complex and in line with international standards even in the field of taxation, by extending Function's operational scope to Tax Compliance.

Bank and Finance Regulation

As for banks and finance, the evolution of San Marino regulatory framework made further steps by accepting more Community directives (the EU acquis in financial matters) as set out in the Monetary Agreement signed by the Republic of San Marino and the European Union on 27/03/2012 and last updated by Council Decree no. 163 on 03/11/2015.

With Regulation no. 2016/01 set forth by the Central Bank, Directive 2014/49/EU has been enforced, regulating the "Depositors' Guarantee Fund" with a maximum deposit coverage level equal to EUR 100,000.00 for each subscriber.

The Regulation no. 2016/02 "on the preparation of the Financial Statements and the Consolidated Financial Statements of the authorized subjects" enforced Directive 86/635/EEC in order to gradually align the system with IAS/IFRS principles. This provision extended the financial statement preparation guidelines to all authorized subjects with the exception of insurance companies and introduced the Consolidated Financial Statements in the system of San Marino.

With Regulation no. 2016/03 "Miscellany of interventions designed to review current supervisory provisions", review actions have been taken to overhaul provisions in the following areas: bad loans, suspension of Risk Database return information flows, contributions in kind as capital, requirements for employees involved in out-of-office offers, introduction of remote contractual procedures for bank overdrafts, debt collection through acquisition of property, provisions for management and trustee companies.

Finally, the Central Bank issued the Regulation no. 2016/04 "on Supervisory Reports of Life Insurance Companies" to review all report patterns and obligations for life insurance companies.

Among the guidelines, the “Information obligations in the field of Risk Database” have been reviewed with Circular no. 2016/01 as long as transitional and final provisions are concerned, more specifically the deadlines on return information flows, early information service, first bad-loan report, status change and loans sold or written-off.

Banking and financial legislation

The primary regulation has been set forth with the Law no. 144 of 21 December 2016, which introduced the obligation to publish the beneficial owners in the Registry of the Authorized Subjects, liability action and revocation proceeding for directors, statutory auditors and independent auditors, and the Monitoring Committee for verification of tax credits. In addition, Framework Law no. 31 of 18 February 1998 on health and safety in the workplace and the law defining stamp duties rates has been modified.

Finally, Delegated Decrees no. 17 of 23 February 2016 and no. 55 of 4 May 2016 on public debt securities issuance and Decree Law no. 4 of 21 January 2016 “Urgent provisions on financial operations” have been issued to introduce remote contractual procedures by telematics means in the opening of bank overdrafts, the dematerialization of financial instruments and some changes regarding minimum reserves and savings collection.

Anti-money laundering provisions and regulations

With regard to money laundering and the financing of terrorism, Regulations no. 5 and no. 10 have been issued on the transfer of money resulting from the closure by virtue of law of bearer passbooks and other relationships pursuant to article 95 bis of Law no. 92 of June 17/06/2008 establishing guidelines and deadlines for the implementation of the above-mentioned transfer.

Decree Law no. 89 of 25 July 2016 set forth new provisions on preventing and fighting corruption crimes by introducing the possibility to submit reports to the Financial Information Agency (FIA) under art. 3, paragraph 2 of Decree Law no. 90 of 16 June 2014. Should it be the case, the FIA will inform the judicial authority or the police.

Finally, FIA issued the Instruction 2016/01 to perform a complete review of the provision on “Data and information to be registered and kept under articles 34 and 35 of Law no. 92 of 17 June 2008 and subsequent amendments and integrations”, thus updating the operating procedures of the Money Laundering IT Archive as required by other countries’ legislations in order to keep track of all data regarding subjects (customer,

executor, beneficial owner, counterparty) and continuing relationships, as well as occasional transactions made by the designated subjects.

International Agreements

Among the international agreements we would mention the issuance of Delegated Decree no. 119 of 26 August 2016 amending Law no. 174 of 27 November 2015 on “International Tax Cooperation” by updating the provisions on information exchange both for Common Reporting Standard and FATCA. In addition, with Council Decree no. 118 of 25 August 2016 the Cooperation Agreement between the Government of the Republic of San Marino and the Government of the United States of America has been ratified to facilitate the FATCA rule implementation. We would also like to point out that, by taking part to the information exchange, Ecofin withholding has been repealed by means of the Council Decree no. 7 of 22 January 2016 ratifying the Amendment Protocol of the Agreement between the Republic of San Marino and the European Community establishing measures equivalent to those defined by Directive 2003/48/EC on taxation of savings income in the form of interest payments.

Finally there is the issuance of the Council Decree no. 94 of 26 July 2016 ratifying the Criminal Law Convention against Corruption with related Protocol.

Legislation

In the banking and financial fields, legislative interventions focused on the “Deadline extension for the suspension of payments of principals on mortgages and first home financing” as stated in Delegated Decree no. 56 of 4 May 2016, and on defining the maximum spread and the interest rate to be applied to State-guaranteed loans as stated in Delegated Decree no. 47 of 18 April 2016.

Provisions on “Notaries Act” have been revised by Delegated Decree no. 20 of 24 February 2016 and Regulation no. 1 of 1 February 2016 after the first year of implementation of Law no. 73 of 30 April 2014, and provisions for the usage of qualified electronic systems for certified delivery have been introduced by Delegated Decree no. 46 of 11 April 2016, which nonetheless is still waiting for an implementing regulation. Computer-related crimes and provisions against fraud and counterfeiting have been introduced in the regulatory framework by, respectively, Law no. 144 of 23 August 2016 and Decree Law no. 80 of 29 June 2016, in addition to the updating and review of the “environmental code” under Delegated Decree no. 84 of 12 July 2016.



Report of the board of directors on 2016 financial statements

Finally, repeated interventions in the field of labour laws have been performed, such as Law no. 59 of 9 May 2016 on collective bargaining. As long as tax field is concerned, the Delegated Decree no. 19 of 24 February 2016 on General Income Tax defined, inter alia, the taxation of insurance contracts, while Delegated Decree no. 127 of 30 August 2016 updated and simplified stamp duties and Law no. 129 of 21 September 2016 defined tax incentives for the disposal of assets among authorized subjects.

FIA Legislation and Instructions on money laundering

Date	Type	Title
30/03/2016	Regulation no. 5	Regulation for the transfer of money on relationships and bearer passbooks pursuant to article 95 bis of Law no. 92 of 17 June 2008 and subsequent amendments and integrations
18/05/2016	Regulation no. 10	Amendment to Regulation no. 5 of 30 March 2016 - Regulation for the transfer of money on relationships and bearer passbooks pursuant to article 95 bis of Law no. 92 of 17 June 2008 and subsequent amendments and integrations
25/07/2016	Decree Law no. 89	Ratification of Decree Law no. 79 of 29 June 2016 – Provisions on the protection of corruption witnesses, fight against corruption and Management transparency
29/06/2016	Decreto Legge n. 79	Provisions on the protection of corruption witnesses, fight against corruption and Management transparency
22/02/2016	Instruction 2016/01	Data and information to be registered and kept under articles 34 and 35 of Law no. 92 of 17 June 2008 and subsequent amendments and integrations

Banking Provisions and Regulatory Framework

Regolamenti	Subjects
Regulation no. 2016-04	Regulation on Supervisory Reports of Life Insurance Companies -Updating no. II
Regulation no. 2016-03	Miscellany of interventions designed to review current supervisory provisions
Regulation no. 2016-02	Regulation on the preparation of the financial statement and the consolidated financial statement of the authorized subjects
Regulation no. 2016-01	Regulation on the depositors guarantee fund
Circular no. 2016-01	Information obligations in the field of Risk Database - Updating no. I
Law no. 144 of 21 December 2016, article 43	Provisional budgets of the state and public bodies for the financial year 2017 and multi-year financial statements 2017/2019
Delegated Decree no. 55 of 4 May 2016	Ratification of Delegated Decree no. 48 of 18 April 2016 - Issuance of "Republic of San Marino, mixed rate with cap, 31 May 2026" government securities
Delegated Decree no. 48 of 18 April 2016	Issuance of "Republic of San Marino, mixed rate with cap, 31 May 2026" government securities
Delegated Decree no. 17 of 23 February 2016	Ratification of Delegated Decree no. 13 of 11 February 2016 – Issuance of "Republic of San Marino, mixed rate with cap, 23 March 2026" government securities
Delegated Decree no. 13 of 11 February 2016	Issuance of "Republic of San Marino, mixed rate with cap, 23 March 2026" government securities
Decree Law no. 4 of 21 January 2016	Ratification of Decree Law no. 198 of 30 December 2015 – Urgent provisions on financial operations

Main legislative actions in San Marino's regulatory framework

- Law no. 129 of 21 September 2016 – Amendments to Law no. 189 of 22 December 2015 and Change to Provisional Budgets of the State and Bodies of the Public Sector Expanded for the financial year 2016.
- Delegated Decree no. 127 of 30 August 2016 – Provisions for the update and simplification of stamp duties.
- Delegated Decree no. 136 of 9 November 2016 – Reiteration of Delegated Decrees no. 102, 103, 104, 105, 106, 107, 109, 110, 111, 115, 116, 117, 119, 120, 121, 122, 123, 124, 125, 126 and 127 of year 2016.

- Delegated Decree no. 126 of 30 August 2016 – Amendments to Delegated Decree no. 5 of 26 January 2015 – Incentives for energy requalification and plant renovation of existing buildings and for the installation of energy-from-renewable-sources or cogeneration plants.
- Law no. 114 of 23 August 2016 – Rules on computer-related crimes.
- Delegated Decree no. 96 of 26 July 2016 – Actuarial tables for the calculation of redemption payments.
- Delegated Decree no. 84 of 12 July 2016 – Amendments to Delegated Decree no. 44 of 27 April 2012, “Environmental Code”.
- Law Decree no. 83 of 11 July 2016 – Urgent provisions on social safety net, employment sustainability and early social security.
- - Law Decree no. 81 of 8 July 2016 – Deferral of implementation deadline of sanction under article 139, paragraph 1, sub-section e) of Law no. 166 of 16 December 2013 for fiscal year 2015
- Law Decree no. 80 of 29 June 2016 – Urgent provisions against fraud and counterfeiting – Corrigendum to Law Decree no. 80 of 29 June 2016 – Urgent provisions against fraud and counterfeiting.
- Law no. 59 of 9 May 2016 – On freedom and trade union activity in the workplace, collective bargaining and the right to strike.
- Delegated Decree no. 56 of 4 May 2016 – Extension of submission deadline for the application for benefits under article 4 of Delegated Decree no. 175 of 30 October 2014 “Suspension of payments of principals on mortgages and first home financing”.
- Delegated Decree no. 47 of 18 April 2016 – Definition of Maximum Spread and of the nominal interest rate to be applied to State-guaranteed loans until 30 April 2017.
- Delegated Decree no. 46 of 11 April 2016 – Provisions for the usage of qualified electronic systems for certified delivery

- Regulation no. 4 of 30 March 2016 – Definition of the cadastral documentation required to apply for building compliance and habitability.
- Delegated Decree no. 22 of 24 February 2016 – Ratification of Delegated Decree no. 2 of 13 January 2016 – Amendments to article 2 of Delegated Decree no. 11 of 28 January 2014 – Guidelines of deductible costs under articles 14, paragraph 7, and 148, paragraph 11, of Law no. 166 of 16 December 2013 and definition of the electronic payment instrument for the expenditures incurred in the territory.
- Delegated Decree no. 2 of 13 January 2016 – Amendments to article 2 of Delegated Decree no. 11 of 28 January 2014 – Guidelines of deductible costs under articles 14, paragraph 7, and 148, paragraph 11, of Law no. 166 of 16 December 2013 and definition of the electronic payment instrument for the expenditures incurred in the territory.
- Delegated Decree no. 20 of 24 February 2016 – Ratification of Delegated Decree no. 184 of 16 December 2015 – Guidelines for the implementation and coordination of Law no. 73 of 30 April 2014 – Notaries Act.
- Delegated Decree no. 19 of 24 February 2016 – Ratification of Delegated Decree no. 182 of 15 December 2015 – Amendment to Law no. 166 of 16 December 2013 – Income Tax.
- Delegated Decree no. 16 of 19 February 2016 – Variation in the cost of living and related indexes under article 32, paragraph 9, of Law no. 15 of 11 February 1983 and subsequent amendments.
- Delegated Decree no. 15 of 19 February 2016 – Establishing maximum annual remuneration under article 32, paragraph 6, of Law no. 15 of 11 February 1983 and subsequent amendments.
- Regulation no. 1 of 1 February 2016 – Regulation on the keeping of Notarial Registers in electronic form.

International Agreement

- Delegated Decree no. 119 of 26 August 2016 – Amendment to Law no. 174 of 27 November 2015 – International Tax Cooperation.
- Council Decree no. 118 of 25 August 2016 – Ratification of the Agreement between the Government of the Republic of San Marino and the Government of the United States of America for the Cooperation in the Implementation of the FATCA rule.
- Council Decree no. 94 of 26 July 2016 – Ratification of the Criminal Law Convention against Corruption with related additional Protocol.
- Council Decree no. 7 of 22 January 2016 – Ratification of the Amendment Protocol of the Agreement between the Republic of San Marino and the European Community establishing measures equivalent to those defined by Council Directive 2003/48/EC on taxation of savings income in the form of interest payments.
- Council Decree no. 171 of 26 November 2015 – Accession to UNECE Agreements (United Nations Economic Commission for Europe).

Dear Shareholders,

Financial year 2016 saw the merger and acquisition of Banca per lo Sviluppo Spa, the former IBS Spa that, in 2012, went through a partial and proportional demerger in favour of BAC of its assets and liabilities, as well as of its whole company division related to banking activity. Merger completion has been subscribed by notarial act on 22/09/2016, with effect for statutory purposes as of 01/01/2016. Therefore, BAC incorporated assets and liabilities by a deed of merger which has been entered in the Office of Land and Public Registration on 29/09/2016. More specifically, during the meeting held on 27/04/2016 Banca Agricola Commerciale Istituto Bancario Sammarinese approved the acquisition and subsequent merger of the subsidiary Banca per lo Sviluppo S.p.A. (incorporated) in BAC (incorporating) as per company law no. 47 of 23 February 2006 establishing that:

- Real estate properties, to which Banca per lo Sviluppo claimed property rights under applicable finance lease contracts, represented to BAC an opportunity to solve several logistical issues inherent to General Management offices that had long been under observation;

- the shareholding acquisition of Banca per lo Sviluppo has been carried out in full (100%)
- the draft terms of merger have been lodged with the Court by the companies on 24/06/2015
- the Supervisory Authority approved the extraordinary merger operation with protocol letter no. 16/2855 of 31/03/2016.

In addition, during 2016 Banca Agricola Commerciale acquired – following authorization of the Central Bank – the 25% of Centro Servizi srl share capital, whose main business is composed by IT activities, especially the production, development, maintenance and marketing of application software, management activities of services related to the utilization of electronic- payment instruments and the sale and rental of hardware equipment; being also the sole technological operator of the SMaC platform, it will develop a strong synergy with T.P@Y Spa Payment Institution, which will provide payment and monetary services by issuing credit cards upon expiry of Cartasì cards validity; it should be noted that, in the first quarter of 2017, customers have already been given the new credit card, and operational processes of credit cards, POS and ATM systems have been managed autonomously with potential positive effects in terms of increased operational autonomy and commercial development, enlarging and completing the range of services to customers.

The scope of Bac Group also includes: BAC Fiduciaria spa – wholly owned, operating in the trust sector and the main insurance Company of San Marino law, San Marino Life spa, acquired for the entire share capital during 2012 – for which BAC has also acted as a broker since 2009, when the company was founded

BAC Group also controls IBS Immobiliare srl, founded in 2011 by IBS for the management of assets, and especially real estate; IBS Rent srl, a company previously controlled by IBS Leasing and operating in the rental sector, was placed in voluntary liquidation in 2014 and is expected to be settled in the current year.

The last months of the year saw a change in the management scope with the resignation of Piero Paolo Fabbri as General Manager and Chief Executive Officer of Banca Agricola Commerciale; nevertheless, he will continue working within BAC Group as Vice President of the Board of Directors. The Council expressed its deepest gratitude to Mr. Fabbri for the commendable and profitable work done since 1993 and thanked

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him for providing the Bank with the current solidity by restructuring it and giving a boost to its development.

Besides the Chief of Executive Officer, during the Council session the whole Board of Directors resigned and, in the next session on 05/12/2016, the Board line-up has been renewed by reducing its members from eight to six and with the appointment of Luca Lorenzi as the new Chief of Executive Officer. Former Executive Vice President of Unicredit Group, Mr. Lorenzi has been CEO in Locat and General Manager of Unicredit Leasing; after the appointment as Area Manager for the Central-South Territory in 2010, he chaired the ABI (Italian Banking Association) Commission of Emilia Romagna for six years.

On 16/12/2016, Assistant General Manager Riccardo Cervellini presented his resignation with effect from 01/01/2017 (last day of work on 31/12/2016); in this case as well the Board of Directors expressed its deepest gratitude and thankfulness to Mr. Cervellini for the passion and dedication he put into his job since 1984.

General Principles for the Preparation of the Management Report

The Management Report is intended to ensure a correct, true and clear representation of the economic-financial situation in terms of form and content. It provides information in accordance with the preparation basis of the concise statement of assets and liabilities and profit and loss account, which are connected in a timely manner to the statutory ones. The Report includes a few tables (Main data, Reclassified financial statement schemes) and comments on the "Results for the year".



Report of the board of directors on 2016 financial statements

Main data

Profit and loss account data

PROFIT AND LOSS	31/12/2016	31/12/2015	CHANGE	
			ABSOLUTE	%
Interest margin	16,932,520	20,688,895	-3,756,375	-18.16%
Commission income	4,236,834	5,053,611	-816,777	-16.16%
Profits and losses on financial transactions	-1,369,436	-3,289,600	1,920,164	-58.37%
Revenues from intermediation	4,512,862	3,553,946	958,915	26.98%
Intermediation margin	21,445,381	24,242,841	-2,797,460	-11.54%
Personnel expenses	-10,891,646	-11,018,234	126,588	-1.15%
Administrative expenses	-5,221,166	-5,436,464	215,298	-3.96%
Tangible and intangible asset adjustments	-2,257,281	-2,276,925	19,644	-0.86%
Operating costs	-18,370,093	-18,731,624	361,530	-1.93%
Operating result	3,075,288	5,511,217	-2,435,929	-44.20%
Provisions and net adjustments on credits and financial assets	-6,417,679	-3,157,440	-3,260,238	103.26%
Margin on investment securities/extraordinary income	164,894	667,165	-502,271	-75.28%
Tax on income	-615,563	-769,144	153,581	100.00%
Result for the year	-3,793,060	2,251,798	-6,044,858	268.45%

Balance Sheet Data

BALANCE SHEET DATA	31/12/2016	31/12/2015	CHANGE	
			ABSOLUTE	%
Total assets	984,696,337	1,271,851,407	-287,155,071	-22.58%
Loans to customers	571,202,491	648,488,038	-77,285,548	-11.92%
- of which impaired loans	122,356,002	154,965,895	-32,609,892	-21.04%
Financial assets	63,109,912	162,457,109	-99,347,198	-61.15%
Amount due to customers and outstanding securities	775,544,694	881,449,893	-105,905,199	-12.01%
- of which amounts due	423,982,098	494,741,977	-70,759,879	-14.30%
- of which outstanding securities	351,562,596	386,707,916	-35,145,320	-9.09%
Interbank net position (including securities)	152,760,374	108,706,960	44,053,414	40.52%
Net equity (including net result)	90,133,793	95,228,881	-5,095,088	-5.35%



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Financial Assets of Customers

FINANCIAL ASSETS OF CUSTOMERS	31/12/2016	31/12/2015	CHANGE	
			ABSOLUTE	%
Total financial assets	1,352,933,397	1,541,757,827	-188,824,430	-12.25%
Direct deposits	704,181,008	795,056,278	-90,875,270	-11.43%
Amounts due to customers at sight	361,145,184	420,387,897	-59,242,713	-14.09%
Outstanding securities	340,435,000	373,818,400	-33,383,400	-8.93%
Term deposits	2,600,825	849,981	1,750,844	205.99%
Indirect deposits and third-party asset managements	648,752,388	746,701,549	-97,949,160	-13.12%
- administered saving	279,125,916	319,372,841	-40,246,925	-12.60%
- managed saving	369,626,472	427,328,708	-57,702,236	-13.50%
- common investment funds	66,874,236	68,225,341	-1,351,105	-1.98%
- stock insurance bank	237,537,060	269,029,281	-31,492,222	-11.71%
- third-party asset managements	65,215,176	90,074,085	-24,858,910	-27.60%



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MAIN INDICATORS	31/12/2016	31/12/2015
Structure data		
Number of employees e.o.p.	146	148
Number of branches	12	12
MAIN INDICATORS	31/12/2016	31/12/2015
Credit risk ratios		
Net non-performing loans/Net loans to customers	8.01%	8.60%
Net doubtful loans/Net loans to customers	21.19%	23.18%
Coverage on total loans	6.18%	5.34%
MAIN INDICATORS	31/12/2016	31/12/2015
Supervisory capital and ratios		
Supervisory capital	81,313,369	87,205,973
Weighted risk assets	486,030,490	572,599,241
Supervisory capital/Weighted assets (total capital ratio)	16.73%	15.23%
Total assets	984,696,337	1,102,324,914
MAIN INDICATORS	31/12/2016	31/12/2015
Interest margin/Intermediation margin	78.96%	85.34%
Service margin/Intermediation margin	19.76%	20.85%
Cost/income ratio	85.66%	77.27%
Operating result/Intermediation margin	14.34%	22.73%
Leverage (medium assets/medium equity)	10.92	11.58
ROA e.o.p.	-0.39%	0.20%
ROE e.o.p.	-4.21%	2.36%



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Reclassified financial statement schemes

RECLASSIFIED ASSETS	31/12/2016	31/12/2015	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2016	31/12/2015
Cash and cash equivalents	5,333,556	4,503,305	830,251	18.44%	0.54%	0.41%
Loans to banks	153,148,166	111,159,539	41,988,626	37.77%	15.55%	10.08%
Loans to customers	571,202,491	648,488,038	-77,285,548	-11.92%	58.01%	58.83%
Financial assets	63,109,912	162,457,109	-99,347,198	-61.15%	6.41%	14.74%
Shareholdings	12,060,851	11,847,546	213,305	1.80%	1.22%	1.07%
Tangible assets	87,637,408	70,068,226	17,569,182	25.07%	8.90%	6.36%
Intangible assets	2,122,446	2,585,452	-463,005	-17.91%	0.22%	0.23%
Other assets	90,081,507	91,215,698	-1,134,191	-1.24%	9.15%	8.27%
Total assets	984,696,337	1,102,324,914	-117,628,577	-10.67%	100.00%	100.00%

RECLASSIFIED LIABILITIES	31/12/2016	31/12/2015	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2016	31/12/2015
Amounts due to banks	387,792	2,452,579	-2,064,787	-84.19%	0.04%	1.69%
Amounts due to customers	423,982,098	494,741,977	-70,759,879	-14.30%	43.06%	42.55%
Payables represented by securities	351,562,596	386,707,916	-35,145,320	-9.09%	35.70%	38.28%
Provisions for risks and charges	3,704,993	4,042,230	-337,237	-8.34%	0.38%	0.32%
Non-adjusting provision for risks on credits	0	0	0	-	0.00%	0.00%
Other liabilities	98,903,335	99,120,930	-217,595	-0.22%	10.04%	9.13%
Subordinate liabilities	16,021,731	20,030,402	-4,008,671	-	1.63%	1.58%
Net equity	90,133,793	95,228,881	-5,095,088	-5.35%	9.15%	6.45%
- Capital and reserves	93,926,852	92,977,083	949,770	1.02%	9.54%	6.33%
- Retained losses	0	0				
- Result for the year	-3,793,060	2,251,798	-6,044,858	-268.45%	-0.39%	0.25%
Total liabilities	984,696,337	1,102,324,914	-117,628,577	-10.67%	100.00%	100.00%



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RECLASSIFIED PROFIT AND LOSS ACCOUNT	31/12/2016	% intermed. margin	31/12/2015	% intermed. margin	CHANGE	
					ABSOLUTE	%
Interest income and similar charges	23,782,291	-129.46%	30,827,647	127.16%	-7,045,356	-22.85%
of which: a) Interest income to customers	21,676,776	101.08%	25,209,158	103.99%	-3,532,383	-14.01%
b) Interest income to banks	217,588	1.01%	349,813	1.44%	-132,226	-37.80%
c) Interest income on debt securities	1,887,928	8.80%	5,268,675	21.73%	-3,380,748	-64.17%
Interest expense and similar charges	-7,768,679	-36.23%	-11,091,002	-45.75%	3,322,324	-29.96%
of which: a) Interest expense to customers	-1,249,580	-5.83%	-2,040,999	-8.42%	791,419	-38.78%
b) Interest expense on payables represented by securities	-6,517,886	-30.39%	-9,034,505	-37.27%	2,516,619	-27.86%
c) Interest expense to banks	-1,213	-0.01%	-15,499	-0.06%	14,285	-92.17%
Interest margin	16,013,612	74.67%	19,736,644	81.41%	-3,723,032	-18.86%
Dividends and other revenues	918,907	4.28%	952,250	3.93%	-33,343	-3.50%
Financial margin	16,932,520	78.96%	20,688,895	85.34%	-3,756,375	-18.16%
Net commissions	4,236,834	19.76%	5,053,611	20.85%	-816,777	-16.16%
of which: a) commission income	4,985,395	23.25%	6,037,335	24.90%	-1,051,940	-17.42%
b) commission expense	-748,561	-3.49%	-983,724	-4.06%	235,163	-23.91%
Profits and losses on financial transactions	-1,369,436	-6.39%	-3,289,600	-13.57%	1,920,164	58.37%
of which: a) on securities	-1,633,358	-7.62%	-3,905,550	-16.11%	2,272,192	58.18%
a) on exchanges	338,633	1.58%	615,950	2.54%	-277,317	-45.02%
c) on other operations	-74,711	-0.35%	0	0.00%	0	0.00%
Other net revenues	1,645,463	7.67%	1,789,935	7.38%	-144,472	-8.07%
Service margin	4,512,862	21.04%	3,553,946	14.66%	958,915	26.98%
Intermediation margin	21,445,381	100.00%	24,242,841	100.00%	-2,797,460	-11.54%
Operating costs	-18,370,093	-85.66%	-18,731,624	-77.27%	361,530	-1.93%
of which: a) Personnel expenses	-10,891,646	-50.79%	-11,018,234	-45.45%	126,588	-1.15%
b) Other administrative expenses	-5,221,166	-24.35%	-5,436,464	-22.43%	215,298	-3.96%
c) Tangible and intangible asset adjustments	-2,257,281	-10.53%	-2,276,925	-9.39%	19,644	-0.86%
Operating result	3,075,288	14.34%	5,511,217	22.73%	-2,435,929	-44.20%
Provisions and net adjustments on credits	-6,069,679	-28.30%	-3,157,440	-13.02%	-2,912,238	92.23%
Provisions for risks and charges	-348,000	-11.92%	0	0.00%	-348,000	-13.79%
Financial asset adjustments	0	0.00%	0	0.00%	0	0.00%
Income from ordinary activities	-3,342,391	-15.59%	2,353,777	9.71%	-5,696,168	-242.00%
Extraordinary profit (loss)	164,894	0.77%	667,165	2.75%	-502,271	-75.28%
Variation of the General banking risk fund (+/-)	0	0.00%	0	0.00%	0	0.00%
Tax on income	-615,563	-2.87%	-769,144	-3.17%	153,581	100.00%
Result for the year	-3,793,060	-17.69%	2,251,798	9.29%	-6,044,858	-268.45%

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Main results and performance for the period

Operating result structure

Profit and loss account

The tables refer to the reclassified profit and loss account).

The Profit and Loss Account for the year 2016 ended with a loss of EUR -3.793 million compared to the profit of EUR 2.252 million in 2015.

Data analysis about year 2016 shows that the result of ordinary assets at the end of December 2016 – negative for EUR -3.342 million – marks a sharp turnaround compared to the positive conclusion of the previous period equal to EUR 2.354 million.

The negative performance of this Result compared to December 2015 basically depends on value adjustments to loans, which have doubled in 2016, and on the negative performance of financial margin related to the gap between loans / deposits to customers.

This contraction is due to the decrease in the average profitability of loans to customers (3.65% vs 4.56%), despite the recovery in the intermediation margin due to the minor loss in securities trading.

The policies needed to counter the economic crises that has been affecting the economic scenario of San Marino for several years and the difficulties faced by private economic operators of the Republic imposed BAC substantial net provisions and adjustments to loans for the year 2016. The dynamics of the financial margin, registering a decrease by EUR -3.756 million compared to 2015 (-18.15%) are related to the decrease in funding cost resulting from policies aimed at aligning deposit rates with the International monetary market combined with the decrease in collecting masses.

Conversely, revenues from intermediation show an increase due to the minor loss on the profit and losses from financial transaction side, while sheer commission margin is decreasing due to the reduction in collection masses.

Financial Margin

The financial margin amounted to 16.934 million compared to 20.689 million in 2015. The margin represents the balance between net interest equal to 16.013 million and dividends for 0.921 million wholly deriving from companies of the Group. In 2015 these items were equal to 19.737 million and 0.952 million respectively.

The balance of net interest records a decrease of -3.756 million compared to the previous year (-18.15%).

The decrease is to be considered of taking into account: the dynamics of the financial market which, as mentioned in the introduction, sees Euribor continuing its decline also in 2016, lining up to an average -0.263%; the reduction in the level of loans equal to -91.419 million and



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the shrinking average spread between loans and deposits to customers amounting to 2.75% with respect to 2015 (2.76% vs 3.28%).

As far as dividends are concerned, the component related to the companies of the Group is equal to 0.921 million which shows an increase compared to last year due to the decreasing dividend contribution of San Marino Life for 0.764 million and 0.048 million of 2015 dividend accounted for cash by SSIS Spa 50% held with Cassa di Risparmio Spa amounting to EUR 0.155 million.

Data in thousands of Euros

Investee Company	% held	dividends 2016	dividends 2015
Bac Fiduciaria SpA	100%	0.00	63.64
San Marino Life SpA	100%	763.91	812.10
SSIS Srl	50%	115.00	75.00

FINANCIAL MARGIN	31/12/2016	31/12/2015	CHANGE		% incidence on interest margin	
			ASSOLUTA	%	31/12/2016	31/12/2015
Interest income on loans to customers	21,676,776	25,209,158	-3,532,383	-14.01%	128.02%	121.85%
Interest expense on amounts due to customers	-1,048,028	-1,538,634	490,606	-31.89%	-6.19%	-7.44%
Interest expense on payables represented by securities(CD bonds)	-6,517,886	-9,034,505	2,516,619	-27.86%	-38.49%	-43.67%
ORDINARY CUSTOMER MARGIN	14,110,862	14,636,019	-525,157	-3.59%	83.34%	70.74%
Interest income on debt securities	1,887,928	5,268,675	-3,380,748	-64.17%	11.15%	25.47%
Interest expense on payables represented by securities (pct)	-201,551	-502,365	300,813	-59.88%	-1.19%	-2.43%
FINANCIAL INVESTMENT MARGIN	1,686,376	4,766,311	-3,079,934	-64.62%	9.96%	23.04%
BANKING MANAGEMENT MARGIN	15,797,238	19,402,330	-3,605,091	-18.58%	93.30%	93.78%
Interest income on credit institutions	217,588	349,813	-132,226	-37.80%	1.29%	1.69%
Interest expense on credit institutions	-1,213	-15,499	14,285	-92.17%	-0.01%	-0.07%
INTERBANK MARGIN	216,374	334,315	-117,941	-35.28%	1.28%	1.62%
Dividends and other revenues	918,907	952,250	-33,343	-3.50%	5.43%	4.60%
FINANCIAL MARGIN	16,932,520	20,688,895	-3,756,375	-18.16%	100.00%	100.00%

PROFIT AND LOSS ACCOUNT	31/12/2016	31/12/2015	CHANGE		% incidence on intermediation margin	
			ABSOLUTE	%	31/12/2016	31/12/2015
Interest margin	16,013,612	19,736,644	-3,723,032	-18.86%	74.67%	81.41%
Dividends and other revenues	918,907	952,250	-33,343	-3.50%	4.28%	3.93%
Intermediation revenues and other	4,512,862	3,553,946	958,915	26.98%	21.04%	14.66%
Intermediation margin	21,445,381	24,242,841	-2,797,460	-11.54%	100.00%	100.00%

At the end of December 2016 the intermediation margin amounted to 21.445 million, with a decrease of -2.797 million (-11.54%) in the annual comparison. The analysis of the tables below shows that the increase of intermediation revenues and the stability of dividend contribution reduce the negative performance on the interest margin.

Actually, the composition of our securities portfolio has been fully amended during 2016, and the quantity of the securities held have been downsized, consisting primarily of government-issued securities with a short duration that see their listing go down as the deadline approaches. The interest margin contributes with 74.67% to the formation of the intermediation margin, while the intermediation revenues contribute with 21.04%.

The contribution of dividends of the companies included in BAC Bank Group also increases (4.28%).

This trend, while not growing, if read in the aforementioned microeconomic context, reveals the attention and professionalism of the entire BAC facility in managing the severe crisis that continued throughout 2016, worsened in the financial sector by the phenomenon of Voluntary Disclosure in force from 2015, which should have already met the standardization of masses' outflow. On the other hand, the Euro zone economy is showing tentative signs of recovery, although fragile and supported by ECB monetary policy, aimed at giving support to companies with low rates policies with unconventional measures taken already since 2015.

The commission margin, while showing a slight decline of -16.16%, remains good despite the reduction of collection masses.



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Intermediation margin

INTERMEDIATION REVENUES AND OTHER	31/12/2016	31/12/2015	CHANGE		% incidence on service margin	
			ABSOLUTE	%	31/12/2016	31/12/2015
Net commissions	4,236,834	5,053,611	-816,777	-16.16%	93.88%	142.20%
Commission income	4,985,395	6,037,335	-1,051,940	-17.42%	110.47%	169.88%
- guarantees given	200,737	165,639	35,098	21.19%	4.45%	4.66%
- management services, intermediation, cons.	2,670,420	3,539,018	-868,598	-24.54%	59.17%	99.58%
of which managed saving (common funds and managements)	1,171,902	1,364,909	-193,006	-14.14%	25.97%	38.41%
of which placement, trading, security custody	1,206,393	1,827,205	-620,812	-33.98%	26.73%	51.41%
of which financial activity	55,094	71,905	-16,811	-23.38%	1.22%	2.02%
of which insurance bank	237,031	275,000	-37,969	-13.81%	5.25%	7.74%
- currency trading	329,988	441,267	-111,280	-25.22%	7.31%	12.42%
- other services	1,784,250	1,891,410	-107,160	-5.67%	39.54%	53.22%
of which current accounts	361,342	430,166	-68,824	-16.00%	8.01%	12.10%
of which portfolio	352,662	367,211	-14,549	-3.96%	7.81%	10.33%
of which collection and payment services	893,474	920,614	-27,140	-2.95%	19.80%	25.90%
of which loans granted	146,772	143,420	3,352	2.34%	3.25%	4.04%
Commission expenses	-748,561	-983,724	235,163	-23.91%	-16.59%	-27.68%
- collection and payment services	-172,343	-195,178	22,835	-11.70%	-3.82%	-5.49%
- management services, intermediation, cons.	-460,637	-628,951	168,315	-26.76%	-10.21%	-17.70%
- currency trading	-67,726	-44,127	-23,598	53.48%	-1.50%	-1.24%
- other services	-47,855	-115,467	67,612	-58.56%	-1.06%	-3.25%
Profits and losses on financial transactions	-1,369,436	-3,289,600	1,920,164	-58.37%	-30.35%	-92.56%
On securities:	-1,633,358	-3,905,159	2,271,802	-58.17%	-36.19%	-109.88%
- security trading	-938,836	-1,277,680	338,844	-26.52%	-20.80%	-35.95%
- security valuation	-694,521	-2,627,479	1,932,958	73.57%	-15.39%	-73.93%
Currency trading	338,633	615,559	-276,926	-44.99%	7.50%	17.32%
Other activities	-74,711	0	n,d,	n.d.	-1.66%	0.00%
Operating income and charges	1,645,463	1,789,935	-144,472	-8.07%	36.46%	50.36%
Other revenues	1,437,214	1,513,547	-76,333	-5.04%	31.85%	42.59%
Expense recovery	208,249	276,388	-68,139	-24.65%	4.61%	7.78%
Recuperi spese Estero	121,298	121,298	0	0.00%	2.69%	3.41%
SERVICE MARGIN	4,512,862	3,553,946	958,915	26.98%	100.00%	100.00%

Operating result

PROFIT AND LOSS ACCOUNT	31/12/2016	31/12/2015	CHANGE	
			ABSOLUTE	%
Intermediation margin	21,445,381	24,242,841	-2,797,460	-11.54%
Administrative expenses	-16,112,812	-16,454,698	341,886	-2.08%
- Personnel expenses	-10,891,646	-11,018,234	126,588	-1.15%
- General expenses	-5,221,166	-5,436,464	215,298	-3.96%
Tangible and intangible asset adjustments	-2,257,281	-2,276,925	19,644	-0.86%
Total operating costs	-18,370,093	-18,731,624	361,530	-1.93%
Operating result	3,075,288	5,511,217	-2,435,929	-44.20%

Operating costs

At the end of December 2016 the total operating costs amounted to 18.370 million, showing a decrease compared to the same period of the previous year equal to 0.361 million (-1.93%).

Personnel expenses, amounting to 10.891 million, decreased in comparison with the same period of 2015 for about 0.342 million (-2.08%). This trend was mainly due to: the failure to achieve the production premium, changes in staff numbers, currently amounting to 146 resources as at 31/12/2016, showing a decrease of 2 resources in comparison with the previous year, arising from voluntary resignations. In addition, no provisions were made for the Bonus System – namely one-off premiums to be granted to employees depending on the achievement of objectives.

Other administrative expenses record in 2016 a value of 5.221 million, decreasing by 0.215 million (-3.96%) compared to the same period of the previous year. This decrease is attributable to a policy of reduction of structural costs and the streamlining of the organizational policy.

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Tangible and intangible asset adjustments

Amounted to 2.257 million, decreasing by 0.020 million compared to 2.277 million in 2015. They were calculated based on their residual possibility of utilization and coincided with the tax amortization coefficients imposed by the new tax reform under Law 166/2013.

Net adjustments/write-backs for impairment of loans, guarantees and commitments

At the end of December 2016 the net adjustments on loans and provisions for guarantees and commitments amounted to 6.069 million, increasing by 92.23% compared to the same period of 2015, thus confirming the current strict protection policies and those of timely evaluation of credits promulgated by the organization which considered this provision level as prudential, as a result of the worsening of some debtors' ability to pay the amounts due. We also point out the presence of an additional provision for risks on credits for 1.457 million, already set up in the previous years to face potential risks deriving from pending lawsuits and proceedings, endowed during the year with further 0.348 million.

It should be noted that non-performing loans were determined as required by the legislation in force (BCSM Regulation 2007/07).

For a detailed analysis on the dynamics of the so-called "credit quality" see the appropriate paragraph of this Report.

Net operating result

The net operating result (profit from operating activities), impacted by significant provisions on credit adjustments, is negative for -3.342 million, bucking the trend of 2015 with a positive closing balance of 2.354 million.

Extraordinary revenues and charges

The bank recorded extraordinary revenues amounting to 0.610 million and extraordinary charges for 0.410 million. It should be noted that extraordinary revenues include 0.152 million resulting from collections on loss positions, 0.236 million for fund claims and revocation discharge for closed positions and 0.136 million for closures of receivable balances that cannot be claimed by law any longer and divestments of movable properties. The extraordinary charges include 0.343 million for closures of liabilities no longer due and 0.037 million for extinctions of customer relationships.

Income tax

The tax rate is equal to 19.38% and is an expression of counting of payable taxes in compliance with tax standards.

It should also be noted that BAC benefits from tax credit of about EUR 3.792 million, resulting from the Decree-Law 174/2011 relating to the in-bulk acquisition of legal relations by a bank in compulsory administrative liquidation.

Net profit

For explanatory purposes, the table below shows the reclassified steps that lead from the operating result to the net profit (loss), compared with 2015 data.

PROFIT AND LOSS ACCOUNT	31/12/2016	31/12/2015	CHANGE	
			ABSOLUTE	%
OPERATING RESULT	3,075,288	5,511,217	-2,435,929	-44.20%
Provisions and value adjustments	-6,417,679	-3,157,440	-3,260,238	103.26%
- Provisions and value adjustments on credits	-6,069,679	-3,157,440	-2,912,238	92.23%
- Provisions for risks and charges	-348,000	0	n.d.	n.d.
- Financial asset adjustments	0	0	n.d.	n.d.
INCOME ON OPERATIONS	-3,342,391	2,353,777	-5,696,168	-242.00%
Margin on investment securities	0	497,108	-497,108	100.00%
Extraordinary revenues	610,964	1,080,860	-469,896	-43.47%
Extraordinary charges	-446,070	-910,802	464,732	-51.02%
Extraordinary revenue and charge balance and margin on investment securities	164,894	667,165	-502,271	-75.28%
Profit before tax	-3,177,497	3,020,942	-6,198,439	-205.18%
Tax on income	-615,563	-769,144	153,581	100.00%
Net result	-3,793,060	2,251,798	-6,044,858	-268.45%

The year 2016 ended with a net profit (loss) of -3.793 million, compared to the net profit registered at the end of December 2015 amounting to 2.251 million.



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Statement of assets and liabilities

Net loans to customers as at 31 December 2016 amounted to 576.858 million, decreasing by 91.718 million in comparison with the end of 2015.

Loans to customers

Loans to customers and loan portfolio quality	31/12/2016	31/12/2015	CHANGE		% COMPOSITION	
			ABSOLUTE	%	31/12/2016	31/12/2015
Customer current accounts	124,284,525	149,404,328	-25,119,802	-16.81%	20.21%	21.10%
of which current account advances	44,967,489	45,017,984	-50,494	-0.11%	7.31%	6.94%
Loans/Salary loans	270,414,256	292,774,124	-22,359,869	-7.64%	43.98%	38.42%
of which: unsecured	109,851,909	115,954,360	-6,102,451	-5.26%	17.87%	16.21%
mortgage	99,529,882	110,419,858	-10,889,976	-9.86%	16.19%	13.27%
soft	61,032,464	66,399,906	-5,367,442	-8.08%	9.93%	8.95%
Non-performing loans (net of advances)	67,919,851	76,125,129	-8,205,278	-10.78%	11.05%	11.66%
Total Foreign Loans	25,899,266	26,102,644	-203,378	-0.78%	4.21%	6.66%
of which: FinImport Euro	13,825,695	15,334,920	-1,509,225	-9.84%	2.25%	3.24%
FinImport Currency	897,723	1,025,221	-127,499	-12.44%	0.15%	0.30%
FinExport Euro	7,386,694	6,071,594	1,315,099	21.66%	1.20%	0.70%
FinExport Currency	355,102	223,586	131,516	58.82%	0.06%	0.03%
Currency loans	1,529,052	1,542,322	-13,269	-0.86%	0.25%	2.15%
Euro customer loans	1,905,000	1,905,000	-	0.00%	0.31%	0.24%
Leasing	119,957,916	154,439,563	-34,481,647	-22.33%	19.51%	20.82%
of which: fixed	115,043,796	148,734,477	-33,690,681	-22.65%	18.71%	19.96%
investment	4,914,121	5,705,086	-790,966	-13.86%	0.80%	0.86%
intangible			-			
Other	6,401,312	7,451,021	-1,049,708	-14.09%	1.04%	1.33%
Total loans	614,877,127	706,296,809	-91,419,682	-12.94%	100.00%	100.00%
Endorsement loans	26,192,920	22,136,593	4,056,327	18.32%	4.26%	4.54%
Total loans	641,070,047	728,433,402	-87,363,355	-11.99%	104.26%	104.54%

Loans to customers and loan portfolio quality	31/12/2016	31/12/2015	CHANGE		% COMPOSITION	
			ABSOLUTE	%	31/12/2016	31/12/2015
Total gross loans	614,877,127	706,296,809	-91,419,682	-12.94%	100.00%	100.00%
Outstanding loans	456,741,119	515,839,884	-59,098,765	-11.46%	74.28%	73.03%
Impaired assets	158,136,008	190,456,925	-32,320,916	-16.97%	25.72%	26.97%
Value adjustments	38,018,208	37,719,307	298,901	0.79%	6.18%	5.34%
Loans net of adjustments	576,858,919	668,577,501	-91,718,582	-13.72%	93.82%	94.66%

BAC group appears to be a leading market player for families and companies thanks to its capital strength and the quality of assets, since it is characterized by a non performing/performing loans ratio equal to 8.01% decreasing in comparison to last year of 0.59%.

At the end of 2016, impaired loans amounted to 158.136 gross million and represent the 25.72% of the total amount of loans to customers, showing a significant reduction of 16.97%. As a result of the high level of non-performing loans, BAC made up strong provisions and value adjustments on impaired loans. Those additional provisions will improve the position of the Bank assets and liabilities, even for the purpose of the Asset Quality Review carried out by the Central Banking Authority and focused on a quality assessment/review analysis of San Marino banking institutions' assets, whose results will be disclosed in current 2017.

It is also stressed that BAC, in addition to having carried out analytical value adjustments, boasts real estate collateral warranties which guarantee a high coverage equal to 60.91% of these impaired loans.

<i>Data in thousands of Euros</i>					
Non-performing loans (extract from records)	31/12/2016	Value adjustments	Property collaterals	Net impaired loans	Total coverage ratio
Non-performing	67.93	21.72	29.31	16.89	75.14%
Bad	72.77	8.77	31.21	32.78	54.95%
Restructured	17.33	5.29	0.02	12.05	30.51%
Past due	0.12	-	0	0.11	13.29%
At-risk countries	-	-	0	-	0.12%
Total	158.14	35.78	60.54	61.82	60.91%

Credit quality

As better explained in the appropriate paragraph of the Explanatory Notes, the monitoring of credits and the activities related to the preliminary examination of debtors' solvency represent basic elements of the credit policy of BAC S.p.A.

The protraction of the crisis that is affecting the international economic system and, in particular, the national and the Italian ones, as well as the resulting difficulty in debtors' capacity to repay their exposures, also affect the success of credits granted. Also during 2016 non-performing positions were carefully classified, by assessing debtors' situations and their relevant credit worth prudently and diligently, also considering the serious external reference context. In this context, the ratio of non-performing loans (in gross values), is the 11.05% of total loans to customers (10.78% at the end of 2015); impaired positions they are remained stable at 11.83% 2016 (11.81% at the end of 2015).

As far as performing loans ("in bonis") are concerned, which amounted to 456.741 million at nominal value as at 31/12/2016 (515.839 million as at 31/12/2015), prudential value adjustments were made for a total amount of 2.238 million, also defined to acknowledge the so-called "physiological risk" and are an expression of the write-down made according to difficulty situation in debt service by the countries where debtors are resident, taking into account the negative economic trends regarding homogeneous loan categories, such as the sector of economic activity. Moreover, in the absence of adequate time series that could have ensured the necessary degree of statistical strength, the devaluation was carried out and determined prudently by the administrative bodies.

On the whole, therefore, total loans to customers stood at nominal 614.877 million, upon which value adjustments were constituted for 38.018 million, which raise the general coverage of loans to customers to 6.18% (it was 5.34% as at 31/12/2015).

The following summary tables provide the reconstructed data for the years 2016 and 2015.



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LOANS TO CUSTOMERS – CREDIT QUALITY	31/12/2016	31/12/2015	CHANGE		% COMPOSITION	
			ABSOLUTE	%	31/12/2016	31/12/2015
Total gross loans	614,877,127	706,296,809	-91,419,682	-12.94%	100.00%	100.00%
Provisions for risk on credits	38,016,982	37,719,307	297,675	0.79%	6.18%	5.34%
loss forecasts	35,780,006	35,491,030	288,976	0.81%	5.82%	5.02%
analytical and flat-rate value adjustments	38,018,208	37,719,307	298,901	0.79%	6.18%	5.34%
accrued interest value adjustments	6.18%	5.34%				
Total loans net of provisions for risk on credits	576,858,919	668,577,501	-91,718,582	-13.72%	93.82%	94.66%
Loans net of non-performing loans	546,957,276	630,171,680	-83,214,404	-13.21%	88.95%	89.22%
Non-performing/performing loans	11.05%	10.78%				
Non-performing loans net of advances	67,919,851	76,125,129	-8,205,278	-10.78%	11.05%	10.78%
Non-performing loans net of advances	21,724,584	18,613,794	3,110,790	16.71%	3.53%	2.64%
analytical value adjustments	21,724,584	18,613,794	3,110,790	16.71%	3.53%	2.64%
coverage ratio	31.99%	24.45%				
non-performing loans net of value adjustments	46,195,267	57,511,335	-11,316,068	-19.68%	7.51%	8.14%
Total impaired loans	72,755,065	83,412,486	-10,657,421	-12.78%	11.83%	11.81%
loss forecasts	8,765,016	10,979,052	-2,214,036	-20.17%	1.43%	1.55%
analytical value adjustments	8,765,016	10,979,052	-2,214,036	-20.17%	1.43%	1.55%
coverage ratio	12.05%	13.16%				
impaired loans net of value adjustments	63,990,049	72,433,434	-8,443,385	-11.66%	10.41%	10.26%
Total past due loans	122,058	12,387,166	-12,265,108	-99.01%	0.02%	1.75%
loss forecasts	1,221	70,325	-69,104	-98.26%	0.00%	0.01%
flat-rate value adjustments	1,221	70,325	-69,104	-98.26%	0.00%	0.01%
coverage ratio	1.00%	0.57%				
past due loans net of value adjustments	120,838	12,316,841	-12,196,004	-99.02%	0.02%	1.74%
Total restructured loans	17,334,779	17,998,560	-663,781		2.82%	2.55%
loss forecasts	5,289,181	5,827,047	-537,866		0.86%	0.83%
analytical value adjustments	5,289,181	5,827,047	-537,866		0.86%	0.83%
coverage ratio	30.51%	32.38%				
past due loans net of value adjustments	12,045,598	12,171,513	-125,915		1.96%	1.72%
Total loans to at-risk countries	4,256	533,584	-529,328	-99.20%	0.00%	0.08%
loss forecasts	5	813	-808		0.00%	0.00%
flat-rate value adjustments	5	813	-808	-99.36%	0.00%	0.00%
coverage ratio	0.12%	0.15%				
loans to at-risk countries net of value adjustments	4,250	532,770,78	-528,520	-99.20%	0.00%	0.08%
Total faulty loans	158,136,008	190,456,925	-32,320,916	-16.97%	25.72%	26.97%
loss forecasts	35,780,006	35,491,030	288,976	0.81%	5.82%	5.02%
value adjustments	35,780,006	35,491,030	288,976	0.81%	5.82%	5.02%
coverage ratio	22.63%	18.63%				
faulty loans net of value adjustments	122,356,002	154,965,895	-32,609,892	-21.04%	19.90%	21.94%
Total performing loans	456,741,119	515,839,884	-59,098,765	-11.46%	74.28%	73.03%
value adjustments	2,238,202	2,228,277	9,925	0.45%	0.36%	0.32%
coverage ratio	0.49%	0.43%				



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Administered values

Total deposits amounted to 1,352 million, with a huge decrease (-12.25%) in comparison with the end of 2015. The following table shows the financial resources of customers as at 31/12/2016 divided by technical form and included in the aggregates of direct and indirect deposits compared to 2015 BAC data.

Customers' deposits and securities

Financial resources of customers (amounts in Euro)	31/12/2016	31/12/2015	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2016	31/12/2015
A) Direct deposits						
Savings deposits	4,447,946	4,846,582	-398,637	-8.23%	0.33%	0.31%
Certificates of deposit	337,325,400	370,031,400	-32,706,000	-8.84%	24.93%	24.00%
Euro and foreign currency accounts	356,697,238	415,541,315	-58,844,077	-14.16%	26.36%	26.95%
Bonds issued	3,109,600	3,787,000	-677,400	-17.89%	0.23%	0.25%
Total traditional deposits	701,580,184	794,206,297	-92,626,113	-11.66%	51.86%	51.51%
Repurchasing agreements	2,600,825	849,981	1,750,844	205.99%	0.19%	0.06%
Total direct deposits	704,181,008	795,056,278	-90,875,270	-11.43%	52.05%	51.57%
B) Indirect deposits (market value)						
Fixed-income securities	140,116,565	181,740,475	-41,623,910	-22.90%	10.36%	11.79%
Equity securities	139,009,352	137,632,366	1,376,986	1.00%	10.27%	8.93%
Total administered indirect deposits	279,125,916	319,372,841	-40,246,925	-12.60%	20.63%	20.71%
Asset managements	65,215,176	90,074,085	-24,858,910	-27.60%	4.82%	5.84%
Funds	66,874,236	68,225,341	-1,351,105	-1.98%	4.94%	4.43%
Structured financial instruments	0	0	0		0.00%	0.00%
Insurance bank	237,537,060	269,029,281	-31,492,222	-11.71%	17.56%	17.45%
Total managed deposits	369,626,472	427,328,708	-57,702,236	-13.50%	27.32%	27.72%
Total indirect deposits (market value)	648,752,388	746,701,549	-97,949,160	-13.12%	47.95%	48.43%
C) Total deposits	1,352,933,397	1,541,757,827	-188,824,430	-12.25%	100.00%	100.00%

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Direct deposits amounted to 704.181 million, decreasing by -90.875 million (-11.43%) compared to the end of 2015. More in detail:

- sight deposits increased by 0.398 million;
- bank accounts decreased by 58.844;
- deposit repurchasing agreements with customers increased by 1.750 million;
- certificates of deposit decreased by 32.706 million;
- bonds issued by the bank decreased by 0.677 million to their physiological maturity.

In 2016, debts represented by securities in circulation, amounting to 340.435 million, registered a decrease of 33.383 million to be attributed, as already explained, to decreasing certificates of deposit and bonds. It should be noted that the Bank in 2012 issued a subordinate loan, amounting to nominal 20 million and maturing in March 2020, of which a first instalment has been refunded in 2016, reclassified among indirect deposits for EUR 16 million in the tables above.

Indirect deposits amounting to 648.752 million, showed a decrease of -97.949 million (+13.12%) compared to 746.701 million in 2015. In particular the aggregate shows:

- a decrease of administered savings amounting to 40.246 million (-12.60%),
- a decrease of managed savings amounting to 57.702 million (-13.50%).

The hemorrhage of the collection is due to the Voluntary Disclosure phenomenon started by the Italian government for the return of funds held abroad, whose conclusion took place in November 2015, although its effects extended to the whole 2016 through.

Financial investments

Financial investments recorded a decrease of 99.347 million (-61.15%) resulting from the combination of the variations occurred in investment assets (+25.521 million), in trading assets (+124.233 million) and the write-down of the shareholding in the loans fund at the NAV as of 31/12/2016. The write-down was converted into tax credit as regulated by Delegated Decree no. 174 of 27/11/2011 "urgent measures in support of operations to protect savings" due to the acquisition of the assets of Credito Sammarinese, which was wound up.



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FINANCIAL ASSETS	31/12/2016	31/12/2015	CHANGE	
			ABSOLUTE	%
Investment securities	25,521,429	0	25,521,429	100.00%
of which bonds	25,521,429	0	25,521,429	100.00%
Trading securities	37,588,482	162,457,109	-124,868,627	-76.86%
of which bonds	33,068,251	157,302,035	-124,233,784	-78.98%
Total financial portfolio	63,109,912	162,457,109	-99,347,198	-61.15%

FINANCIAL ASSETS Issuers	31/12/2016	31/12/2015	CHANGE	
			ABSOLUTE	%
Investment securities	25,521,429	0	25,521,429	100.00%
of which public issuers	25,521,429	0	25,521,429	100.00%
of which credit issuers	0	0	0	0.00%
of which financial issuers	0	0	0	0.00%
of which others	0	0	0	0.00%
Trading securities	37,588,482	162,457,109	-124,868,627	-76.86%
of which credit issuers	0	5,173,328	-5,173,328	-100.00%
of which financial issuers	4,520,231	5,155,074	-634,843	0.00%
of which public issuers	33,068,251	146,924,841	-113,856,589	0.00%
of which others	0	5,203,867	-5,203,867	0.00%
Total debt securities	63,109,912	162,457,109	-99,347,198	-61.15%

FINANCIAL ASSETS Fixed/variable rate	31/12/2016	31/12/2015	CHANGE	
			ABSOLUTE	%
Titoli immobilizzati	25,521,429	0	25,521,429	100.00%
di cui a tasso fisso	25,521,429	0	25,521,429	100.00%
di cui a tasso variabile	0	0	0	0.00%
Titoli non immobilizzati	37,588,482	162,457,109	-124,868,627	-76.86%
di cui a tasso fisso	33,068,251	157,302,035	-124,233,784	0.00%
di cui a tasso variabile	4,520,231	5,155,074	-634,843	100.00%
Total debt securities	63,109,912	162,457,109	-99,347,198	-61.15%

FINANCIAL ASSETS Residual Life	31/12/2016	31/12/2015	CHANGE	
			ABSOLUTE	%
Investment securities	25,521,429	0	25,521,429	100.00%
- within 12 months	0	0	0	0.00%
- within 3 years	0	0	0	100.00%
- within 5 years	0	0	0	100.00%
- over 5 years	25,521,429	0	25,521,429	100.00%
Trading securities	37,588,482	162,457,109	-124,868,627	-76.86%
- within 12 months	0	59,617,886	-59,617,886	100.00%
- within 3 years	0	97,684,149	-97,684,149	629.16%
- over 3 years	37,588,482	5,155,074	32,433,408	629.16%
Total debt securities	63,109,912	162,457,109	-99,347,198	-61.15%

For the sake of clarity the balance of the portfolio and its composition compared to 2015 data are also provided.

As far as market conditions and investment policies are concerned, the securities included in the unrestricted portfolio, focusing on securities with a higher risk appetite and an increasing profit target, have been disinvested, in order to re-compose the asset allocation of the securities portfolio and with the sales made:

- investment portfolio securities with maturity over 10 years has been purchased,
- unrestricted portfolio securities with a maturity between 4 and 7 years has been purchased,
- the unrestricted financial instruments produced a trading loss equal to EUR -0.938 and valuation losses equal to EUR -0.694 offset by a profit of EUR 0.339 arising from currency exchange transactions.

Financial instruments not discharged are composed for 33.068 million of debt securities issued by the bank and for 4.520 million of shares in mutual investment funds of San Marino law; the latter were subscribed on 29/12/2012 following the sale of legal relations in the whole by Credito Sammarinese which was wound up, in compliance with the contractual clauses provided for in the sale deed which envisaged a commitment for all transferee banks to assign the credits earned to a Management Company of San Marino law established ad hoc. This item recorded a decrease of 0.635 million due to the valuation of NAV fund at 31/12/2016; it should be noted that the write-down had no effects on the income statement as it was posted, as required by the legislation, in the item "temporary tax differences", because it will turn into tax credit only later, as a result of the losses that will be ascertained according to the effective realization of the assets sold. The owned financial instruments purchased in 2016 are composed by 5 (five) 5-year maturity securities of public offering.



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Shareholdings

SHAREHOLDINGS	31/12/2016	31/12/2015	CHANGE		% composition	
			ABSOLUTE	%	31/12/2016	31/12/2015
Shareholdings	4,730,450	4,559,508	170,942	3.75%	39.22%	38.48%
Investments in group companies	7,330,401	7,288,038	42,363	0.58%	60.78%	61.52%
Total shareholdings	12,060,851	11,847,546	213,305	1.80%	100.00%	100.00%

Equity investments in group companies showed an increase of EUR 0.213 million due to:

- the devaluation of the investment of BAC Fiduciaria S.p.A. for EUR -0.042 million, based on the net asset values expressed in the financial statements at 31/12/2016.
- the revaluation of the investment of San Marino Life S.p.A. for EUR 0.084 million based on the net asset values expressed in the financial statements at 31/12/2016.
- the devaluation of the investment of SSIS S.p.A. for EUR 0.021, million based on the net asset values expressed in the financial statements at 31/12/2016.
- the assignment for EUR 0.090 million of the payment service management company TP@Y S.p.A.
- finally, the takeover of the investment in Centro Servizi Srl for EUR 0.250.

Investment values of Banca Centrale and Camera di Commercio for which we hold a minority share, and the shareholding of IBS Immobiliare, whose reasonable loss equal to EUR 0.024 occurred in 2016 will be subsequently covered, remain unchanged.

A summary description of the main subsidiaries in the various operating sectors of the Group is shown in the introductory notes of the Management Report to which reference is made.

Interbank

At the end of 2016, as part of its financial assets, the Bank recorded a net interbank balance between assets (153.148 million) and liabilities (0.387 million) equal to 152.76 million. Compared to the corresponding figures at the end of 2015 (net of +108.706 million), the balance recorded an increase of



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net assets equal to 44.053 million due to the reorganization and disinvestment of the securities portfolio (+41.988 million), explained in the correspondent paragraph, and a considerable decrease of bank deposits amounting to -2.064 million; the net position remains at high levels and witnesses the virtual absence of bank debt, confirming the good situation of the company liquidity and the ongoing management and monitoring by the bodies in charge of the bank's liquidity risk despite the strong compression of deposits as a result of the Voluntary Disclosure.

Interbank	31/12/2016	31/12/2015	CHANGE		COMPOSITION %	
			ABSOLUTE	%	31/12/2016	31/12/2015
Loans to banks	153,148,166	111,159,539	41,988,626	37.77%	100.0%	100.0%
- in euro	144,102,420	93,341,150	50,761,270	54.38%	94.1%	84.0%
- in foreign currency	9,045,746	17,818,389	-8,772,643	-49.23%	5.9%	16.0%
Amounts due to banks	387,792	2,452,579	-2,064,787	-84.19%	100.0%	100.0%
- in euro	387,792	2,452,579	-2,064,787	-84.19%	100.0%	100.0%
- in foreign currency	0	0	0	0.00%	0.0%	0.0%
Net position	152,760,374	108,706,960	44,053,414	40.52%	100.0%	100.0%
- in euro	143,714,627	90,888,571	52,826,057	58.12%	94.1%	83.6%
- in foreign currency	9,045,746	17,818,389	-8,772,643	-49.23%	5.9%	16.4%

Interbank	31/12/2016	31/12/2015	CHANGE		COMPOSITION %	
			ABSOLUTE	%	31/12/2016	31/12/2015
Loans to banks	153,148,166	111,159,539	41,988,627	37.77%	100.0%	100.0%
- short term (up to 12 months)	125,925,727	77,392,833	48,532,894	62.71%	82.2%	69.6%
- medium and long term (over 12 months)	27,222,438	33,766,706	-6,544,268	0.00%	17.8%	30.4%
Amounts due to banks	387,792	2,452,579	-2,064,787	-84.19%	100.0%	100.0%
- short term (up to 12 months)	387,792	2,452,579	-2,064,787	-84.19%	100.0%	100.0%
- medium and long term (over 12 months)	0	0	0	0.00%	0.0%	0.0%
Net position	152,760,374	108,706,960	44,053,414	40.52%	100.0%	100.0%
- short term (up to 12 months)	125,537,935	42,090,225	83,447,710	198.26%	82.2%	38.7%
- medium and long term (over 12 months)	27,222,438	66,616,735	-39,394,297	0.00%	17.8%	61.3%

Net equity and capital ratio

Net equity

If the proposal of the draft budget approved by the Directors is accepted by the Shareholders' Meeting, the net equity at 31/12/2016 will amount to 90.148 million compared to 95.240 million at the end of 2015, recording a decrease of -5.092 million.

During 2016, the decrease of -5.092 million is due to:

- the increase of 1.252 million in the ordinary reserves resulting from the profit distribution in 2015;
- 2015 dividend distribution to shareholders for EUR 0.999 million;
- the utilization of the ordinary reserve for EUR -0.356 due to the merger deficit absorption resulting from the incorporation of Banca per lo Sviluppo Spa;
- the increase in revaluation reserves of 0.053 million following the valuation of shareholding at net equity;
- the formation of the 2016 net income equal to -3.793 million.

The table below shows the assets of the institution in comparison to BAC data and 2015 data:

NET EQUITY	31/12/2016	31/12/2015	CHANGE	
			ABSOLUTE	%
Share capital - subscribed and paid-up shares	20,880,080	20,880,080	0	0.00%
Ordinary reserve fund	58,395,668	57,499,203	896,465	1.56%
Extraordinary reserve fund	0	0	0	n.d.
Share premium reserve fund	0	0	0	n.d.
Own share reserve fund	14,378	11,518	2,860	24.83%
Revaluation reserves	14,651,105	14,597,800	53,305	100.00%
Retained loss			0	100.00%
Result for the year	-3,793,060	2,251,798	-6,044,858	268.45%
Totale	90,148,171	95,240,399	-5,092,228	-5.35%

Share capital

The share capital, fully subscribed and paid-up, amounts to EUR 20,880,080 divided into 803,080 shares with a nominal value of EUR 26.00 each.

Own shares

The number of own shares amounts to 553 shares for a nominal value of EUR 14.378. It is stated that in respect of own shares held in the portfolio the bank has constituted a special reserve fund of the same amount, as required by current legislation.

Supervisory capital and capital ratios

The supervisory capital – determined on the basis of the provisions of the Supervisory Authority – amounted to 81.313 million, for 73.360 million formed by core capital, compared to 77.046 million at 31/12/2015. The capital of the bank is suitable to hedge all said risks, with a total capital ratio of 16.73% well above the minimum of 11% required by Standard and a capital absorption against operating risk of 3.673 million which shows a surplus against the total capital absorption.

SUPERVISORY CAPITAL	31/12/2016	31/12/2015	CHANGE	
			ABSOLUTE	%
Supervisory capital	81,313,369	87,205,973	-5,892,604	-6.76%
Core capital	73,360,242	77,046,346	-3,686,104	-4.78%
A. WEIGHTED RISK ASSETS				
A.1 Credit and counterpart risk	486,028,615	572,599,241	-86,570,626	-15.12%
net of risk positions deducted from supervisory capital	11,363,121	13,386,997	-2,023,876	-15.12%
B. TOTAL CAPITAL REQUIREMENTS				
B.1 Credit and counterpart risk	53,463,148	62,985,916	-9,522,769	-15.12%
B.2 Operating risk	3,787,049	3,975,567	-188,519	-4.74%
C. SUPERVISORY RATIOS				
C.1 Supervisory capital/weighted assets	16.73%	15.23%		



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Risk assets of Banca Agricola Commerciale Spa

RISK ASSETS	31/12/2016	Weighting factor	31/12/2016	31/12/2015	Weighting factor	31/12/2015	CHANGE	
	RISK ASSETS		WEIGHTED VALUE	RISK ASSETS		WEIGHTED VALUE	ABSOLUTE	%
Balance sheet assets	818,083,670		479,402,555	966,831,335		567,700,249	-88,297,694	-16%
Cash	4,753,240	0%	-	3,361,166	0%	0	n.d.	n.d.
Loans secured by collaterals	12,072,695	0%	-	18,503,719	0%	0	n.d.	n.d.
Loans secured by collaterals	-	20%	-	123,647		24,729	n.d.	n.d.
Loans to or secured by States	204,442,508	0%	-	128,707,053	0%	0	n.d.	n.d.
Loans to credit entities	37,474,621	20%	7,494,924	84,799,451	20%	16,959,890	-9,464,966	-56%
Loans to supervised financial companies	8,148,421	20%	1,629,684	8,470,987	20%	1,694,197	-64,513	-4%
Loans to simplified supervised financial companies	-	40%	-	-	40%	0	n.d.	n.d.
Mortgage loans to individuals	25,616,574	50%	12,808,287	28,693,832	50%	14,346,916	-1,538,629	-11%
Leases - on fixed assets	58,883,406	50%	29,441,703	64,629,614	50%	32,314,807	-2,873,104	-9%
Loans to individuals	356,806,475	100%	356,806,475	409,663,998	100%	409,663,998	-52,857,523	-13%
Stocks, shares	693,898	100%	693,898	837,955	100%	837,955	-144,057	-17%
Stocks, shares	315,000	150%	472,500					
Cash values	580,316	20%	116,063	1,142,139	20%	228,428	-112,365	-49%
Accrued income	279,958	50%	139,979	473,065	50%	236,533	-96,553	-41%
Other assets	3,231,612	100%	3,231,612	2,611,339	100%	2,611,339	620,273	24%
Financial instruments to States	58,589,680	0%	-	146,924,841	0%	0	n.d.	n.d.
Financial instruments to Multilateral Development Banks		0%	-		0%	0	n.d.	n.d.
Financial instruments to Banks	-	20%	-	5,173,328	20%	1,034,666	n.d.	n.d.
Financial instruments to supervised financial companies		20%	-		20%	0	n.d.	n.d.
Financial instruments to other issuers	-	100%	-	5,203,866	100%	5,203,866	n.d.	n.d.
Non-performing loans	40,744,326	150%	61,116,489	50,063,179	150%	75,094,769	-13,978,279	-19%
Non-performing loans on leases	5,450,941	100%	5,450,941	7,448,156	100%	7,448,156	-1,997,215	-27%
Off-balance sheet assets	217,617,752		17,989,181	243,084,176		18,285,989	-296,808	-2%
Guarantees given and low risk commitments	185,128,193	0%	0	198,999,100	0%	0	n.d.	n.d.
Guarantees given and medium-low risk commitments		20%	-		20%	0	n.d.	n.d.
Guarantees given and medium risk commitments	18,527,737	50%	7,910,589	26,063,946	50%	10,998,341	-3,087,752	-28%
Guarantees given and full risk commitments	13,961,822	100%	10,078,592	18,021,130	100%	7,287,648	2,790,944	38%
Total weighted assets	1,035,701,422		497,391,736	1,209,915,511		585,986,238	-88,594,502	-15%
Risk positions deducted from supervisory capital to be deducted			11,363,121			13,386,997	-2,023,876	-15%
Total weighted risk assets net of doubtful results			486,028,615			572,599,241	-86,570,626	-15%

Relations with subsidiaries and associated concerns

The transactions with subsidiaries are part of the ordinary operations of the bank. The following tables provide information about the relations and contracts entered into with the companies of the Group:

- **Bac Fiduciaria Spa** has opened by the bank correspondence accounts for the current management of its assets whose amount at the end of 2016 was 0.616 million.
- **San Marino Life Spa** has opened by the bank correspondence accounts for the current management of its assets whose amount at the end of 2016 was 6.376 million.

Finally, we confirm the strict observance of the provisions contained in part VII of Regulation 2007/07 on contractual relations with related parties and entities in terms of obligations of corporate officers, shareholders and companies of the Banking Group.

Major risks	31/12/2016	31/12/2015
Individual limit (25% of the supervisory capital)	20,328,342	21,801,493
Total limit (8 times as much as supervisory capital)	650,506,952	697,647,780

Contractual relations with related parties		
Individual limit (20% of the supervisory capital)	16,262,674	17,441,195
Total limit (60% of the supervisory capital)	48,788,021	52,323,584

Limit to medium and long term investments		
Limit to investments (supervisory capital)	81,313,369	87,205,973
BAC medium and long term investments	92,652,242	74,965,423

Limit to medium and long term loans		
Limit to medium and long term loans (surplus + medium and long term deposits)	236,554,314	304,705,824
Medium and long term loans (residual life of loans and leasing)	230,723,991	302,934,897

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The table below provides details of the economic relations with companies of the Group.

Assets and liabilities to parent company, subsidiaries and investee companies

	31/12/2016	31/12/2015
Assets		
loans to banks	-	37,226,260
- BANCA CENTRALE	-	37,226,260
loans to customers	14,278,717	14,774,509
- SSIS SPA	911,151	961,531
- BAC FIDUCIARIA SPA	-	13
- IBS RENT SPA	2,491	2,491
- IBS IMMOBILIARE SRL	13,365,075	13,810,474
bonds and other debt financial instruments	-	-
Shareholdings	4,730,450	4,469,508
- SSIS SPA	420,176	409,234
- CAMERA DI COMMERCIO	1,033	1,033
- BANCA CENTRALE SM	4,059,241	4,059,241
- CENTRO SERVIZI	250,000	
Investments in bank group companies	7,330,401	7,288,038
- BAC FIDUCIARIA SPA	616,523	659,039
- IBS LEASING SPA		
- IBSRENT Srl	22,689	22,689
- SAN MARINO LIFE SPA	6,376,188	6,291,310
- IBS IMMOBILIARE SRL	315,000	315,000
Other Companies	-	90,000
- TP@Y SPA	-	90,000
TOTAL ASSETS	26,339,568	63,848,315
Liabilities		
amounts due to customers	1,480,919	6,515,655
- BAC FIDUCIARIA SPA	480,402	203,643
- IBSRENT Srl	6,105	23,650
- SAN MARINO LIFE SPA	895,166	6,035,832
- IBS IMMOBILIARE SRL	11,363	2,819
- SSIS SPA	87,883	249,711
payables represented by financial instruments	-	-
- BAC FIDUCIARIA SPA	-	-
other liabilities	-	-
- BAC FIDUCIARIA SPA	-	-
TOTAL LIABILITIES	1,480,919	6,515,655
Guarantees and commitments	0	0
- guarantees given		
- commitments		



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Revenues and expenses to related parties: subsidiaries and parent company

	31/12/2016	31/12/2015
Interest income and similar revenues	-	-
- IBS LEASING SPA		
- SAN MARINO LIFE SPA		
Interest expense and similar charges	-	-
- BAC FIDUCIARIA SPA		
- IBS LEASING SPA		
- SAN MARINO LIFE SPA		
Dividends	763,907	875,746
- BAC FIDUCIARIA SPA	-	63,642
- SAN MARINO LIFE SPA	763,907	812,104
- IBS LEASING SPA		
Interest margin	763,907	875,746
Commission income	237,000	275,000
- SAN MARINO LIFE SPA	237,000	275,000
- BAC FIDUCIARIA SPA		
Other net proceeds	46,660	46,666
- BAC FIDUCIARIA SPA	38,330	38,333
- IBS LEASING SPA		
- SAN MARINO LIFE SPA	8,330	8,333
Service margin	1,047,567	1,197,412
Intermediation margin	1,047,567	1,197,412
Operating costs	-	-
a) Personnel expenses	-	-
OPERATING RESULT	1,047,567	1,197,412

**Communication, marketing
and commercial activity**

In the past year, the Bank implemented a well-structured communication plan aimed at promoting the Group activity concerning the following specific sectors:

Investments for environmental protection: thanks to the subsidy to BAC energy funding, aimed at increasing the efficiency of civil and industrial plants, as well as spreading renewable energy technologies.

Managed and social security collection: thanks to the promotion of San Marino Life savings products, even in the form of Accumulation Plan and insurance policy deductibles within San Marino tax return framework.

Self-Banking: thanks to the communication development devoted to Web banking, Mobile banking and Online Trading services, as well as new Self-Areas available 24h/24 7d/7.

For this purpose, the Marketing OU designed three separate advertising campaigns; visible at the same time by the Bank premises and advertised alternately in newspapers and television.

The first campaign was inspired by renewable energy, a fundamental issue of 2016 BAC agenda, aimed at providing the reader with in-depth technical analysis relating to energy-saving solutions and relevant funding opportunities.

In this context, the Bank provides the user with a specific CD useful for company or home "energy check-up".

As a result of an agreement between BAC and the main suppliers of renewable-energy plants of San Marino Republic, the said CD, properly promoted, is gaining increasing interest and appreciation from the Market, since it offers a series of practical tips to instantly save energy consumption.

The second campaign relied on the consolidated values of trust, responsibility and competence, in order to raise customers' awareness toward "BAC evolution"-managed products, Capital Accumulation Plans and insurance deductibles.

The third campaign concentrates communication in the headline "BAC is always here" and in the payoff "the freedom to go to the bank, wherever you are"; summary of self-areas for counter operations on a 24 hour basis of the best web banking and online trading instruments now available to our customers 7 days a week.

The campaigns were developed through printed and digital ads, web marketing and TV messages.

The campaigns were accompanied by direct-marketing actions.

Customers gave positive feedbacks, showing a significant interest toward the environmental issues and the possibility of a free energy check-up, also taking advantage from managed investment products and self-service functions.

In addition, during the second part of the year, the new communication network “web, social and customer care” was activated, allowing the BAC Group to make its appearance on Facebook, Twitter and YouTube, alongside the creation of the new BAC and San Marino Life web sites.

In this regard, a new communication concept of the Group was promoted, based on a team sport, “rowing”, to be interpreted as enthusiastic, competent and responsible teamwork; the best reliable framework for our interlocutors.

The new communication network excellence is represented by the Customer Care multichannel service, which enables customers to contact our operators, using the latest standards of continuity and connection.

The Customer Care service provides a “CHAT” channel, which – in online mode – enables “live” communication with assistance and consultancy operators, in order to meet any needs for in-depth analysis and intervention relating to products and services offered.

The Customer Care service manages the social network field, with the purpose of turning the customers’ interest into business contacts and meetings.

The Customer Care service provides commercial options to customers by means of specific direct-marketing actions or interventions integrating those implemented by the commercial network.

With reference to the promotion and sponsorship of cultural and social activities, the Bank took part in the following initiatives:

Public conference, called “Think Green”, introducing subsidies for producing energy from renewable sources throughout San Marino.

“BAC-San Marino Criminal Chamber” partnership, aimed at supporting the criminal procedure reform project.

Exhibition at the hall of Dogana branch, of top-quality industrial productions, such as MV F3Ago Motorcycle and a new 3D printing technology.

“BAC-Techno Science Park-University” agreement, aimed at promoting business innovation and development.

Launch of BAC Art Gallery at Dogana headquarters – Piazza Tini – with two art exhibitions by the Noor 2 association.

Commercial development policies

The commercial approach goes through the analysis of the customers' needs. To optimize their satisfaction and ensure the constant search for financial instruments and services designed to achieve this goal, the bank defined a segmentation of the customers, focusing on the following targets:

- individuals/families:

- a) private customers of the "High net worth individuals" segment managed by private branches;
- b) retail customers of the affluent and mass market segment managed by retail branches;

-companies/professional activities:

- a) corporate activities managed by the corporate branch;
- b) small business managed by corporate and retail branches.

The bank identified Client Managers dedicated to homogeneous groups of customers that offer consultancy services or customized products, by using IT instruments designed for "customer care" and "customer satisfaction".

Finally, it should be noted that the new strategic guidelines are aimed at strengthening the market shares in respect of customers also residing in non-European markets.

**Operational activity and
organizational structure**

The organizational and operational activities started and monitored for the suitable functioning of the facilities and services provided by the Bank were mainly related to the constant monitoring of internal production processes in order to develop their efficiency levels through technological and functional interventions, the adjustments depending on the standard evolution time to time issued by Competent bodies, as well as the management of projects focused on the organizational structure development.

Planning aspects

In this context, the 2016 adoption of the new **Business Structure Distribution Model** was an important achievement, which involved the establishment of 3 Parent Branches (HUB), to which the remaining local branches are linked according to their geographical distribution and defined as SPOKE branches (remote offices). According to the new arrangement, the HUB branches will manage the main administrative

activities and the Spoke Branches will exclusively deal with business management, leading to a redistribution of resources.

Moreover, customer segmentation was improved by defining the new Affluent and Small Business segments that add to the Private and Corporate segments, already existing within the dedicated Segment Subsidiaries.

In this view, the IT migration of relationships was completed according to the new model and advanced services for ATM machines were introduced (such as the possibility to carry out bank transfers, in addition to the already existing cash/cheque deposit function). Moreover, the presence of specific self-areas in the various branches was further increased (for the branches of Dogana, Rovereta, Borgo Maggiore, Tavolucci and San Marino Historic Town Centre).

As for Commercial Network, a rearrangement of the territorial coverage was established during the year by planning, for the first semester of 2017, the closure of 4 subsidiaries (WTC, Ciarulla, Cailungo and Faetano) in order to optimize employed personnel management by rerouting professional skills and capabilities toward customer-oriented services and to improve company's cost/income ratio.

It should also be noted that these branches are located close to bigger subsidiaries, so the customer service will remain virtually unchanged and more focused on meeting the clients at their firms or homes.

In the field of technology, the evolution of the **Bank Information System (SIB Gesbank)** continued, whose main actions involved operating processes in relation to the applicable regulations (*among the most important we underline: the upgrade of the OCSE rule on international tax cooperation and consequent automatic exchange of information (the so called "CRS") and the upgrade of the preparatory activities on the starting of periodic detections required by the newly formed Centrale dei Rischi Sammarinese*).

During the year, the activities relating to the "**E-Money**" project (issuance of new credit cards and management of new POS and ATM acquiring services) were settled by means of the T.P@Y Spa Payment Institution and Centro Servizi Srl (both legal entities are joint partners of the main San Marino Banking institutions). In this regard, it should be noted that, during the first half of 2017, it was possible to provide customers with the new credit card, thus ensuring the service continuity upon the expiry of the validity of Cartasì credit cards.

In addition, operational activities (definition of technological/logistic infrastructure) were implemented, aimed at launching the new subsidiary

BAC INVESTMENTS SG Spa (entirely owned by our Institution), which will act as a finance service provider.

In view of the aforementioned projects and their related investments, the streamlining of fixed overheads (administrative expenses and depreciations), decreasing by about 0.240 million equal to -3% compared with the previous year, was ensured.

Regarding **Regulations**, besides the evidence already expressed above, we point out:

- Operating provisions on “government securities issued by San Marino Republic”;
- Upgrade of regulations concerning “SEPA Payment Services”; particularly, regulations on “domestic” transactions entered into force (San Marino banking network);
- Upgrade of provisions concerning “Group Risk Management Policies” issued by the Bank;
- Upgrade of provisions laid down by FIA (Financial Information Agency) on “data and information to be recorded and kept” under articles 34/35 of Law 92/2008 and subsequent amendments;
- Issuance of regulations resulting from “the bilateral convention for the avoidance of double taxation undersigned by Italy and San Marino”;
- Issuance of operating regulations for the “uncontrolled transfer of money on relationships and bearer passbooks” pursuant to BCSM Rule no. 10 of 18/05/2016;
- Upgrade of regulations on “ius variandi/transparency with customers and payment services” under BCSM Rules 2013/05 and 2015/02;
- Upgrade of operating regulations on “OCSE/CRS international fiscal cooperation on information exchange” pursuant to the Guidelines issued by CLO RSM (central liaison office).
- Upgrade of the operating procedures resulting from “the registration of customers in the master file” related to regulations which, from time to time, may be in force.

In addition, the following internal provisions were issued:

- Publication of a “foreign operations” manual managed by the dedicated Organizational Unit (Foreign OU);
- Publication of sector manuals concerning the “trading portfolio processing” managed by the dedicated Organizational Unit (Foreign OU);
- Upgrade of the “complaint management” function;
- Operational upgrades related to the credit area (Internal Regulation on Credit) and control area (provisions for 1st-level controls) concerning the adoption of the new business structure model (HUB Branches and Spoke remote offices);
- Upgrade of the General Regulation of management bodies, General Management and branches.

In this regard, it should be noted that during the last two months of the year, the “Asset quality review & Audit review” program, oriented to all San Marino banking institutions, was activated. The Bank, from time to time, reported all information required by the Supervisory Body and the activity continued for the first 2 months of the year 2017.

As far as the actions in Logistics are concerned, we include:

- the active management of assets in non-functional properties regarding both operational aspects and commercial ones (maintenance, sales and leases);
- the constant updating of functional structures (Head Office and Branches) to ensure proper performance of operations;
- the upgrade of the main physical and logical security facilities (management tools values, extraordinary maintenance of alarm and burglar alarm equipment, evolution of dedicated software).

Staff

Evolution and composition of the Staff

The Staff in service at 31 December 2016 totalled 146 units, with a decrease of 2 resources, in comparison with the 148 units of the previous year. The difference is due to the resignation of 3 employees (2 for voluntary resignation, 1 for retirement) and the hiring of 1 new resource. In addition, it should be pointed out that, as of 31 December 2016, the employment contract ended for 9 employees (of which 7 with fix-term contract and 2 for voluntary resignation); therefore, as of 1 January 2017, the total number of units working for the bank totals 137.

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Also for the year 2016, the bank resorted to secondment (Law 131/2005) and inserted another 3 units coming from Group companies.

At the end of the year, 6 resources were absent from service: one for trade-union secondment, 1 for secondment by a subsidiary, 1 for secondment by an investee company, 2 for post-partum leave and 1 for puerperium; 8 resources worked part-time.

In light of the above, full time equivalent stood at 139.95 resources, in comparison with 139.57 of the previous year.

At the end of the year, the staff included 6 executives who represent 4.11% of the total number, 16 officers representing 10.96 % of the staff, 17 managers representing 11.64% and 107 employees that affect the extent of 73.29% overall staffing.

52.86 % of the staff works in the Branches and Private and Corporate Divisions, while 47.14% in the Organizational Units and Departments.

The average age of the personnel is 42.74 years old.

The tables below show the composition of the staff by position, age, length of service and educational qualification.

Composition by Position				
	Men	Women	Total	Incidence %
Executives	6	0	6	4.11
Officers	11	5	16	10.96
Managers	15	2	17	11.64
Clerks	54	53	107	73.29
total	86	60	146	100.00

Composition by Age				
	Men	Women	Total	Incidence %
Over 50	16	4	20	13.70
From 41 to 50	45	26	71	48.63
From 31 to 40	22	26	48	32.88
Up to 30	3	4	7	4.79
total	86	60	146	100.00

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Composition by Length of Service				
	Men	Women	Total	Incidence %
Over 30	9	2	11	7.53
From 21 to 30	24	21	45	30.82
From 11 to 20	33	17	50	34.25
Up to 10	20	20	40	27.40
total	86	60	146	100.00

Composition by Educational Qualification				
	Men	Women	Total	Incidence %
University Degree	26	16	42	28.77
School Diploma	58	44	102	69.86
Other	2	0	2	1.37
total	86	60	146	100.00

Staff Training

The enhancement and further development of human resources through training courses continued also in 2016.

The first half of the year saw the end of the Leader Meetings workshop cycle, provided by the bank in cooperation with the renowned Università Cattolica del Sacro Cuore on the themes of financial innovation, bank internationalization with related strategies and social media communication. The bank supported the training initiatives promoted by the Associazione Italiana Private Banking about "family business", "insurance products", "portfolio management", as well as the fifth and sixth editions of the "*Neo Private Banker: a first technical-relational training*" course with the participation of two administrators, each one lecturing for eight days. In order to provide the customers with an increasingly qualified consultancy, training sessions were organized about network resources on insurance products offered by the bank on behalf of the subsidiary San Marino Life, while macroeconomic topics and market trends were tackled in cooperation with Pioneer Investments. In addition, specific in-depth sessions on financial product analysis and report instruments (portals) available to colleagues were arranged, besides the whole range of services included in the customer's offer (Web and Mobile Banking, On-line Trading, etc.).

In accordance with the evolution of service model, all network colleagues attended training sessions about "Sales techniques" provided by a proper consultancy company.

The bank accepted ABS' proposal to organize in-house training workshops on credit held by ABI for all the banks involved, encouraging the participation of subsidiaries' managers and vice presidents, credit managers and vice presidents, credit officers, corporate and small business managers. The meetings covered the following topics: "Risk Database and Reporting Guidelines", "The Business Plan", "Company Outlook Assessment", "Impaired Loan", "Company Group Evaluation in Credit Approval" and "Guarantees on Banking Operations".

The learning/development of the English language for all the employees concerned continued during the year with a total of 37 participants. In compliance with supervisory provisions, the employees attended training sessions on anti-money laundering held by the MLRO (Money Laundering Reporting Officer).

The MLRO attended the AIRA convention "From the third to the fourth anti-money laundering provision", to the training event "Prevention and suppression of money laundering and corporate crimes" and, together with the AML Department colleagues, to the event "Obligations in regard to anti-money laundering, self-laundering crimes and tax inspections during the Torre d'Avorio investigation".

The Head of the Compliance and Legal Organisational Unit attended the five days long initiative promoted by the Fondazione Banca Centrale di San Marino on "Money laundering and terrorism financing fighting techniques for insurance companies and intermediaries"; in addition, after attending "The Professionalizing Path for Bank Compliance" at ABI, she took and passed the final test.

The Group resources acting as Trustees in San Marino complied with the mandatory annual update at the Fondazione Banca Centrale and an employee attended the whole session as auditor.

The Deputy Head of International Division attended the High Training Course organized by the University of San Marino in "Internationalization Processes".

Following a specific agreement, a Corporate Division employee took a shadowing period in an Italian asset management company (SGR)

Some top managers and heads of corporate units took part in some important training sessions and events such as: "Team Working: collaboration, cohesion and interoperability", "Generation continuity, governance and protection of entrepreneur families' capital" by The European Ambrosetti; "The new scenario of insurance products' distribution to

Report of the board of directors on 2016 financial statements

private customers" by AIPB; "Banking Union and Basilea 3 Risk & Supervision 2016", "Fraud risk management", "Customer dimension 2016", "Advanced training for the Board of Directors" and specific training module "New trends: impacts and opportunities" by ABI, "Financial advice towards Mifid 2" promoted by Ascosim, the "World Business Forum" and "Morningstar Institutional Conference 2016".

Internal communication

During regular meetings, the management shared the results for the period with all the staff, communicated the strategies and fostered a constant debate; specific meetings were oriented to Branch and Division Managers in order to face market-related specific issues, to business initiatives, to legislation and adoption of the New Business Structure Distribution Model. The corporate Intranet, means of communication and knowledge sharing, was implemented with new contents and its utilization by the users promoted.

Year interventions on the organizational structure and internal inspections

Risk Management and Support Control Methods

For the year 2016, the **Internal Control System** received an overall evaluation of "fairly adequate".

The assessment was expressed by the Internal Audit based on the results of data collection and assessment metric systems defined by the "Integrated Model – Risk Based – Process Oriented" adopted by the function as risk and control analysis tool.

The verifications carried out during the year highlighted that 60% of the interventions were rated as "fairly adequate" with respect to the effectiveness of the organisational controls established for the processes and sub-processes taken into account, also based on the information regularly collected by the function. Among these, mention must be made of the effective closure of the evidence resulting from risk awareness performed by the Management.

The overall risk monitoring performed by the **Risk Management** function follows the methodological patterns established by the internal regulatory framework and, from a quantitative point of view, risk appetite was defined as the amount of capital BAC must hold to take on certain risks pursuant to prudential supervisory rules in force from time to time.

During 2016, the areas under examinations were the following:

- Solvency ratio;
- Minimum capital charges;
- Maturity transformation & Concentration risk;

- Credit risk;
- Market risk;
- Rate risk;
- Liquidity risk;
- Operational risk;
- Strategic risk;
- Reputational risk.

Monitoring activity results confirmed the compliance with the statutory limits set forth by Supervisory regulation.

In ensuring a proper management of the non-conformity risks to which BAC is potentially exposed, the **Compliance** function adopts a methodology essentially based on preventive validation of the whole internal regulation, ex-ante validation of innovative projects and ex-post verification of Bank activities.

The main tasks are the identification of rules applicable to the Bank, proposal of organisational changes, verification of their effectiveness and legal advice.

Main reference subjects are:

- Legislative and Regulatory Provisions issued by the Supervisory Authority;
- Internal Provisions (Consolidated Acts, Operating Manuals, Circulars, Service Communications, Guidelines);
- Contracts;
- Anti-money laundering computer archive.

Besides relying on a repository containing the complete external regulation and the related internal implementing legislation, the function carries out a regular Compliance Risk Assessment aimed at evaluating non-conformity risk and the adequacy of controls.

The results of control activities carried out in 2016 showed BAC's complete organisational, regulatory and operational conformity.

The Entrusted Anti-Money Laundering Manager (**RIA**) and the Anti-Money Laundering Function (**AML**) are structures meant to control the whole anti-money laundering process. The control patterns applied are the ones envisaged by Law 92/2008 and by the instructions issued by the Financial Information Agency (FIA). Primary targets are defined within the internal regulation.

The most relevant matter within BAC's company procedures undergoes a constant and continued risk-monitoring activity.

In view of the above, the structure faces an annual review of the Internal Audit in order to assess the adequacy of the Entrusted Manager function and the reliability of his/her monitoring activities.

The 2016 operational conduct with respect to the analysed processes was rated as "sufficiently compliant".

The Statutory Auditors rely on the support from control functions for assessing competence.

Important facts occurred after year end

There were no significant events after year end that would require adjustments to the financial statements or notes.

In February 2017 the European Monetary Fund - following the mission started in 2016 to evaluate the rating, the economic attractiveness and the solidity of the country financial system - paid a follow-up visit to all the banks of the Republic. BAC therefore welcomed a delegation and presented the main statistical data of the Bank. An effective debate on the main themes of the financial and banking sector emerged.

Business outlook

In the first few months of 2017 the three-year plan 2017-2019 was approved, establishing the Group's renewal and development variables as follows:

- Reorganization of the management structure, which shall have a "lean" composition and reduced hierarchical levels.
- Strong focus on directly manageable and more profitable business priorities.
- As for complex activities, synergy with specific partners in order to obtain risk-free revenues.
- A strong, domestic territory-oriented sale network focused on the acquisition of new customers and marginality recovery.
- Development of a private banking service standing out in terms of quality and profitability in the San Marino scenario.
- Careful selection of Italian customers in order to increase collection masses under management.
- Strong determination in the development of subsidiaries and their core business.
- Careful management of loan granting process and NPLs stock, whose net value for the 2017-2019 period is foreseen to be decreasing.
- Cost-income reduction.
- Further relevant provisions for credit risk funds.
- Thorough calculation of the expected income for the three-year period to increase supervisory capital.

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Report of the board of directors on 2016 financial statements

In view of the above mentioned targets, the Bank will close with a profit the future years and it will therefore be able to absorb the loss incurred in 2016.

We wish to express our heartfelt and sincere thanks to the General Management and all the Bank staff for their fruitful cooperation and commitment in carrying out the activity.

We extend an esteemed appreciation also to the Board of Auditors, which has provided a careful, rigorous and appreciated collaboration to the Management and the Board of Directors.

The most sincere gratitude, and not least, is finally directed to our customers for the preference granted towards the services and products offered by the Bank.

Proposal for the approval of the financial statements and the allocation of results for the year

We hereby ask you to approve the financial statements as of 31/12/2016 along with this report and to deliberate on the destination of 2016 net income as shown below:

NET EQUITY	31/12/2016
Share capital - subscribed and paid-up shares	20,880,080
Ordinary reserve fund	58,395,668
Extraordinary reserve fund	0
Share premium reserve fund	0
Own share reserve fund	14,378
Revaluation reserves	14,651,105
Retained loss	-3,793,060
Result for the year	0
Total	90,148,171

The number of own shares held in portfolio by the bank is 553 and their nominal value is EUR 14,378.

San Marino, 30 March 2017

The President of the
Board of Directors



**Board of auditors’
report to the
shareholders’
meeting for
the approval
of the financial
statements**

4

Board of auditors' report to the shareholders' meeting for the approval of the financial statements

BOARD OF AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING FOR THE APPROVAL OF THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(pursuant to article 83 of Company Law no. 47/2006 as amended)

To the Shareholders' Meeting of
Banca Agricola Commerciale Istituto Bancario Sammarinese S.p.A.

Dear Shareholders

during the year closed as of 31 December 2016 we performed supervisory activities in accordance with the Company Law and the provisions issued by Central Bank, while taking into account the behavioral principles recommended by the Professional Organizations and referred to the Articles of Association and the Provisions of Law on the preparation of financial statements.

The Board of Auditors acquired information for the performance of its functions both through meetings with Bank facilities and by virtue of what was reported during the meetings of the Board of Directors, in which the Board of Auditors always participated.

The institutional activity of the Board of Auditors was carried out in the following terms. In particular, the Board states that it:

- participated in the sessions of the Board of Directors' Meetings held during the year and obtained timely and detailed information from the directors about the activity carried out and the most important transactions performed by the Bank, or its subsidiaries, in accordance with provisions of law and articles of association;
- acquired necessary information to carry out its supervision over the compliance with the law and the Articles of Association, the observance of the principles of sound administration, as well as the adequacy of the organizational structure of the Bank and the internal audit and administrative-accounting systems, by direct surveys, collections of data and information from the managers of the various functions concerned, as well as from the Auditing Firm BDO S.p.A.;
- verified the functioning of audit systems;
- issued opinions required by law.

Based on the information available, the Board of Auditors did not find any atypical and/or unusual operations, including those performed within the Group or with related parties. The information about ordinary operations performed within the Group or with related parties, as well as their main financial and economic effects, provided by the directors in the Report on Management and in the Explanatory Notes accompanying the Financial Statements, to which reference is made, is appropriate. The Board of Auditors positively evaluated the compliance with the company's interest and the protection of minority shareholders.

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Board of auditors' report to the shareholders' meeting for the approval of the financial statements

The auditing firm BDO S.p.A., which is in charge of accounting control and audit, issued the report on the financial statements of the Bank on 12 April 2017, giving an unqualified opinion. The auditing firm brings to attention the indications of the Directors contained in the specific explanatory notes accompanying the financial statements in relation to the approval of the new 2017-2019 three-year plan approved at the meeting dated 1 March 2017.

The Board of Auditors, to the extent of its powers, agrees to the request for information and, therefore, the importance of the information provided by the Directors in relation to the Bank's guidelines and key development actions outlined in the report on management.

23 meetings of the Board of Directors and 3 meetings with the participation of the Board of Auditors and some of its members were held during the year 2016. In the same year, the Board of Auditors met 23 times.

The audit system appeared to be adequate to the dimensional and management characteristics of the Bank, as established during meetings with the managers of the various functions. Furthermore, the Internal Audit Manager ensured the necessary functional and informative link on the modes of performing institutional audit tasks, as well as on the results of the audits carried out, even by participating in meetings of the Board of Auditors.

The Board of Auditors has no comments to make on the observance of the principle of sound administration, which appear to have been constantly complied with. Also, it has no comments to make on the adequacy of the organizational structure, which was found to be suitable for meeting management needs and monitoring business operations, and on the adequacy of the administrative-accounting system and on the reliability to properly represent management operations.

During the periodic exchanges of data and information between the Board of Auditors and the auditing firm, no such issues emerged as to be mentioned in this report, with the exception of the abovementioned request for information. The supervisory activity of the Board of Auditors was carried out during the year 2016 under normal conditions and no omissions, censurable events or irregularities arose, even with reference to the provisions of the Supervisory Bodies. As regards the supervision on the financial statements closed as of 31 December 2015, the draft of which was approved by the Board of Directors at the meeting dated 30 March 2017 and provided to us along with the relevant annexes and the Management Report as required by law, we point out the following.

The Financial Statements were drawn up in compliance with the law and the regulations issued by Central Bank. They consist of the statement of assets and liabilities, the profit and loss account and the explanatory notes, and are accompanied by the Board of Directors' management report. We believe that the information provided to the Meeting complies with the relevant provisions

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Board of auditors' report to the shareholders' meeting for the approval of the financial statements

and contains an accurate, balanced and exhaustive analysis of the situation of the Bank, the progress and the result of operations.

Since the Board of Auditors has no mandate to perform a detailed audit of the Financial Statements, we monitored their general layout and the observance of law concerning their formation and structure, and in this regard the Board of Auditors has no particular comments to make.

During the year 2016, we did not receive any complaints pursuant to article 65 of Law 47/2006.

With reference to article 6, paragraph 10, of Law 47/2006, the members of the Board of Auditors state, under their personal responsibility, the permanence of the subjective and objective conditions for their office.

Dear Shareholders,

with reference to the Financial Statements, even considering the outcomes of the activity carried out by the auditing firm, also considering the request for information, the Board of Auditors has no comments or proposals to make, gives its assent to the approval of the Financial Statements and asks you to decide on the operating loss.

San Marino, 26 April 2017

Rag. Gian Enrico Casali (Chairman)

Dott.ssa Stefania Gatti (Auditor)

Avv. Alberto Vaglio (Auditor)



2016
Financial
Statements



2016 Financial Statements

A. Balance sheet assets

Item code	Assets items	31/12/2016	31/12/2015
10	Cash and cash equivalents	5,333,556	4,503,305
20	Loans to banks	153,148,166	111,159,539
	At sight	88,912,764	44,542,804
	Other credits	64,235,402	66,616,735
30	Loans to customers	456,036,478	503,807,635
	At sight	169,933,325	188,189,386
	Other credits	286,103,153	315,618,250
40	Bonds and other debt financial instruments	58,589,680	157,302,035
	Public issuers	58,589,680	146,924,841
	Banks		5,173,328
	Investors (investment firms)		
	Other issuers		5,203,867
50	Stocks, shares and other capital instruments	4,520,231	5,155,074
60	Shareholdings	4,730,450	4,559,508
	Financial enterprises	4,059,241	4,059,241
	Non-financial enterprises	671,209	500,267
70	Investments in bank group companies	7,330,401	7,288,038
	Financial enterprises	6,992,712	6,950,349
	Non-financial enterprises	337,689	337,689
80	Intangible fixed assets	2,122,446	2,585,452
	Financial leases		
	Assets awaiting lease		
	- of which resulting from annulled lease agreements		
	- of which for breach by tenant		
	Goodwill	32,498	54,810
	Other intangible fixed assets	2,089,948	2,530,642
90	Tangible fixed assets	202,803,420	214,748,629
	Financial leases	115,166,013	144,680,403
	Assets awaiting lease	5,656,428	20,089,463
	- of which resulting from annulled lease agreements	5,656,428	20,089,463
	- of which for breach by tenant	5,656,428	20,089,463
	Real estate property	80,556,667	48,218,604
	Other tangible fixed assets	1,424,313	1,760,159
100	Subscribed share capital not paid-in		
110	Own shares or stocks	14,378	11,518
120	Other assets	89,809,676	90,874,787
130	Accrued income and prepaid expenses	271,831	340,912
	Accrued income and prepaid expenses	47,315	21,815
	Prepaid expenses	224,516	319,097
140	Total assets	984,710,715	1,102,336,432



2016 Financial Statements

B. Liabilities

Item code	Liability items	31/12/2016	31/12/2015
10	Amounts due to banks	387,792	2,452,579
	At sight	387,792	2,452,579
	Term or with notice		
20	Amounts due to customers	423,982,098	494,741,977
	At sight	412,458,637	481,707,111
	Term or with notice	11,523,461	13,034,866
30	Paybles represented by financial instruments	351,562,596	386,707,916
	Bonds		-
	Certificates of deposit	351,562,596	386,707,916
	Other financial instruments		
40	Other liabilities	98,831,262	99,043,015
	- of which outstanding checks and similar securities	3,606,831	1,793,222
50	Accrued expense and deferred income	72,072	77,915
	Accrued expense and deferred income	19,677	26,900
	Deferred income	52,395	51,015
60	Severance	1,008,210	1,164,600
70	Reserves for risks and charges	2,696,783	2,877,630
	Provision for pensions and similar obligations		
	Tax reserves	1,044,172	1,044,475
	Other reserves	1,652,611	1,833,154
80	Risk provisions for credits		
90	Provisions for general banking risks		
100	ubordinate liabilities	16,021,731	20,030,402
110	Share capital	20,880,080	20,880,080
120	Share premium reserves		
130	Reserves for risks and charges	58,410,046	57,510,721
	Ordinary reserves	58,395,668	57,499,203
	- of which tax-suspended Reserves	1,227,968	1,227,968
	Own share reserves	14,378	11,518
	Extraordinary reserves		
	Other reserves		
140	Revaluation reserves	14,651,105	14,597,800
150	Retained earnings (losses) (+/-)		
160	Net income (loss) for the period (+/-)	-3,793,060	2,251,798
170	Total liabilities	984,710,715	1,102,336,432



2016 Financial Statements

Guarantees and commitments

Item code	Items	31/12/2016	31/12/2015
10	Guarantees given	26,192,920	22,136,593
	Acceptances	1,496,369	2,431,138
	Other guarantees	24,696,551	19,705,455
20	Commitments	13,404,648	37,323,153
	For specific use		
	- of which financial instruments		
	or unspecific use	1,968,852	8,784,883
	- of which financial instruments		
	Other commitments	11,435,796	28,538,271
30	Total	39,597,568	59,459,746



2016 Financial Statements

Profit and loss account

Item code	Profit and loss account	31/12/2016	31/12/2015
10	Interest income and similar revenues	23,782,291	30,827,647
	On amounts due from banks	217,588	349,813
	On loans to customers	21,676,776	25,209,158
	On debt securities	1,887,928	5,268,675
20	Interest expense and similar charges	7,768,679	11,091,002
	on amounts due to bank	1,213	15,499
	On payables to customers	1,249,580	2,040,999
	On bond payables	6,517,886	9,034,505
	- of which on subordinate liabilities	295,199	499,546
	Interest margin	16,013,612	19,736,644
30	Dividends and other revenues	918,907	952,250
	On stocks, shares and other variable-income securities		
	On shares	155,000	76,504
	On group company shares	763,907	875,746
40	Commission income	4,985,395	6,037,335
50	Commission expense	748,561	983,724
60	Profit (losses) on financial transactions (+/-)	-1,369,436	-3,289,600
70	Other operating income	17,836,731	28,552,277
80	Other overhead costs		
	Intermediation margin	37,636,649	51,005,183
90	Administrative expenses	16,112,812	16,454,698
	Personnel expenses	10,891,646	11,018,234
	- salary and wages	7,760,195	7,876,360
	- welfare contributions	2,008,921	2,001,062
	- severance	729,115	759,814
	- Dormancy and similar		
	- directors and auditors	240,443	223,458
	- other personnel expenses	152,972	157,540
	Other administrative expenses	5,221,166	5,436,464
100	Intangible asset adjustments	947,271	930,261
110	Tangible asset adjustments	17,501,279	28,109,006
120	Provisions for risks and charges	348,000	
130	Provisions for risks on credits		
140	Value adjustments for loans and provisions for guarantees and commitments	6,069,679	3,157,440
150	Writebacks on loans and on provisions for guarantees and commitments		
160	Financial asset adjustments		
170	Financial asset writebacks		
180	Operating income (loss)	-3,342,391	2,353,777
190	Extraordinary income	610,964	3,904,967
200	Extraordinary expense	446,070	3,237,802
210	Extraordinary income (loss)	164,894	667,165
220	Taxation for the year	615,563	769,144
230	Variations in general banking risk reserves (+/-)		
240	Income (loss) for the period	-3,793,060	2,251,798



Explanatory notes to the 2016 financial statements



Explanatory notes to the
2016 financial statements

EXPLANATORY NOTES TO THE 2016 FINANCIAL STATEMENTS

PART A **Accounting principles**

Corporate merger

SECTION 1
Illustration of
accounting principles

SECTION 2
Adjustments and
tax provisions

SECTION 3
Illustration of the
corporate merger

PART B
**Information on the
Statement of Assets
and Liabilities**

PART C
**Information on
the Profit and Loss
Account**

PART D
Other information



Explanatory notes to the 2016 financial statements

Structure and content of the financial statements

The financial statements for the year 2016 were prepared in accordance with the provisions of the Regulation no. 2008-02 about the preparation of the financial statements of banks issued on 23 September 2008 by the Central Bank of the Republic of San Marino, pursuant to article 39 of Law no. 165 of 17 November 2005.

As in previous years, particular attention was paid, on both form and content basis, to clarity, as well as to the truthful and correct representation of the Bank's real asset and financial situation. The accounting principles established by the applicable law were also applied.

The financial statements comprise the Statement of Assets and Liabilities, the Profit and Loss Account, laid out in such a way that the sub-totals are also shown, the statement of Guarantees and Commitments and the Explanatory Notes. They are completed by Directors' report on operations, Auditors' Report and Independent Auditors' Report.

The statement of assets and liabilities and the profit and loss account are comprised of items (marked in Arab numbers), sub-items (marked by letters) and further details (the "of which" of the items and sub-items). The items, sub-items and relative details constitute the financial statements.

The addition of new items is allowed, on condition that their content cannot be traced back to any of the items already included in the schedules, and only if it is for a significant amount. Further information is provided in the explanatory notes.

The sub-items envisaged by the schedules may be grouped when they satisfy one of the two following conditions:

- a.** the amount of the sub-items is negligible;
- b.** the grouping aids the clarity of the financial statements; in this case the explanatory notes must provide a separate indication of the sub-items that were grouped.

For each account on the statement of assets and liabilities and on the profit and loss account the amount of the previous fiscal year is indicated. If the accounts are not comparable, those relative to the previous year must be adapted; any incomparability and adaptation or the impossibility of performing the latter must be indicated and commented upon in the explanatory notes.

The statement of assets and liabilities and the profit and loss account also contain accounts for which no amounts were recorded in both the fiscal year to which the financial statements refer and those of the previous year.

If an element in the statement of assets or liabilities is classified under different items of the balance sheet, the fact that it refers to items other



Explanatory notes to the 2016 financial statements

than that under which it was posted must be indicated in the explanatory notes when such is necessary to the comprehension of the financial statements. The various entries in the Financial Statements correspond to the company's accounts which were drawn up in correspondence to the administrative transactions that occurred during the year.

In general, no conditions arose that entailed changing the way that the entries in the financial statements, or the relative criteria, are represented with respect to the previous year. In the cases in which this occurred, clear information is provided in the analysis of the single entry.

The accounts on the first day of the fiscal year correspond to those carried forward from the financial statements approved for the previous year.

The financial statements and the explanatory notes were drawn up in Euros, without decimal figures.

The recognition of incomes and charges was made on an accrual basis, regardless of the date of collection or payment, and in accordance with the principle of prudence. The latter principle presides, unless the formation of non-explicit reserves is envisaged. In order to not reduce the information content of the financial statements figures, implementing principles of truthfulness and clarity, income and expenses were not offset.

The write-down, depreciation and amortization of asset items were exclusively made by means of a direct adjustment decreasing the value of said items. Assets acquired in the name or on behalf of third parties are not shown in the financial statements.

Assets managed by the credit or financial body in the latter's name but on behalf of third parties are shown in the financial statements only if the body in question is the title holder; unless specified otherwise, the amount of said assets is indicated in the explanatory notes, broken down into the various asset and liability items.

PART A

Accounting principles

Section 1 – Illustration of accounting principles

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

Cash and cash equivalents (asset item no. 10): this item includes currencies with legal tender, including banknotes and foreign coins, money orders, bankers' orders and postal orders, as well as equated securities, coupons and on-demand securities. Included are also collectable coins and medals as well as gold, silver and stamped values.

Loans to banks (asset item no. 20): this item shows all loans to banks, whatever their technical form is, except for those represented



Explanatory notes to the 2016 financial statements

by financial instruments, which require posting under item no. 40 “Bonds and other fixed income securities”.

Loans to banks also contain the counter value of carry-over operations and repurchase agreements for which the transferee bank has a sale back obligation to the selling bank on the maturity of the securities.

The amount posted is equal to the spot price paid. The spot transferred assets continue to be shown in the portfolio of the selling bank.

Loans to customers (asset item no. 30): this item shows the loans deriving from financing contracts with customers, whatever their technical form is, on condition that, and to the extent to which the loan was effectively granted. The loans that have not been disbursed yet, even though recorded in the accounts on the “contracting date”, are not included in this item, but in the item concerning commitments. The loans represented by financial instruments are recorded in item 40 “Bonds and other fixed-income securities”.

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

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

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

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

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



Explanatory notes to the 2016 financial statements

More specifically:

Non-performing loans

Are a category of loans, regardless of the expectation or otherwise of possible losses, made to borrowers in a state of insolvency, even if not legally ascertained, or in similar situations.

This item represents the full exposure, including interest recorded and the expenses incurred for collection activities, adjusted by the portion of interest that is considered unrecoverable. Non-performing loans are valued analyzing the likelihood of their recovery on an analytical basis and calculating the relative presumed loss.

Impaired loans

Are loans to borrowers suffering temporary difficulties, which are likely to be overcome in an acceptable period of time. They are valued on an analytical basis. Furthermore, by virtue of the new Regulation no. 2007-07, impaired loans now also include loans that have fallen due and have not been repaid, even only partially, as follows:

- 3 six-monthly instalments or 5 quarterly instalments for loans with an original term exceeding 36 months.
- 2 six-monthly instalments or 3 quarterly instalments for loans with a term equal to or less than 36 months.

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

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

Restructured loans

Cash and "off-balance sheet" exposures for which the bank, due to the worsening of debtor's economic-financial conditions, allows to change the original contract conditions (for example, terms rescheduling, debt and/or interest reduction, etc.) resulted in a loss. Exposures towards companies expected to close (e.g. for voluntary liquidation or similar situations) are not included. Anomalous exposures especially concerning the Country risk are also excluded. A hypothetical credit restructuring of non-performing loans is mainly aimed at liquidation; consequently, it does not come within the definition of restructured loans, but non-performing ones. The same method is applied to impaired loans, if the re-negotiation of the contract conditions is aimed at paying part of the exposure (liquidation purpose).



Explanatory notes to the 2016 financial statements

Past due and/or overdrawn loans

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

Loans to "at-risk" countries

Refer to exposures to borrowers coming from Zone B countries; this category represents a residual part of the commitments and was consequently subject to arbitrary write-down.

Performing loans

These are written-down on an overall basis, in order to guarantee a hedging from the so called "physiological risk"; the write-down is made prudentially in a way to be able to face any unforeseen losses. Flat-rate value adjustments are made based on all information evidence available, which allow a valuation of the risk level of the homogeneous category of loans considered and its outlook.

In determining these adjustments, any analytical write-downs already made with regard to individual positions are taken into account. The flat-rate write-down is left to the prudent evaluation of the administrative bodies.

Bonds and other financial instruments (asset item no. 40)

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

This item shows all the financial debt instruments in the bank's portfolio, both long- and short-term, such as government securities, bonds, certificates of deposit and the other fixed or variable income financial instruments, which are index-linked on the basis of predetermined parameter (e.g. the interbank interest rate).

The securities include only reacquired and tradable securities issued by the bank itself.

The financial instruments in the investment portfolio and the trading portfolio are recorded in the assets for an amount that includes (excludes) the accrued portion of the negative (positive) differences between the purchase cost and the repayment value upon the maturity of the same financial instruments.



Explanatory notes to the 2016 financial statements

The value of the tradable financial instruments is determined with reference to the average value of the last month before the valuation.

The financial instruments are considered as financial fixed assets and therefore subject to the valuation rules pursuant to article III.II.3 of BCSM regulation 2008-02, only if they are destined to stable investments by the bank. More specifically: Long-term financial instruments represent a financial fixed asset and are made according to the parameters established by the management body. The final balance of investment securities was therefore valued at the weighted average cost, for instruments that had already been included in the investment portfolio the previous year, while their purchase cost was recorded for new acquisitions during the year. The accrued portion of the difference between the book value or purchase value and the lower/higher repayment value of the security is also recognized by recording it in the assets under item no. 40 "Bonds and other financial instruments" with respect to the value of each specific security. In the event of the lasting deterioration of the issuer's state of solvency, or the ability to repay the debt by the country of residence of the latter, investment securities are written down. Other write-downs may be recorded to take the following into account:

- The relevant share prices of securities listed on regulated markets;
- Market trends, for other securities.

Should the reasons for the write-down no longer subsist, write-downs made for long-term value losses are written back.

Trading financial instruments are held for trading or for treasury requirements; they are valued on the basis of assumed market trends as expressly specified under paragraph 6 of art III.II.4 of BCSM regulation 2008-02:

- a. the market value of listed financial instruments is represented by the market price, namely, the weighted average of the prices recorded in the last month prior to valuation, and consequent recognition of both losses and gains.
- b. the market value of unlisted financial instruments is calculated on the basis of the value of similar listed and unlisted instruments, or, if the latter is not possible, on the basis of reasonable estimates.
- c. the own shares held by the Institute are recorded at their par value.

The cost is calculated using the "average weighted rolling cost" formula on a daily basis, adjusted by the portion of the accrued net underwriting spread. Any losses or gains, limited to listed securities, which emerge from the comparison between the average rolling cost, as illustrated above, and the market value, are recorded in the profit and loss account.



Explanatory notes to the 2016 financial statements

Shareholdings (asset items no. 60 and 70)

Shareholdings in subsidiaries representing financial fixed assets since held as assets for the purpose of stable investment are valued by the equity method, if necessary adjusted in the presence of accrued impairment losses deemed to be permanent. Should the reasons for the write-down no longer subsist, the write-downs made for impairment losses are written back.

Dividends paid by subsidiary companies are recorded on an "accrual" basis, as allowed by the current accounting principles.

Dividends paid by companies which do not have the above characteristics are recorded on a "cash" basis, namely, in the period in which they are resolved upon, which usually coincides with the period in which they are collected.

Shareholdings in other uncontrolled companies representing financial fixed assets are valued at purchase cost. They are written down in the event of permanent deterioration of the issuer's situation and are written back if the reasons originating them no longer subsist.

Intangible fixed assets (asset item no. 80)

Intangible fixed assets are recorded in the financial statements at inclusive cost of additional charges and are usually amortized within five years. Assets with a high technological obsolescence are amortized over three years. The amortization of assets is made systematically by direct adjustment of their value, using the rates provided for by tax law no. 166 of 16/12/2013. The cost of intangible fixed assets with a limited use over time is systematically amortized every year by directly adjusting their value in accordance with the residual useful life.

Until the depreciation is completed, dividends can be distributed only if there are available reserves sufficient to cover the non-amortized costs.

Tangible fixed assets (asset item no. 90)

Tangible fixed assets are recognized at purchase cost, inclusive of additional charges and any other incremental expenses. Assets are depreciated systematically by directly adjusting their value using the rates established by the tax law no.166 of 16/12/2013, deemed appropriate and representative of the value corresponding to the residual useful life of the asset.

If assets demonstrate an impairment value which is lower than its cost, this is written down. Should the assumptions supporting the original write-down no longer subsist, write-downs made in previous periods are not maintained.



Explanatory notes to the 2016 financial statements

Financial lease transactions (leasing – asset item no. 90)

The amount of assets subject (or awaiting to be subject) to financial lease is recorded in asset item 90 “Tangible fixed assets” in case of tangible assets. Loans relative to financial lease transactions are calculated according to the financial methodology and are recorded in the assets as the algebraic balance obtained from the difference between the financed capital or historic cost of the asset and the relative accumulated depreciation; the latter increases thanks to the principal of the various instalments accrued. Furthermore, the instalments accrued during the year are entered under interest income and similar revenues for the part regarding the interest, and under other operating income for the part regarding the capital. At the same time, the bank reduces the value of the leased asset by the principal, posting a cost (equal to the principal) in the profit and loss account and directly reducing the value of the leased asset.

At year end, the cost item used becomes part of item 110 “Value adjustments to tangible assets” depending on the nature of the leased asset.

Assets and liabilities in foreign currency

Assets and liabilities denominated in foreign currency and off-balance sheet transactions are recognized at the spot exchange rate in effect at year end, according to art.III.II.6.

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

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

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

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

Derivative contracts set in place to cover assets or liabilities are valued in coherence to covered assets or liabilities.



Explanatory notes to the 2016 financial statements

The differentials are recorded pro-rata temporis under the profit and loss account items 10-20 relating to “interest income (expenses) and similar revenues (charges), consistent with the costs and income generated by the covered elements.

Derivative trading contracts directly listed on regulated markets, as well as those using listed parameters or parameters taken from the standard information circuits used at international level as reference, are recognized at market value, which also means the price recorded on the last working day of the month in question, or, in the absence thereof, the last recorded price.

The difference between the current value of assets and liabilities and the off-balance sheet transactions and the book value of the same elements and transactions is included in the profit and loss account in the balance of item 60 “Profits (losses) on financial transactions”.

Amounts due to banks (liability item no. 10)

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

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

Amounts due to customers (liability item no. 20)

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

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

The above items are recognized at their par value. The loans deriving from financing contracts are posted in the accounts for the disbursed amount, net of any repayments. Loans for expired due interest as well as arrears interest accrued and deemed as recoverable are included. Arrears interest is systematically recognized from January 1th 2008.

Payables represented by financial instruments (liability item no. 30)

In addition to bonds and certificates of deposit, this item includes, under the sub-item “other financial instruments”, its traced acceptances and the atypical securities according to article II.III.8 of regulation 2007/07.



Explanatory notes to the 2016 financial statements

It should be noted that in this item the bank has exclusively entered those certificates of deposit issued. Debt financial instruments which are past due but have not yet been repaid upon the reference date are also included.

The spot value of "repurchase agreements" is indicated in the specific liability item, while the underlying securities are represented in the assets under the item "Bonds and other debt securities". The forward value of the above transactions is recorded under the item "Commitment to exchange financial instruments of specific use" reclassified under Guarantees and Commitments.

Other assets - Other liabilities (asset item 120 – liability item 40)

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

Non-interest bearing cash deposits held at clearing organizations for transactions on derivative contracts (known as margin calls) are also included. Any revaluations of off-balance sheet transactions on financial instruments, currencies, interest rates, stock exchange indexes or other assets are also recognized, regardless of their use for hedging or trading purposes

Accruals and deferrals (asset item no. 130 and liability item no. 50)

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

Accruals and deferrals are recorded separately in the profit and loss account in specific asset sub-items.

The Bank directly adjusts the asset accounts or liability accounts to which the accrued income and prepayments refer, increasing or decreasing them, in the following cases:

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

In any case, the material adjustments are illustrated in the explanatory notes.



Explanatory notes to the 2016 financial statements

Accruals and deferrals related to differentials or margins arising from derivative contracts to hedge the interest rate risk of interest-bearing assets and liabilities are considered as an increase or decrease of such assets and liabilities.

Severance (liability item no. 60)

The personnel severance fund fully covers the seniority of all employees of this company accrued at year end.

Provisions for risks and charges (liability item no. 70)

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

- the provisions for taxes, comprising allocations made for direct current taxation. These represent a reasonable forecast of the tax charges for the period calculated on the basis of current tax legislation.
- Il fondo per rischi ed oneri comprende inoltre il fondo beneficenza ed iniziative di carattere religioso e culturale e altri tre di seguito elencati:
- The provisions for risks and charges also include the fund for charity and events of a religious or cultural nature and a further three newly-established funds listed below:
- the provision for claims and revocation actions.
- the provision for variable personnel costs, which covers the cost of one-off bonuses paid to employees on the basis of their performance until December 31st 2010 included.
- the fund for contractual rises in employee wages in view of the gap between contracts existing until December 31st 2010.

Reserves (liability item no. 130)

The ordinary reserve is composed of profits accrued in previous years as set out by law, but also contains the replenishment of the tax-suspended reserve, resulting from the extraordinary demerger by reverse incorporation of Istituto Bancario Sammarinese Spa, occurred in 2012, according to the law deriving from tax deduction due to own capital increases established by Delegated Decree no. 172 26/10/2010, subsequently replaced with art. 74, law 166/2013. According to the aforementioned law, art. 78 provides that tax-suspended reserves posted on the last balance sheet of the demerged company, must be replenished by the beneficiaries according to proportional shares.



Explanatory notes to the 2016 financial statements

In case of partial demerger, the demerged company's reserves decrease, accordingly. In tax-suspension arrangements are due to events concerning specific asset items of the demerged company, the reserves shall be replenished by the beneficiaries acquiring said assets.

Guarantees (item 10)

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

Commitments (item 20)

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

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

Deferred taxes

To truly represent a real economic situation of the Bank, it has been used the deferred taxation. This is determined considering the fiscal effect connected with temporal differences between accounting value of assets and liabilities and their fiscal value that will determine taxable amounts in the future. To this end, "temporal differences" mean those differences which will result in taxable income, namely, deductions from taxable income in the future periods.

In particular, they are registered assets for in-advance taxes when exists the reasonable certainty that they will be paid. They are registered liabilities for deferred taxes when it is likely that they will become an effective cost. In advance taxes are part of the item "other assets", whereas deferred taxes are part of the item "taxation fund".

The case law of the Bank dealt with recording in the financial statements the deferred tax assets arising from deductible temporary differences and representing taxes paid in advance which will be recovered in future years.

Adjustments and tax provisions

Section 2 - Adjustments and tax provisions

Value adjustments to receivables comprise: positions posted to losses in the profit and loss account, since the collection of the said credit is impossible, the concomitant use of the "Provision for loan adjustment" for an equal amount and of the portion of forfeit allocation to the aforementioned Provision as established with reference to the internal statistical statements about loan losses, in combination with internal statistical data on losses on loans and the estimated loss as calculated by the O.U. Disputes and Recoveries for impaired positions.



Explanatory notes to the 2016 financial statements

Allocations to the “Provision for doubtful debts” are made within the limits established by tax legislation but in any events its function is to adjust the value of the loans whose recoverability is uncertain, including the principal and arrears interest. The provision for taxation is comprised of allocations made on the basis of forecast tax charges for the period calculated on the basis of current tax legislation.

Illustration of corporate merger

Section 3 – Illustration of corporate merger

During 2016, the acquisition and subsequent merger of Società Banca per lo Sviluppo Spa - previously Istituto Bancario Sammarinese Spa - have been concluded. In 2012 said company was subject to a partial and proportional demerger in favor of BAC in relation with all assets concerning banking, as well as the whole banking business unit. Therefore, on 27/04/2016 the Shareholdings’ Meeting of Banca Agricola Commerciale of the Republic of San Marino (parent company) approved the merger by incorporation under art. 90, Law no. 47 of 23 February 2006, and on 26/09/2016, with effect as of 01/01/2016, BAC Spa took over all assets and liabilities of Banca per lo Sviluppo Spa and all its bonds by deed of merger approved by the Supervisory Authority and legally registered in the Register of mortgages on 29/09/2016. The Bank closing balance sheet as of 31/12/2016 includes all balances accumulated as of 30/09/2016, basically administrative and operating expenses, as well as the assets of Banca per lo Sviluppo Spa as of the same date. The following table shows the accounting statement of the incorporated Banca per lo Sviluppo Spa.



Explanatory notes to the 2016 financial statements

ASSETS	30/09/2016
Cash and cash equivalents	
Loans to banks	
Loans to customers	
Securities portfolio	
Shares	
Tangible and intangible fixed assets	
Capital subscribed and not paid in	13,000,000
Other assets	
Total Assets	13,000,000
LIABILITIES	
Amounts due to banks	449,475
Amounts due to customers	
Debts represented by other financial instruments	
Other liabilities	488,477
Accruals and deferred income	
Provisions for risks and charges	
Total Liabilities	937,951
Company net equity	12,062,049

Here below the consolidation accounting requirements pertaining to the net equity:

- Previous deposit from shareholders amounting to EUR 230,000 and partial coverage of previous losses.
- Purchase of BSV share by BAC and deposit of EUR 10,000 in the shareholders' account.
- Cancellation between capital not paid-in and share capital.
- Intercompany cancellation between BSV and BAC accounts
- Termination of leasing contracts and transfer of a total amount of EUR 5,686,923 to owned properties.
- Application of prepaid taxes for benefits resulting from BSV loss carry-forward offsetting a merger surplus equal to EUR 102,824
- Determination of merger surplus to be covered by means of ordinary reserve amounting to EUR 356,050.



Explanatory notes to the 2016 financial statements

PART B

Information on the Statement of Assets and Liabilities

Asset item no. 10

Table 1.1. - Cash and Cash equivalents

	31/12/2016	31/12/2015	Variazioni	
			importo	%
Cash and cash equivalents:				
€ cash	3,219,917	2,207,598	1,012,320	45.86%
Foreign currency cash	760,655	526,254	234,402	44.54%
ATM cash	723,570	581,455	142,115	24.44%
€/foreign currency cheques	580,316	1,142,139	-561,823	-49.19%
Other	49,097	45,860	3,238	7.06%
Total	5,333,556	4,503,305	830,251	18.44%

Asset item no. 20

Table 2.1 – Loans to banks

A. Breakdown of item 20 in asset postings: "Loans to banks" (2.1)	31/12/2016		31/12/2015	
	In EUR	In foreign currency	In EUR	In foreign currency
At sight	81,879,981	7,032,782	36,574,153	7,968,651
Reciprocal accounts opened for services rendered	70,222,973		21,639,591	
Current accounts	11,657,008	7,032,782	14,934,562	7,968,651
Other				
Other loans	62,222,438	2,012,964	56,766,997	9,849,738
Time deposits	62,222,438	2,012,964	56,766,997	9,849,738
Current accounts				
Repurchasing agreements				
Other				
TOTAL	144,102,420	9,045,746	93,341,150	17,818,389
GENERAL TOTAL	153,148,166		111,159,539	



Explanatory notes to the 2016 financial statements

The breakdown of Loans to banks shows increasing deposits in reciprocal accounts opened for services equal to EUR 48,583,382 due to a redistribution of the own securities portfolio, which, after disposal, converged to cash deposits to banks in order to prudently meet the cash demand due to the return of capital to Italy for the so-called "Voluntary Disclosure". Moreover, item "Time deposits" includes the time deposit for Compulsory Reserve in Central Bank amounting to EUR 24,943,906, established by Decree no. 162 of 3 December 2009, three month term deposits in Central Bank equal to EUR 35,000,000 and in foreign banks equal to EUR 2,012,923.

Table 2.2 – Situation of cash loans to banks

B. Situation of cash loans to banks (2.2)	31/12/2016			31/12/2015		
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure
Doubtful loans		-	-	-	-	-
Non-performing loans			-			-
Bad loans			-			-
Restructured loans			-			-
Past due/overdrawn loans			-			-
Unsecured loans to at-risk countries			-			-
Performing loans	153,148,166		153,148,166	111,159,539		111,159,539
TOTAL	153,148,166	-	153,148,166	111,159,539	-	111,159,539

Table 2.3 – Dynamics of doubtful loans to banks

C. Dynamics of doubtful loans to banks (2.3)	31/12/2016					31/12/2015				
	Non-performing loans	Bad loans	Restructured loans	Past due / overdrawn loans	Unsecured loans to at-risk countries	Non-performing loans	Bad loans	Restructured loans	Past due / overdrawn loans	Unsecured loans to at-risk countries
Opening gross exposure										
- of which for accrued interest										
Increases	-	-	-	-	-	-	-	-	-	-
Inflows from performing loans										
Accrued interests										
Other increases										
Decreases	-	-	-	-	-	-	-	-	-	-
Outflows to performing loans										
Cancellations										
Incassi										
Realizzi per cessioni										
Altre variazioni in diminuzione										
Closing gross exposure as of 31 Dec 2016	-	-	-	-	-	-	-	-	-	-
- of which for accrued interest										



Explanatory notes to the 2016 financial statements

Table 2.4 – Dynamics of total value adjustments of Loans to Banks

D. Dynamics of total value adjustments of "Loans to banks" (2.4)	31/12/2016						31/12/2015					
	Non- performing loans	Bad loans	Restructured loans	Unsecured loans to at- risk countries	Performing loans	Non- performing loans	Bad loans	Restructured loans	Past due / overdrawn loans	Unsecured loans to at- risk countries	Performing loans	Crediti in bonis
Opening value adjustments												1,382
Increases		-	-	-	-	-	-	-	-	-	-	-
Value adjustments												
- of which for accrued interest												
Utilizations of risk provisions for loans												
Transfers from other credit categories												
Other increases												
Decreases		-	-	-	-	-	-	-	-	-	-	1,382
Writebacks from valuation												
- of which for accrued interest												
Writebacks from collection												
- of which for accrued interest												
Cancellations												
Transfers to other credit categories												
Other decreases												1,382
Closing value adjustments as of 31 Dec 2016		-	-	-	-	-	-	-	-	-	-	
- of which for accrued interest												



Explanatory notes to the 2016 financial statements

Table 2.5 – Breakdown of “Loans to banks” based on residual life

E. Breakdown of “Loans to banks” based on residual life (2.5)		
Maturity	31/12/2016	31/12/2015
At sight	88,912,764	44,542,804
From 1 day to 3 months	36,897,392	32,793,445
From 3 to 6 months	115,572	
From 6 months to 1 year	-	56,584
From 1 year to 18 months		
From 18 months to 2 years		
From 2 to 5 years		
Over 5 years		
Maturity not posted	27,222,438	33,766,706
TOTAL	153,148,166	111,159,539

The maturity band not assigned includes the ROB deposit constituted at Central Bank. As a result of the new provisions of the Supervisory Authority, it must be reclassified here; the ROB deposit in 2015 amounted to EUR 33,633,085.

Asset item no. 30

Table 3.1 – Breakdown of item no. 30 Loans to Customers

A. Breakdown of item 30 in asset postings “Loans to customers” (3.1)				
Categories / Currencies	31/12/2016		31/12/2015	
	In EUR	In foreign currency	In EUR	In foreign currency
At sight / non-revolving	167,815,152	2,118,173	185,773,425	2,415,961
Current accounts	59,378,531	18,821	67,794,454	21,993
Other	108,436,621	2,099,352	117,978,971	2,393,968
Other Loans	285,547,015	556,138	315,446,366	171,884
Current accounts	15,539,303		27,294,095	
Discounted and s.t.c. portfolio	6,924,725		1,878,115	
Repurchasing agreements				
Other loans	263,082,987	556,138	286,274,156	171,884
TOTAL	453,362,167	2,674,311	501,219,791	2,587,844
GENERAL TOTAL	456,036,478		503,807,635	



Explanatory notes to the 2016 financial statements

The loans outlined above are presented at the expected sale value, inclusive of arrears interest on non-performing and doubtful exposures calculated starting from 01/01/2008.

Table 3.2 – Guaranteed loans to customers
The following table shows all types of guaranteed loans

B. Guaranteed loans to customers (3.2)				
Categories / Currencies	31/12/2016		31/12/2015	
	In EUR	In foreign currency	In EUR	In foreign currency
From mortgages	122,242,285		160,581,138	
From lien on:	15,248,688	-	43,754,678	-
Cash deposits	7,680,081			
Securities	5,006,363		28,263,551	
Other	2,562,243		15,491,126	
From guarantees:	309,020,936	-	234,410,433	-
Governments	47,892,614		46,418,027	
Other public organizations				
Banks	3,897,177			
Other financial companies	6,235,813		9,483,562	
Other operators	250,995,332		178,508,844	
TOTAL	446,511,909	-	438,746,249	-



Explanatory notes to the 2016 financial statements

Table 3.3 – Situation of cash loans to customers

C. Situation of cash loans to customers (3.3)	31/12/2016			31/12/2015		
	Gross exposure	Total value adjustments	Net exposure	Gross exposure	Total value adjustments	Net exposure
Doubtful loans	158,136,008	35,780,006	122,356,002	90,456,925	35,491,030	154,965,894
-of which from financial leasing transactions	25,795,165	4,090,339	21,704,825	54,160,007	4,602,157	49,557,850
Non-performing loans	67,919,851	21,724,584	46,195,267	76,125,129	18,613,794	57,511,335
-of which from financial leasing transactions	12,005,078	2,327,787	9,677,291	22,214,096	2,081,853	20,132,243
Bad loans	72,755,065	8,765,016	63,990,049	83,412,486	10,979,052	72,433,434
-of which from financial leasing transactions	13,790,087	1,762,553	12,027,534	26,170,328	2,510,596	23,659,732
Restructured loans	17,334,779	5,289,181	12,045,598	17,998,560	5,827,047	12,171,513
-of which from financial leasing transactions			-			-
Past due / overdrawn loans	122,058	1,221	120,838	12,387,166	70,325	12,316,841
-of which from financial leasing transactions			-	5,775,583	9,708	5,765,875
Unsecured loans to at-risk countries	4,256	5	4,250	533,584	813	532,771
Performing loans	456,741,119	2,238,202	454,502,917	15,839,884	2,228,277	513,611,607
-of which from financial leasing transactions	106,167,830	1,803,127	104,364,703	122,468,817	1,630,027	120,838,790
TOTAL	614,877,127	38,018,208	576,858,919	706,296,809	37,719,307	668,577,501
- of which from financial leasing transactions	31,962,994	5,893,466	126,069,528	176,628,824	6,232,184	170,396,640

For the non-performing and doubtful loans, the expected loss was calculated analytically. This has been based on the quality of the individual borrowers, namely their specific ability to fulfill the obligations undertaken, also calculated on the basis of all available information on their asset, economic and financial situation. The expected loss was calculated also considering the collateral and personal guarantees submitted. In addition to the analytical write-downs as specified on the accounting principles, an arbitrary write-down was calculated on the entire loans, based on the situation of difficulty in servicing the debt by the borrower countries of residence and considering the negative economic trends concerning similar loan categories, such as the area of business. Moreover, in the absence of adequate time series that can ensure statistical robustness, the write-down was carried out and established prudentially by the administrative bodies. When reclassifying impaired loans to customers, interest was calculated on non-performing loans deemed



Explanatory notes to the 2016 financial statements

by the bank as prudentially not recoverable, for EUR 207,674, and EUR 397,081 on impaired loans which were analytically written down as illustrated above.

Table 3.4 – Dynamics of doubtful loans to customers

Reason codes / Categories	31/12/2016				
	Non-performing loans	Bad loans	Restructured loans	Past due / overdrawn loans	Unsecured loans to at-risk countries
Opening gross exposure	76,125,129	83,412,487	17,998,560	12,387,166	533,584
- of which for accrued interest	1,860,961	1,037,692			
Increases	12,791,546	28,832,798	315	2,666,345	406,862
Inflows from performing loans	95,249	16,539,276		102,023	
Accrued interest	207,675	397,081		1,458	
Other increases	12,488,622	11,896,441	315	2,562,865	406,862
Decreases	20,996,824	39,490,220	664,096	14,931,453	936,190
Outflows to performing loans		2,238,243		501,134	
Cancellations	4,563,116	819,430		-	
Collection	1,692,786	12,080,016	664,096	3,566,866	932,239
Sales revenues					
Other decreases	14,740,923	24,352,530		10,863,453	3,952
Closin gross exposure as of 31 Dec 2016	67,919,851	72,755,065	17,334,779	122,058	4,256
- of which for accrued interest	1,695,710	840,686			

As for non-performing loans:

- the other decreases amounting to EUR 14,740,922 include EUR 14,435,170 resulting from properties resolved definitely on leasing positions for which the Bank appropriated the asset as final write-off of the customer's impaired loan position.
- the other decreases amounting to EUR 12,488,622 include transfers from bad loan positions equal to EUR 11,380,539.

As for bad loans:

- the other decreases amounting to EUR 24,352,530 include EUR 12,503,438 resulting from properties resolved definitely on leasing positions for which the Bank appropriated the asset as final write-off of the customer's impaired loan position, in addition to transfers to non-performing loans equal to EUR 11,380,539.
- the other decreases include transfers from other categories
- and accounting of accrued interests.



Explanatory notes to the 2016 financial statements

D. Dynamics of doubtful loans to customers (3.4)	31/12/2015				
	Reason codes / Categories	Non-performing loans	Bad loans	Restructured loans	Past due / over- drawn loans	Unsecured loans to at-risk countries
Opening gross exposure	93,472,472	74,264,739	18,747,044	2,537,315	792,357
- of which for accrued interest	1,223,575				
Increases	4,666,203	29,854,279	-	14,205,598	-
Inflows from performing loans		19,545,908		9,513,928	
Accrued interest	637,386	395,265		159,292	
Other increases	4,028,817	9,913,106		4,532,378	
Decreases	22,013,546	20,706,532	748,484	4,355,747	258,773
Outflows to performing loans		726,544		968,382	258,773
Cancellations	7,338,584	494,061		-	
Collection	2,612,467	11,583,002	748,484	2,811,372	
Sales revenues					
Other decreases	12,062,495	7,902,926		575,993	
Closin gross exposure as of 31 Dec 2015	76,125,129	83,412,487	17,998,560	12,387,166	533,584
- of which for accrued interest	1,860,961	1,037,692			

After a number of periods that mark an increase of impaired loans, due to the worsened economic situation, the above dynamics of loans express a reshaping and a real decrease of impaired loans, thanks to the management of the quality of the bank's own loans through a strict policy of valuation and reclassification implemented over that past few years. We also point out that following the amendment of Regulation 2007/07 implementing Miscellany 2013/06, tangible assets affected by early termination of leasing contracts due to the borrower's failure were reclassified on a statistical basis among impaired loans. We hereby specify that the amount of these tangible assets is equal to EUR 5,686,428 and their changes are explained in the relevant table below.

Impaired loans decreasing by EUR 32,320,917 show a level of coverage equal to 23.63% against 18.63% in the previous year, thus confirming that the write-downs made prudentially cover all classes of loans as detailed in table 3.5 here below. During 2016 write-offs were made for loans considered unrecoverable amounting to EUR 4,563,115, as well as important recoveries on impaired and non-performing loans amounting to EUR 13,772,802. In addition, the category of restructured loans includes the position concerning the Delta/Surplus Group according to the clear-cut instructions to all the parties authorized to carry on reserved activities, forwarded by the Supervisory Authority with letter Prot. 14/2086, upon which the restructuring plan signed is operating and has already led to recoveries amounting to EUR 664,096.



Explanatory notes to the 2016 financial statements

Table 3.5 – Dynamics of total value adjustments of loans to customers

E. Dynamics of total value adjustments of Loans to customers (3.5) Reason codes / Categories	31/12/2016					
	Non-performing loans	Bad loans	Restructured loans	Past due / overdrawn loans	Unsecured loans to at-risk countries	Performing loans
Opening total adjustment balance	18,613,794	10,979,052	5,827,047	70,325	813	2,228,277
Increases	11,185,491	4,537,530	-	1,093	5	845,804
Value adjustments	8,492,369	4,126,931		912	5	766,913
- of which for accrued interest	207,455					
Utilizations of risk provision on credits						
Transfers from other credit categories	1,821,441	112,720		181		78,890
Other increases	871,681	297,879			0	
Decreases	8,074,700	6,751,567	537,866	70,197	813	835,879
Writebacks from valuation	340,147	3,549,852		33,372	9	818,838
- of which for accrued interest						
Writebacks from collection	727,650		537,866			
- of which for accrued interest						
Cancellations	4,563,087	811,465				
Transfers to other credit categories	60,310	2,373,072		27,001	804	6,109
Other decreases	2,383,505	17,178		9,824		10,931
Closing total adjustment value as of 31 Dec 2016	21,724,585	8,765,015	5,289,181	1,221	5	2,238,202
- of which for accrued interest	1,695,710					



Explanatory notes to the 2016 financial statements

E. Dynamics of total value adjustments of Loans to customers (3.5)	31/12/2015					
	Non-performing loans	Bad loans	Restructured loans	Past due / overdrawn loans	Unsecured loans to at-risk countries	Performing loans
Opening total adjustment balance	22,582,975	10,937,085	6,060,115	253,732	711	1,996,115
Increases	3,712,583	1,381,163	-	67,937	343	470,115
Value adjustments	1,119,060			20,555	328	436,221
- of which for accrued interest	637,386					
Utilizations of risk provision on credits						
Transfers from other credit categories	1,050,149	1,334,145		47,382	15	
Other increases	1,543,374	47,018			-	33,894
Decreases	7,681,764	1,339,196	233,068	251,344	241	237,953
Writebacks from valuation				32,621	240	174,072
- of which for accrued interest						
Writebacks from collection			233,068	123,169	-	
- of which for accrued interest						
Cancellations	7,338,584	494,061				
Transfers to other credit categories		802,531		84,641	1	63,881
Other decreases	343,180	42,604		10,914		
Closing total adjustment value as of 31 Dec 2015	18,613,794	10,979,052	5,827,047	70,325	813	2,228,277
- of which for accrued interest	1,860,961					

Table 3.6 - Breakdown of loans to customers based on residual life

F. Breakdown of "Loans to customers" based on residual life (3.6)		
Maturity	31/12/2016	31/12/2015
At sight	122,820,889	154,395,264
From 1 day to 3 months	45,950,418	32,829,927
From 3 to 6 months	24,331,049	27,945,353
From 6 months to 1 year	28,722,340	37,898,908
From 1 year to 18 months	22,222,277	29,247,242
From 18 months to 2 years	21,750,820	22,338,680
From 2 to 5 years	107,949,683	111,440,265
Over 5 years	148,887,337	181,250,974
Maturity not posted	54,224,105	71,230,888
TOTAL	576,858,919	668,577,501



Explanatory notes to the 2016 financial statements

The residual life obtained from loans before value adjustments corresponds to the time between the reference date and the contractual term of each transaction. Since 2009, the Bank has been aligning the assets and liabilities maturities on individual time buckets, improving in this way the structural liquidity situation.

Table 3.7 - Breakdown of "Loans to customers" (net values) by economic activity sector

G. Breakdown of "Loans to customers" (net values) by economic activity sector (3.7)		
Items / Values	31/12/2016	31/12/2015
Government and public sector	17,153,304	19,430,042
Financial companies	20,307,295	20,863,218
Non-financial companies	360,112,274	416,955,181
Industry	142,754,255	193,048,265
Construction	26,597,361	68,224,434
Services	182,244,932	148,117,095
Other	8,515,726	7,565,387
Families	178,346,971	193,667,819
Othes	939,075	17,661,241
TOTAL	576,858,919	668,577,501

Asset item 40-50

Table 4.1 Breakdown of investment and trading financial instruments

A. Breakdown of investment and trading financial instruments - items 40-50 in asset postings (4.1)	31/12/2016	
	Investment	Trading
Items / values as of 31/12/2016		
Bonds and other debt financial instruments:	25,521,429	33,068,251
Public issuers	25,521,429	33,068,251
Banks		-
Investors (investment firms)		
Other issuers		-
Shares, stocks and other capital financial instruments:	-	4,520,231
Loan Management shield		4,520,231
TOTAL	25,521,429	37,588,482



Explanatory notes to the 2016 financial statements

The securities in the investment portfolio are recorded at their purchase value or the market price upon their transfer to the investment portfolio, with subsequent recording of the accrued amounts of the positive and negative differences between the above value and the redemption value as at maturity of the securities.

Trading securities are recorded at the market value expressed by the monthly average of the prices

recorded in December 2016, under item "Bonds and other financial instruments", while item "Shares, stocks and other capital financial instruments" includes the provision portion deriving from the administrative compulsory liquidation of Credito Sammarinese Spa, for the agreement underwritten by the banks participating in the en bloc disposal of legal relationships occurred in October 2011, obtaining fiscal benefits described in the law 11 October 2011 n.169. As of 31/12/2016, the provision market counter-value was EUR 4,520,231, so BAC recorded a further capital loss amounting to EUR 634,843, which was reclassified in other assets under the item "Temporary differences in loans management fund shares" pursuant to letter Prot.14/2288 issued by the Supervisory Authority, whose item rises to EUR 6,377,769.

Table 4.2 – Breakdown of investment financial instruments

B. Breakdown of "investment financial instruments" (4.2)	31/12/2016		31/12/2015	
	Book value	Market value	Book value	Market value
Debt financial instruments	25,521,429	24,876,050	-	-
Bonds	25,521,429	24,876,050	-	-
- Listed	25,521,429	24,876,050		
- Unlisted				
Other debt financial instruments	-	-	-	-
- Listed				
- Unlisted				
Capital financial instruments	-	-	-	-
- Listed				
- Unlisted				
TOTAL	25,521,429	24,876,050	-	-



Explanatory notes to the 2016 financial statements

Table 4.3 – Annual changes in investment financial instruments

C. Annual changes in investment financial instruments (4.3)		
Items / Values	31/12/2016	31/12/2015
Opening balance	0	31,556,261
Increases	25,549,470	2,824,108
Purchases	25,408,949	
- of which debt financial instruments	25,408,949	
Riprese di valore		
Transfers from trading portfolio		
Other changes	140,521	2,824,108
Decreases	28,040	34,380,368
Sales	-	34,164,290
- of which debt financial instruments		
Redemptions		
Value adjustments		
- of which permanent writedowns		
Transfers to trading portfolio		
Other changes	28,040	216,079
Closing balance	25,521,429	0

We would like to point out that, a restructuring of the investment portfolio was carried out in 2016 by purchasing five government-issued securities of the investment portfolio with a stronger risk appetite, a gradually increasing profitability target and durations consistent with VAR limits required by our internal regulatory framework. Please note that decreases include investment discounts.



Explanatory notes to the 2016 financial statements

Table 4.4 – Breakdown of trading financial instruments

D. Breakdown of "trading financial instruments" (4.4)		
Voci / Valori	31/12/2016	31/12/2015
	Valore di mercato	Valore di mercato
Debt financial instruments	33,068,251	157,302,035
Bonds	33,068,251	157,302,035
- Listed	33,068,251	157,302,035
- Unlisted		
Other debt financial instruments	-	-
- Listed		
- Unlisted		
Capital financial instruments	4,520,231	5,155,074
- Listed		
- Unlisted	4,520,231	5,155,074
TOTAL	37,588,482	162,457,109

Even the free portfolio was involved in the restructuring process launched by decision-making bodies by gradually selling outstanding securities at 31/12/2015, by purchasing securities with a duration ranging between 4 and 7 years and by giving priority to interbank deposits deemed more profitable to the Central Bank Authority (prot. 15/10552), also to face possible cash outflows after the capital repatriation toward Italy was definitely completed. Compared to the previous year, the portfolio consists of: the participation in the alternative close investment fund subscribed at the end of December 2012, Italian public issuance securities and San Marino government securities issued with Delegated Decree no. 17 of 23/02/2016.



Explanatory notes to the 2016 financial statements

Table 4.5 – Annual changes in trading financial instruments

E. Annual changes in trading financial instruments (4.5)		
Items / Values	31/12/2016	31/12/2015
Opening balance	162,457,110	176,487,615
Increases	51,353,976	150,782,084
Purchases	51,258,324	148,972,356
- of which debt financial instruments	6,729,040	140,660,315
- of which capital financial instruments	1,586,033	8,312,041
Writebacks and revaluations		91,494
Transfers from investment portfolio		
Other changes	95,652	1,718,234
Decreases	176,222,603	164,812,590
Sales and redemptions	172,940,063	158,883,679
- of which debt financial instruments	4,392,564	150,567,838
- of which capital financial instruments	2,062,770	8,315,841
Value adjustments and writedowns	852,778	3,014,646
Transfers to investment portfolio		
Altre variazioni	2,429,761	2,914,265
Closing balance	37,588,483	162,457,110

Item "Other decreases" consists of accrual deduction as of 31/12/2015 amounting to EUR 1,490,925 and trading losses equal to EUR 938,837.

Asset item 110

Table 5.1 – Breakdown of company shares

A. Breakdown of company shares - item 110 in asset postings (5.1)	Number of shares	% on capital	Nominal value	Trading amount
Values as of 31/12/2015	443	0.06%	11,518	11,518
Purchases	110	0.01%	2,860	2,860
Sales				
Values as of 31/12/2016	553	0.07%	14,378	14,378
				Profit / Loss
Profit / Loss during trading of own shares (+/-)				



Explanatory notes to the 2016 financial statements

The increase in own shares is due to the repossession of no. 110 shares allotted for free to the employees, for the dismissal during the year of three employees for whom the post-allotment three-year bond had not expired yet.

Own shares are entered at their face value of 26 each, for a total counter-value equal to EUR 14,378.

Asset item 60-70

Table 6.1 - Shareholdings

A. Shareholdings - items 60 e 70 in asset postings (6.1)						
Names	Headquarter	Net equity	Activity carried out	Profit / Loss	% share	Book value
Companies of the relevant bank group						7,330,401
1.1. Bac Fiduciaria S.p.a.	Via Tre Settembre n° 316 - 47891 Dogana (R.S.M.)	616,523	Financial Company	-42,516	100.00%	616,523
1.2. IBS RENT S.r.l. in voluntary liquidation	Via Tre Settembre n° 316 - 47891 Dogana (R.S.M.)	-	Rental	-	87.00%	22,689
1.3. SAN MARINO LIFE S.p.a	Via Tre Settembre n° 316 - 47891 Dogana (R.S.M.)	7,140,096	Insurance	850,661	100.00%	6,376,188
1.4. IBS IMMOBILIARE S.r.L	Via Tre Settembre n° 316 - 47891 Dogana (R.S.M.)	291,246	Real estate	-23,754	100.00%	315,000
Other companies						-
Other investee companies						4,730,450
1.1. Società Servizi Informatici Sammarinese S.S.I.S	Strada Cardio, 22 47899 Serravalle R.S.M.	840,352	Automatic data processing	21,883	50.00%	420,176
1.2. Banca Centrale della Repubblica di San Marino	Via del Voltone n° 120 - 47890 SAN MARINO	77,792,100	Banking	-3,392,725	5.00%	4,059,241
1.3. Camera di Commercio S.p.a.	Strada di Paderna, 2 47895 Fiorina Domagnano	532,670	Services	-91,014	1.33%	1,033
1.4. Centro Servizi SRL	Via XXV Marzo, 58 Domagnano	434,415	Automatic data processing	103,727	25.00%	250,000



Explanatory notes to the 2016 financial statements

For the sake of clarity, the table contains all shareholdings of the Bank, including investments less than 10%. It must also be specified that the net equity valuations in the following table refer to the company data as of 31/12/16 if already available for all the companies and with a holding percentage higher than 50%.

In addition, we point out that, during 2016, the shareholding of Centro Servizi Srl was acquired by 25% in partnership with the other three banks of San Marino, while we were not able to buy any share of T.P@Y Spa payment institution, which will provide payment and e-money services by issuing credit cards upon the expiry of the validity of Cartasì cards.

Table 6.2 - Comparison between net equity valuation
and cost valuation

B. Comparison between net equity valuation and cost valuation - items 60 and 70 in asset postings (6.2)						
name	Activity carried out	Share capital	% share	Net equity share (a)	Book value share (b)	Comparisons (a-b)
1.1. Bac Fiduciaria S.p.a.	Financial Company	500,000	100.00%	616,523	616,523	-
1.2. IBS RENT S.r.l. in liquidazione volontaria	Rental	77,000	87.00%	-	22,689	22,689
1.3. SAN MARINO LIFE S.p.a	Insurance	6,000,000	100.00%	7,140,096	6,376,188	763,908
1.4. IBS IMMOBILIARE S.r.L	Real estate	75,000	100.00%	291,246	315,000	-23,754
1.1. Società Servizi Informatici Sammarinese S.S.I.S. S.p.a.	Automatic data processing	490,637	50.00%	420,176	420,176	-
1.2. Banca Centrale della Repubblica di San Marino	Banking	12,911,425	5.00%	3,889,605	4,059,241	-169,636
1.3. Camera di Commercio S.p.a.	Services	77,469	1.33%	7,085	1,033	6,052
1.4. Centro Servizi S.r.l.	Automatic data processing	74,886	25.00%	108,604	250,000	-141,396

The shareholding in San Marino Central Bank (previously San Marino Credit Institution) remained unchanged. It represents 5% of the share capital of the associate bank and is represented by 125 shares of EUR 5,164 each. In the balance sheet closed as of 31/12/2013, its monetary revaluation was made according to Finance Law No. 174 art. 75 of 20/12/2013. The value of the share recorded in the balance sheet after its revaluation corresponds to the results obtained by its recalculation using the shareholder's equity method on the basis of the Central Bank's assets included in the financial statements on the 31 December 2013.



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The credit balance of the revaluation has been necessarily recorded in a revaluation equity reserve equal to EUR 3,004,030.

The interests held in S.S.I.S S.p.a. (Società Sistemi Informatici Sammarinese), compared to the previous fiscal year, have remained unchanged and represent 50% of the affiliate bank's capital. We are founding shareholders together with Cassa di Risparmio della Repubblica di San Marino, which holds the remaining 50% of the capital. This investment was likewise revaluated in 2016 net equity. This implied a revaluation of EUR 10,942 since the 2016 profit will be fully capitalized among reserves, according to the draft budget approved at the session of the general meeting on 20/03/2017.

Our investment in the Chamber of Commerce of San Marino Republic (previously Agency for Economic Promotion and Development) remains unchanged and is represented by No. 4 shares of No. 300 total shares constituting the Share Capital with a percentage of 1.33%.

We kept the investment in the entire share capital of BAC Fiduciaria S.p.a. (established in 2002), 500 shares for a par value of Euro 1,000 each. On 31/12/2016 the shareholder's equity of our affiliated bank amounted to EUR € 616,523 inclusive of EUR 42,516 year loss; therefore, we made a write-down of EUR 42,516 by deduction from the already existing revaluation reserves according to the 2016 draft budget approved, which implies the utilization of the ordinary reserve to cover the loss.

For IBS Immobiliare Srl, BAC did not perform any adjustment because net equity remained consistent with its value at 31/12/2015; the loss for the year 2016 will be offset by the parent company by 30/06/2017 as for 2016 draft budget approved on 07/04/2017.

Even for San Marino Life, BAC made an adjustment to the net equity of the subsidiary based on the results of 2016. The meeting approved the distribution of 90% of the profit to BAC sole shareholder, while the remaining 10% will be allocated to reserves.

This year's shareholdings include IBS Rent Srl, taken over through the merger of IBS Leasing 2014. The company was placed in voluntary liquidation in 2013 and based on the liquidation budget approved in 2014 it will settle all the existing debts and receivables in 2017.

Please see attached below the details of the movements of BAC Fiduciaria Spa, SM Life Spa, SSIS Spa and IBS Immobiliare Srl, besides the tables of the aggregate movements.



Explanatory notes to the 2016 financial statements

Table 6.3 – Breakdown of item 60 Shareholdings

C. Breakdown of item 60 in asset postings "Shareholdings" (6.3)	
Items / Values	31/12/2016
In banks	4,059,241
listed	
Unlisted	4,059,241
In other financial companies	-
listed	
Unlisted	
Other	671,209
listed	
Unlisted	671,209
TOTAL	4,730,450

Table 6.4 – Annual changes in item 60 Shareholdings

D. Annual changes in item 60 "Shareholdings" (6.4)	
Items / Values	31/12/2016
Opening balance	4,559,508
Increases	260,942
Purchases	250,000
Writebacks	
Revaluations	10,942
Other changes	
Decreases	90,000
Sales	90,000
Value adjustments	
- of which permanent writedowns	
Other changes	
Closing balance as of 31 Dec 2016	4,730,450
Total revaluations as of 31 Dec 2016	10,942
Total adjustments as of 31 Dec 2016	-



Explanatory notes to the 2016 financial statements

Table 6.5 – Breakdown and changes in item 70 Shareholdings

H. Breakdown of item 70 in asset postings “Shareholdings in bank group companies”	
Items / Values	31/12/2016
	Market value
In banks	-
listed	
Unlisted	
In other financial companies	6,992,712
listed	
Unlisted	6,992,712
Other	337,689
listed	
Unlisted	337,689
TOTAL	7,330,401

E. Annual changes in item 70 “Shareholdings in bank group companies” (6.5)	
Items / Values	31/12/2016
Opening balance	7,288,038
Increases	84,879
Purchases	
Writebacks	
Revaluations	84,879
Other changes	
Decreases	42,516
Sales	
Value adjustments	42,516
- of which permanent writedowns	
Other changes	
Closing balance as of 31 Dec 2016	7,330,401
Total revaluations as of 31 Dec 2016	-
Total adjustments as of 31 Dec 2016	-



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As previously said, item Writebacks includes the revaluation of investee San Marino Life S.p.A., while Value adjustments show the adjustments of investee Bac Fiduciaria S.p.A.

The following tables show details of the shareholdings of the bank group.

BAC Fiduciaria S.p.A.	31/12/2016	Loss coverage	Net equity 31/12/2016
Share capital	500,000		500,000
Legal reserve	159,039	-42,516	116,523
Other reserves			
To partner			
Profit for the year	-42,516	42,516	
	616,523	-	616,523

SM Life S.p.A.	31/12/2016	Allocation of 2016 profit	Dividend proposal	Net equity 31/12/2016
Share capital	6,000,000			6,000,000
Legal reserve	204,514	84,879		289,393
Other reserves	86,796			86,796
Retained earnings / losses				
Profit for the year	848,786		763,907	
	7,140,096	84,879	763,907	6,376,189

SSIS S.p.A.	31/12/2016	Allocation of 2016 profit	Net equity 31/12/2016
Share capital	490,637		490,637
Legal reserve	31,341	2,188	33,529
Other reserves	296,491	19,695	316,186
To partner			-
Profit for the year	21,883	-21,883	-
	840,352	-	840,352
net equity share held by BAC 50%	420,176		420,176



Explanatory notes to the 2016 financial statements

IBS IMMOBILIARE Srl	31/12/2016	Settlement of 2016 loss	Partner coverage	Net equity 31/12/2016
Share capital	75,000			75,000
Legal reserve				-
Other reserves	240,000			240,000
To partner				-
Profit for the year	-23,754	23,754	-23,754	
	291,246	23,754	-23,754	315,000

Table 6.6 – Assets and liabilities with investee companies

F. Assets and liabilities with investee companies - item 60 (6.6)	
Items / Values	31/12/2016
Assets	120,667,143
Loans to banks	119,755,991
- of which subordinate	
Loans to other financial companies	
- of which subordinate	
Loans to other companies	911,151
- of which subordinate	
Bonds and other debt financial instruments	
- of which subordinate	
Liabilities	87,883
Amounts do to banks	
Amounts due to other financial companies	87,883
Amounts due to other companies	
Subordinate liabilities	
Guarantees and commitments	-
Guarantees given	
Commitments	



Explanatory notes to the 2016 financial statements

Loans to banks amounting to EUR 119,755,991 include reciprocal transaction accounts with Central Bank for EUR 57,543,533, EUR 24,943,906 of ROB time deposit still at Central Bank and EUR 37,268,532 of other deposits still at the Supervisory Authority, while EUR 911,151 represents loans for property and securities leasing agreed with our investee SSIS. Among liabilities is the balance of the current account held by SSISS S.p.a. amounting to EUR 87,883.

Table 6.7 – Assets and liabilities with investee companies belonging to the bank group

G. Assets and liabilities with investee companies belonging to the bank group - item 70 (6.7)	
Items / Values	31/12/2016
Assets	13,367,565
Loans to banks	
- of which subordinate	
Loans to other financial companies	-
- of which subordinate	
Loans to other companies	13,367,565
- of which subordinate	
Bonds and other debt financial instruments	
- of which subordinate	
Liabilities	1,393,036
Amounts do to banks	
Amounts due to other financial companies	1,375,568
Amounts due to other companies	17,468
Subordinate liabilities	
Guarantees and commitments	-
Guarantees given	
Commitments	

Item “Loans to other companies” consists entirely of SAL leasing contracts activated by IBS Immobiliare. Item: “Amounts due to other financial companies” consists of current account balances of San Marino Life and BAC Fiduciaria. Item: “Amounts due to other companies” represents the sum of current account balances activated on IBS Immobiliare and on IBS Rent amounting to EUR 11,362 and 6,105 respectively.



Explanatory notes to the 2016 financial statements

Asset item 80

Table 7.1 - Movements of item 80 Intangible assets

A. Movements of item 80 "Intangible assets" (7.1)						
Annual changes	31/12/2016	Financial leasing	Assets awaiting lease	of which assets from terminated contracts for breach of tenant	Start-up costs	Other long-term changes
Opening balance	2,585,452					2,585,452
Increases	484,265	-	-	-	-	484,265
Purchases	484,265					484,265
Writebacks	-					
- of which for credit worthiness	-					
Revaluations	-					
Other increases	-					
Decreases	947,271	-	-	-	-	947,271
Sales	-					
Value adjustments	947,271					947,271
- of which depreciations	947,271					947,271
- of which permanent write-downs	-					
-of which for credit worthiness	-					
Other decreases	-					
Closing balance as of 31/12/2016	2,122,446	-	-	-	-	2,122,446

These are represented by the cost of: software purchase, refurbishment of leased facilities, Studies, Research, Training and long-term costs for Merger. Software is valued at cost price, inclusive of all expenses of analysis, installation and training. Furthermore, any fully depreciated intangible fixed assets are recorded as zero, by reducing the asset value and that of the relative provision (if present, they are stated as "Depreciated Asset").



Explanatory notes to the 2016 financial statements

The depreciation rates are calculated on the basis of their residual useful life. In particular, the previous balances are broken down and moved as follows:

a) Software

	2016	2015
Opening balance at purchasing cost	5,398,296	5,241,318
Depreciated layer	-3,480,500	
Expenses for new programs or implementations	206,073	156,978
Advances on Software		
Closing balance at historic cost	2,123,870	5,398,296
Other decreases		
To deduct BAC depreciation fund	-1,742,177	-4,806,965
of which year depreciation value	-415,711	-421,254
Closing balance	381,693	591,331

b) Studies, Research, Training, leased facility refurbishment, long-term costs

	2016	2015
Opening balance at purchasing cost	2,367,952	1,830,474
Depreciated layer	-75,804	
Expenses in the year	278,192	537,477
Closing balance at historic cost	2,570,340	2,367,952
To deduct depreciation fund	-1,769,492	-1,343,426
of which year depreciation value	-489,746	-467,194
Closing balance	800,847	1,024,525

c) Right of concession and underpass work

	2016	2015
Opening balance at purchasing cost	1,254,397	1,254,397
Expenses in the year		
Closing balance at historic cost	1,254,397	1,254,397
To deduct depreciation fund	-326,614	-284,801
of which year depreciation value	-41,813	-41,813
Closing balance	927,782	969,596



Explanatory notes to the 2016 financial statements

The bank acquired from the Eccellentissima Camera the permit to construct an underpass to be used by the institute for thirty years; therefore, the costs incurred for the rights and construction works were posted under intangible fixed asset, to be amortized throughout the term of the permit, as clarified by San Marino Tax Authority.

Asset item 90

Table 8.1 Movements and description of item 90 Tangible assets

A. Movements of item 90 "Tangible assets" (8.1)						
Annual changes	31/12/2016	Financial leasing	Assets awaiting lease	of which assets from terminated contracts for breach of tenant	Buildings	Other assets
Opening balance	166,530,025	144,680,403	20,089,463	20,089,463	48,218,604	1,760,159
Increases	24,365,353	15,437,206	8,480,476	8,480,476	33,350,001	447,671
Purchases	15,403,808	15,064,467	-			339,340
Writebacks	723,073		723,073	723,073		
- of which for credit worthiness	723,073		723,073	723,073		
Revaluations	-					
Other increases	8,238,473	372,739	7,757,403	7,757,403	33,350,001	108,331
Decreases	68,648,624	44,951,596	22,913,511	22,913,511	1,011,938	783,517
Sales	18,156,911	17,231,739	547,021	547,021		378,151
Value adjustments	17,197,847	16,191,268	615,063	615,063	994,500	391,516
- of which depreciations	16,582,785	16,191,268		-	918,494	391,516
- of which permanent writedowns	-				76,006	
-of which for credit worthiness	615,063		615,063	615,063		
Other decreases	33,293,866	11,528,589	21,751,427	21,751,427	17,438	13,850
Closing balance as of 31/12/2016	202,803,420	115,166,013	5,656,428	5,656,428	80,556,667	1,424,313



Explanatory notes to the 2016 financial statements

Fixed assets include: furniture, safes and plants, electronic machines and vehicles. Like intangible assets, any tangible fixed assets fully amortized are recorded as zero, by reducing the asset value and its relative fund (if present, they are stated with "Depreciated layer").

The following tables show the asset broken down into categories, managed separately by General Accounting in specific accounts, and underwent the following changes in the year 2016:

a) Own assets

	2016	2015
Opening balance (on which depreciation was calculated)	58,522,183	30,876,203
Closing balance at historic cost (on which depreciation was calculated)	-1,204,925	
Depreciations	-93,444	
Acquisitions	33,350,001	16,472,837.28
Property revaluation law no 168 03/11/2015	0	11,173,143
Total historic cost	90,573,815	58,522,183
To deduct depreciation fund	-10,017,148	-10,303,579
of which year depreciacion value	-918,494	-912,849
Closing balance	80,556,667	48,218,604

b) Furniture safes plants

	2016	2015
Opening balance	6,148,180	5,869,996
Depreciated layer	-4,191,791,14	
Purchases made in the year	269,266	278,183.97
Closing balance historic cost	2,225,655	6,148,180
Depreciation fund	-1,414,312	-5,289,113
of which year depreciation value	-316,990	-361,266
Closing balance	811,344	859,067



Explanatory notes to the 2016 financial statements

d) Vehicles

	2016	2015
Opening balance	326,324	334,765
Depreciated layer	-226,404	
Divestments historic cost		-43,228
Purchases made in the year		34,787
Closing balance historic cost	99,919	326,324
Depreciation fund	-66,021	-272,442
of which year depreciation value	-19,984	-24,554
Closing balance	33,899	53,882

e) Safety systems

	2016	2015
Opening balance	175,363	163,782
Depreciated layer		
Divestments	-13,850	
Purchases made in the year	54,314	11,581
Closing balance historic cost	215,827	175,363
Depreciation fund	-110,820	-78,446
of which year depreciation value	-32,374	-26,304
Closing balance	105,007	96,917

f) Office machines

	2016	2015
Opening balance	229,921	226,217
Depreciated layer	-127,525	
Purchases made in the year	15,760	3,704
Closing balance historic cost	118,156	229,921
Depreciation fund	-74,225	-179,581
- of which year depreciation value	-22,169	-21,691
Closing balance	43,931	50,340



Explanatory notes to the 2016 financial statements

g) Furniture and art objects

	2016	2015
Opening balance	10,000	10,000
Depreciated layer		
Scquisitions for IBS demerger		
Purchases made in the year		
Closing balance historic cost	10,000	10,000
Depreciation fund		
- of which year depreciation value		
Closing balance	10,000	10,000

We point out that the item Assets awaiting lease includes fixed assets regained by the company, following termination of leasing contracts due to borrowers' failure, also included in the table Breakdown of loans to customers, as required by the 2008/02 regulations of the Supervisory Authority on the preparation of the balance sheet. It should also be noted that item Own assets shows an increase of EUR 33,136,106 due to acquisitions through waiver agreements and write-off of receivables from insolvent customers classified as non-performing. These are non-operating assets, and therefore they are not subject to depreciation.



Explanatory notes to the 2016 financial statements

Asset item 120

Table 9.1 – Breakdown of item 120 Other assets

A. Breakdown of item 120 "Other assets" (9.1)		
Technical type	31/12/2016	31/12/2015
Guarantee margins		
Premiums paid for options		
Other	89,809,676	90,874,787
Other debtors	6,643,145	8,131,469
3.1 Advances to Tax Authorities for IGR of which redemption was requested	196,106	185,675
3.2. Ecofin withholding tax/Interest on transitional tax regime	-	3,958
3.3. Management of commercial collection RID	368,548	1,181,792
3.4. Invoices to be paid for assets to be leased	-	-
3.5. Miscellaneous and transitional positions	-	-
3.6. Temporary tax differences of loans management fund shares	6,377,769	5,742,926
3.7. Technical accounts	340,140	1,402,663
3.8. Bills from correspondent banks	9,989,646	9,078,407
3.9. Bills from customers collection	45,023,210	41,875,098
3.10. Bills from customer cheques collection	12,556,209	13,671,381
3.11. Bills from customers after collection	3,346,354	3,322,092
3.12. Suspense accounts - items in transit	215,926	7,174
3.13. Loans from Credito Sammarinese	220,423	220,423
3.14. Receivables for tax advances	280,177	224,686
3.15. Tax receivables from Credito Sammarinese	3,792,299	5,298,939
3.16. Receivables from Chamber state interest rate	454,430	522,813
3.17. Deposits	5,293	5,293
TOTAL	89,809,676	90,874,787

In the item Other debtors there are all the assets that are not associated to other asset items. It also includes any balances for items in transit and suspended ones that are not attributed to the relevant accounts.

We notice that as a result of the write-down of the closed-end loans management fund, BAC has accounted a capital loss equal to EUR 158,257 compared to 31/12/2015 which was reclassified in other assets under the item "Temporary differences in loans management fund shares" pursuant to letter Prot. 14/2288 issued by the Supervisory Authority and in compliance with Law No.74 of 27/10/2011, which rose to EUR 6,377,769.



Explanatory notes to the 2016 financial statements

More in detail, the item Other debtors includes the following sub-items:

B. Breakdown of sub-item "Other debtors"		
Technical type	31/12/2016	31/12/2015
Other debtors		
1.1. Administrative expenses - Adjustment entries	1,260,458	1,495,300
1.2. Interest, commission income and dividends, accrued and not collected	538,806	527,267
1.3. Deposits	94,253	71,770
1.6. Encoded customers	4,148,083	5,870,217
1.7. Suspense account ATM drawings	142,706	131,039
1.8. Supplier advances	404,766	24,247
1.9. Suspense customer positions	54,072	11,630
TOTALI	6,643,145	8,131,469

For reasons of clarity, we point out that the encoded customer entries and the bills portfolio find algebraic offset with the postings respectively identified as Other liabilities.

Asset item 130

Item Accrued income consists of the following sub-items:

	2016	2015
On fee/investment owned securities		
On loans to customers	4,487	7,523
on loans to banks	10,161	
Accrued income on derivative contracts		
Other accrued income	32,667	14,292
	47,315	21,815

Item Prepaid expenses consists of the following sub-items:

	2016	2015
On rental expenses	71,032	71,297
On insurance expenses		
On administrative expenses	153,484	247,801
	224,516	319,097



Explanatory notes to the 2016 financial statements

The liaison account with the balance sheet will be:

	2016	2015
Accrued income	47,315	21,815
Prepaid expenses	224,516	319,097
Totale voce 130	271,831	340,912

It should be noted that following the integration of article IV.I.13 of Regulation 2008/02 on the preparation of financial statements the relevant accruals have been deducted from the assets and liabilities since 2014.

Liability item 10

Table 10.1- Breakdown of item 10 Amounts due to banks

A. Breakdown of item 10 in liability postings "Amounts due to banks" (10.1)				
Details by technical form	31/12/2016		31/12/2015	
	In EUR	In foreign currency	In EUR	In foreign currency
At sight	387,792	-	2,452,579	-
Reciprocal accounts opened for services rendered	387,792		2,452,579	
Free deposits				
Other loans				
Trem or with notice	-	-	-	-
Current accounts				
Trem deposits				
Repurchasing agreements				
Other loans				
TOTAL	387,792	-	2,452,579	-
GENERAL TOTAL	387,792		2,452,579	



Explanatory notes to the 2016 financial statements

Table 10.2 - Breakdown of Amounts due to banks
based on residual life

B. Breakdown of "Loans to banks" based on residual life (10.2)		
Maturity	31/12/2016	31/12/2015
At sight	387,792	2,452,579
From 1 day to 3 months		
From 3 to 6 months		
From 6 months to 1 year		
From 1 year to 18 months		
From 18 months to 2 years		
From 2 to 5 years		
Over 5 years		
Maturity not posted		
TOTAL	387,792	2,452,579

Liability items 20-30

Table 11.1 - Breakdown of Amounts due to customers

A. Breakdown of item 20 in liability postings "Amounts due to customers" (11.1)				
Category / Currencies	31/12/2016		31/12/2015	
	In EUR	In foreign currency	In EUR	In foreign currency
At sight	400,003,501	12,455,136	460,803,592	20,903,519
Current accounts	395,555,555	12,455,136	455,859,509	20,903,519
Savings deposits	4,447,946		4,944,083	
Other				
Term or with notice	11,523,461	-	13,034,866	-
Time current accounts				
Time savings accounts				
Repurchasing agreements	11,523,461		13,034,866	
Other funds				
TOTAL	411,526,962	12,455,136	473,838,458	20,903,519
GENERAL TOTAL	423,982,098		494,741,977	



Explanatory notes to the 2016 financial statements

This table has been completed with liability item 20. During 2016, the physiological reduction of customer deposits continued due to the conclusion of the Voluntary Disclosure promulgated by Italy in 2015. In reclassifying the amounts due to customers, internal checks merged with other liabilities for EUR 3,606,831 in 2016 were excluded, while in 2015 they amounted to EUR 1,793,222. In addition, during the reclassification of the technical forms of deposits, the liabilities acquired from the transfer of San Marino loan under compulsory administrative liquidation were not included, as a result of the transfer agreement signed by San Marino credit institutions in 2011, because they were considerably decreased due to the renegotiation with customers and the transformation into BAC legal relationships, or because of actual liability settlements. It should be noted that, at the end of 2016, the assignments amounted to EUR 405,300 as shown below in the table identifying the other liabilities.

Table 11.3 - Breakdown of payables represented by financial instruments

A. Breakdown of item 30 in liability postings "Payables represented by financial instruments"				
Items / Values	31/12/2016		31/12/2015	
	In EUR	In foreign currency	In EUR	In foreign currency
Bonds				
Certificates of deposit	351,562,596		386,707,916	
Other financial instruments				
TOTAL	351,562,596	-	386,707,916	-
GENERAL TOTAL	351,562,596		386,707,916	



Explanatory notes to the 2016 financial statements

Table 11.2- Breakdown of amounts due to customers based on residual life

B. Breakdown of Amounts due to customers based on residual life (11.2)		
Maturity	31/12/2016	31/12/2015
At sight	412,458,637	481,707,111
From 1 day to 3 months	5,863,803	5,130,213
From 3 to 6 months	2,149,000	3,871,112
From 6 months to 1 year	3,510,658	4,033,541
From 1 year to 18 months		
From 18 months to 2 years		
From 2 to 5 years		
Over 5 years		
Maturity not posted		
TOTAL	423,982,098	494,741,977

This table shows the scope of items 20 “Amounts due to customers”, as shown in table 11.1.

Liability items 60-70-80

Table 12.1 - Movements of item 60: Severance

Severance	31/12/2016	31/12/2015
Opening balance	1,164,600	1,108,677
Increases	744,647	764,964
allocations	744,647	764,964
other changes		
Decreases	901,037	709,041
utilizations	901,037	709,041
other changes		
Closing balance	1,008,210	1,164,600



Explanatory notes to the 2016 financial statements

It should be noted that the liabilities accrued with respect to all employees (employees and officers) are paid annually, whereas liabilities related to directors are set aside in the related fund.

Table 12.2 – Breakdown of item 70 Reserves for risks and charges

B. Breakdown of item 70 "Other funds"		
Tax reserves	31/12/2016	31/12/2015
Opening balance		
Increases	1,170,398	1,457,000
allocations	168,298	168,298
other changes	-	-
Decreases	10,819	33,110
utilizations	226,964	174,746
other changes	76,133	
Closing balance	1,652,611	1,833,154

For the year 2016, the provision for tax reserves was made according to the tax regulation (Law no. 166 of 16/12/2013). In addition, since there are no current disputes, provisions for future taxes were considered as not necessary. With regard to this, we mention the current regulation on tax assessments, included in Law 166/2013 and subsequent amendments, which states in article 115 that *"tax assessments should be notified by 31/12 of the second year following the year the declaration was submitted"*.

It should also be noted that the applicable rate is of 17%.
The movements in the aforementioned reserves are listed below.

Tax reserves	31/12/2016	31/12/2015
Opening balance	1,044,475	956,174
Increases	560,000	703,000
- allocations	560,000	703,000
- other changes		
- Decreases	560,303	614,699
- utilizations	560,303	614,699
- other changes		
Closing balance	1,044,172	1,044,475



Explanatory notes to the 2016 financial statements

Table 12.4: Movements in sub-item c) "other funds".
Complaint and revocation fund

Compliant and revocation fund	31/12/2016	31/12/2015
Opening balance	1,457,000	1,654,070
Increases	348,000	-
allocations	348,000	
other changes		
Decreases	634,602	197,070
utilizations	398,602	
other changes	236,000	197,070
Closing balance	1,170,398	1,457,000

For the current year the provision previously described was endowed with EUR 348,000 due to increasing loss forecasts regarding outstanding cases. However, this provision was used because a case definitely ended. The other decreases represent regular reviews on disbursement forecasts relating to outstanding cases. Facing a temporary difference between the statutory income and taxable income, EUR 198,968 was recorded among deferred tax assets, posted in item 120 Other assets. It should be noted that the tax reserve includes the provision for taxes which should be paid to the fiscal authority for the year 2016.

Table 12.4 - Movements in sub-item c) "other funds".
Provision for contractual increase

Provision for contractual increase	31/12/2016	31/12/2015
Opening balance	168,298	117,018
Increases	-	51,280
allocations		47,114
other changes		4,166
Decreases	-	-
utilizations		
other changes	-	-
Closing balance	168,298	168,298



Explanatory notes to the 2016 financial statements

Despite the macro and microeconomic downturn, it was not considered necessary to account a provision for the year 2016 because the fund was considered sufficient. It should be also noted that the expiry date of the collective work agreement was 31/12/2010 and is currently under negotiation.

Table 12.4 - Movements in sub-item c) "other funds".
Provision for variable personnel expenses

Provision for variable personnel costs	31/12/2016	31/12/2015
Opening balance	-	-
Increases		30,336
allocations	-	-
other changes	-	-
Decreases		30,336
utilizations		30,336
other changes	-	-
Closing balance	-	-

The Provision for variable personnel expenses was implemented for amounts accrued in the previous years among Other assets relating to personnel bonuses. In 2016 no further funds were set aside for one-off bonuses on the basis of the performance obtained by the Network and the various administrative Organizational Units.

Table 12.4: Movements in sub-item c) "other funds".
Provision for unused holidays

Provision for unused holidays	31/12/2016	31/12/2015
Opening balance	174,746	178,382
Increases	226,964	174,746
allocations	226,964	174,746
other changes		
Decreases	174,746	178,382
utilizations	174,746	178,382
other changes	-	-
Closing balance	226,964	174,746



Explanatory notes to the 2016 financial statements

Table 12.4 - Movements in sub-item c) "other funds".
Fund for charity

Fund for charity	31/12/2016	31/12/2015
Opening balance	33,110	
Increases		
allocations	60,000	60,000
other changes		
Decreases	82,291	26,890
utilizations	82,291	26,890
other changes	-	-
Closing balance	10,819	33,110

Table 12.5 - Movements in item 80 "Provisions for risks on credits"

A. Movements in item 80 "Provision for risks on credits"(12.5)

Items / Values	31/12/2016	31/12/2015
Opening balance		
Increase		-
Allocations		
Other changes		
Decreases		
Utilizations		
Other changes		
Closing balance		-



Explanatory notes to the 2016 financial statements

Liability item 40

A. Breakdown of item 40 "Other liabilities" (13.1)

Technical type	31/12/2016	31/12/2015
Guarantee margins		
Premiums received for options		
Cheques in circulation	3,606,831	1,793,222
Other	95,224,432	97,249,793
Other debtors	2,686,486	3,316,317
4.1 Transferors of bills after collection	4,655,868	4,642,417
4.2 Transferors of bills for collection	76,674,567	72,402,690
4.3 Account adjustments	1,203,137	3,294,948
4.4 Debts to Tax Authorities for withholding tax	1,227,231	3,301,912
4.5 Debts to Tax Authorities for various taxes	45,213	371,725
4.6 Suppliers to be paid	2,585,660	2,327,741
4.7 Funds under pledge	136,447	122,143
4.8 Cash surplus / ATM	7,536	2,555
4.9 Incoming/outgoing transfers		77,880
4.10 Italy/R.S.M. utilities	544,071	778,770
4.11 Operation of ATM/pos/cards	66,613	80,502
4.12 Invoices to be paid for leasing transactions		
4.13 Funds available for others		
4.15 Securities operations	4,460	4,460
4.16 Other items	833,326	189,654
4.17 CS sold customers	405,300	465,430
4.18 Leasing fee invoices issued	4,148,517	5,870,650
TOTAL	98,831,262	99,043,015



Explanatory notes to the 2016 financial statements

The following table shows the details of the generic item Other creditors

B. Breakdown of sub-item "Other creditors"

Technical type	31/12/2016	31/12/2015
Other creditors		
1.1. Wages/Remuneration	2,144,946	2,060,414
1.2. Leasing advances	-	720,594
1.7. Suspense items	11,540	5,309
1.4. Security deposits	530,000	530,000
TOTALI	2,686,486	3,316,317

As specified when commenting on Other items:

Leasing fee invoices issued and Transferors of bills find algebraic offset with postings identified in Other items, respectively.

Liability item 50

Breakdown of accrued expenses and deferred income

	31/12/2016	31/12/2015
Accrued interest expense on current accounts/deposits/foreign currency loans	-	-107
Accrued expenses on derivate contracts	19,677	27,007
Accrued expenses on own Bonds		
Deferred commission income on endorsement loans	28,676	32,449
Deferral on portfolio	10,307	10,678
Deferral on UP-Front swap securities	-	-
Deferral on other liabilities	13,412	7,887
Total	72,072	77,915

As explained above, based on the new formulation of article IV.I.13 of Regulation 2008/02 on the preparation of financial statements, regarding accruals and deferrals, the assets and liabilities of banks are required to be adjusted directly with the evidence of accrued income and expenses; therefore, item 50 has undergone a substantial reduction over the years.



Explanatory notes to the 2016 financial statements

Liability items 90-100

Table 14.1 Breakdown of item 90 "Reserves for general banking risks"

A. Breakdown of item 90 "Reserves for general banking risks" (14.1)		
Items / Values	31/12/2016	31/12/2015
Opening balance		
Allocations during the year		
Utilization during the year		
Closing balance	-	-

Table 14.2 - Breakdown of item 100 "Subordinate liabilities"

	31/12/2016	31/12/2015	Absolute changes	% changes
Subordinate liabilities	16,021,731	20,030,402	-4,008,671	-20.01%

As indicated in the table above, the Bank, during 2013, issued a subordinated bond loan entirely subscribed and payable in instalments of 20% from 01/03/2016 until full refund on 01/03/2020, governed by a specific internal regulation and authorized by the Central Banking Authority; the variation between 2015 and 2016 is exclusively due to the refund.

Table 14.3 - Breakdown of item 110
"Share capital or endowment fund"

	31/12/2016	31/12/2015	Absolute changes	% changes
Capital and Endowment fund	20,880,080	20,880,080		

	31/12/2016	31/12/2015	Absolute and % changes	
Ordinary reserve no. 803.080 equal to EUR 26,00	26	26	-	0%



Explanatory notes to the 2016 financial statements

Table 14.4 - Breakdown of item 120 "Share premium reserves"

	31/12/2016	31/12/2015	Absolute and % changes	
Share premiums	-	-	-	0%

Table 14.5 - Breakdown of item 130 "Reserves"

	31/12/2016	31/12/2015	Absolute and % changes	
a) ordinary reserve	58,395,668	57,499,203	896,465	1.56%
of which tax-suspended re- serve	1,227,968	1,227,968	-	-
b) extraordinary reserve				
c) own share reserve	14,378	11,518	2,860	0.25
d) other reserves				
Total	58,410,046	57,510,721	899,325	1.56%

The ordinary reserve shows an increase of EUR 896,465 due to the allocation of the profit for the year 2015 as approved by the shareholders' meeting in May 2016.

In addition, the own share reserve has been increased after a "buy-back" of own shares granted to outgoing employees in the course of the year. It has to be noted that the ordinary reserve includes the tax-suspended reserve made up after reverse takeover of Istituto Bancario Sammarinese occurred in 2012, in accordance with the law deriving from tax deduction for own capital, introduced by Delegate Decree no. 172 26/10/2010, subsequently replaced with art. 74, law 166/2013.

In November 2012, IBS carried out a proportioned demerger in favor of BAC, which did not led to a net equity decrease through asset distribution, but assigned it to the recipient at book value.

As per legal literature, in accordance with art. 14 of Legislative Decree 172/2010 and current legislation on corporate demergers (art. 78, Law 166/2013), the extraordinary tax transaction is neutral and the tax-suspended reserve amounting to EUR 1,227,968 to be assigned to recipient BAC was merged with BAC ordinary reserve by means of merger surplus. In fact, unavailable reserves were transferred (and not distributed) to the recipient. It has to be noted that the unavailable fund fee still exists at recipient BAC, so from demerger until now no reserve has been distributed, as shown in the above table.



Explanatory notes to the 2016 financial statements

Table 14.6 - Breakdown of item 150
"Retained earnings (losses)"

	31/12/2016	31/12/2015	Absolute and % changes	
Retained earnings (losses)	-	-	-	-

Table 14.7 - Breakdown of item 160 "Net income (loss) for the period"

	31/12/2016	31/12/2015	Absolute and % changes	
Profit (losses) for the year	-3,793,060	2,251,798	-6,044,858	-268.45%

Table 14.8 - Changes in the net equity over the last 4 years

A. Changes in the net equity over the last 4 years (14.8)

Saldi al tempo:	Share capital	Unpaid share capital	Share premiums	Ordinary reserve	other reserve	Operating result (+/-)	Retained earnings (losses) (+/-)	Reserves for general banking risks	Total
31/12/2013	20,880,080			55,989,250	3,625,816	-1,678,963			78,816,183
31/12/2014	20,880,080			56,044,306	3,657,369	3,133,779	-1,678,963		82,036,571
31/12/2015	20,880,080			57,499,203	14,609,317	2,251,798			95,240,398
31/12/2016	20,880,080			58,395,668	14,665,483	-3,793,060			90,148,171

Table 15.1 - Breakdown of item 140 "Revaluation reserves"

	31/12/2016	31/12/2015	Absolute and % changes	
Revaluation reserves	14,651,105	14,597,800	53,305	100%

At the end of 2016 the revaluation reserves increased due to the revaluation recognized in 2016 equity of subsidiary San Marino Life Spa and SSiS and the write-down of subsidiary Bacfiduciaria Spa.



Explanatory notes to the 2016 financial statements

Table 16.1 - Prudential aggregates.	31/12/2016
	Amount
Supervisory capital	81,313,369
A1. Core capital	73,360,242
A2. Supplementary capital	26,308,960
A3. Items to be deducted	6,992,712
A.4 Risk asstes for shareholders	11,363,121
A4. Supervisory capital	81,313,369
Risk assets and supervisory ratios	
B1. Weighted risk assets	486,030,300
C1. Supervisory capital / Weighted risk assets	16.73%

For the drawing up of the items, the indications of the Regulation 2007/07 and the current prudential supervisory standards were followed. It is, in particular, worth to note the adequate Bank capital level and a solvency ratio equal to 16.73% which is by far higher than the regulatory limit of 11%.

Guarantees and commitments

Table 17.1 - Breakdown of "Guarantees given"

A. Breakdown of item 10 "Guarantees given" (17.1)		
Items / Values	31/12/2016	31/12/2015
Trading endorsement loans	11,612,022	11,852,887
Financial endorsement loans	13,247,617	10,283,706
Collateral assets	1,333,281	
TOTAL	26,192,920	22,136,593

The guarantees given were classified according to their economic purpose, in:

- trading endorsement loans: personal guarantees securing specific commercial transactions (such as documentary credits) or the proper implementation of contracts;
- financial endorsement loans: personal guarantees securing the proper fulfillment of the service of the debt by the payer;
- assets (such as securities or cash) pledged to guarantee third-party obligations.



Explanatory notes to the 2016 financial statements

Table 17.2: Breakdown of endorsement loans

B. Breakdown of "Endorsement loans" (17.2)		
Items / Values	31/12/2016	31/12/2015
Trading endorsement loans	11,612,022	11,852,887
Acceptances	1,496,369	2,431,138
Performance bonds and guarantees	10,115,652	9,421,749
Secured patronage		
Other		
Financial endorsement loans	13,247,617	10,283,706
Acceptances		
Performance bonds and guarantees	13,247,617	10,283,706
Secured patronage		
Other		
TOTAL	24,859,639	22,136,593

Table 17.3 - Assets used as collateral to the Bank own liabilities

Liabilities	Amounts of collaterals
-	-

No asset was used as collateral to the Bank own liabilities.

Table 17.4 - Margins available on lines of credit

A) Central Banks	-	-
b) Other banks	-	-
Total	0	0



Explanatory notes to the 2016 financial statements

The Bank ordered the termination of the operating line of credit on the foreign sector granted by Cassa Centrale Banca Spa.

Table 17.5 - Breakdown of "Spot commitments"

Items / Values	31/12/2016	31/12/2015
Commitments to grant funds for specific use		
- of which commitments for loans to be granted		
Commitments to swap financial instruments for specific use		
Commitments to grant funds for unspecific use	1,968,852	8,784,883
-of which liability margins to be used on lines of credits	1,968,852	8,784,883
-of which put options issued		
Commitments to swap financial instruments for specific use		
Other commitments	11,435,796	28,538,271
TOTAL	13,404,648	37,323,153

Commitments of certain use are represented by commitments to disburse funds, whose use by the requesting party is not optional. These are binding commitments for both the granting bank and the requesting party. This category includes the acquisition of securities not yet settled and deposits and loans to be paid at a future given date.

Commitments of uncertain use are represented by commitments to disburse funds, whose use by the requesting party is optional. Therefore, it is not certain whether and to what extent the funds will be effectively disbursed. This category includes the commitments within the placement of securities.

The new methods of accounting off-balance sheet transactions required pursuant to the Regulation 2008-02 on the preparation of banks' financial statements, state that forward financial instruments and currency sale/repurchase contracts not yet settled, derivative contracts on securities and relating to currencies, derivative contracts without underlying securities related to interest rates, indices or other assets, spot or forward deposits or loans to be disbursed or to receive at a future given date, are reclassified under spot commitments.

It should be noted that, unlike the previous legislation, contracts involving the exchange of two foreign currencies (or the exchange rate differential between two foreign currencies) should be recorded only once



Explanatory notes to the 2016 financial statements

with reference to the currency to be purchased. In addition, derivative contracts on interest rates are conventionally classified as purchases or sales, depending on whether they entail for the bank the purchase or the sale of the fixed exchange rate. Lastly, derivative contracts involving forward exchange of capital are measured according to the contract settlement price, whereas contracts not involving this exchange are measured according to the par value of the reference capital.

It is noted that the decrease in the item from 2015 to 2016 is attributable to the series of transactions to be settled on securities, which, according to market conventions, require two days after the date of execution of the order, not present as of 31/12/2016 since they were all accrued for currency 31/12/2016.



Explanatory notes to the 2016 financial statements

Tabelle 17.6 - Impegni a termine

Items / Values as of 31/12/2016	Hedging	Trading	Other operations
Trades			
Financial instruments			
- purchases			
- sales			
Currencies			
- currencies against currencies			
- purchases against EUR			
- sales against EUR			
Deposits and loan			
to be granted			
to be received			
Derivative contracts			
With capital swaps			
- securities			
- purchases			
- Sales			
- currencies			
- currencies against currencies			
- purchases against EUR			
- sales against EUR			
- Other values			
- purchases			
- Sales			
Without capital swaps			
- currencies			
- currencies against currencies			
- purchases against EUR			
- sales against EUR			
- other values			
- purchases	1,731,035		
- sales			



Explanatory notes to the 2016 financial statements

This table lists all the off-balance sheet transactions in force at year-end. In particular:

- a.** Forward financial instruments and currency sale/purchase contracts not yet settled;
- b.** Derivative contracts with underlying securities;
- c.** Derivative contracts on foreign currencies;
- d.** Derivative contracts without underlying securities related to interest rates, indices or other assets;
- e.** Spot or term deposits or loans to be disbursed or to receive at a future given date.

Other typologies, not included in the aforementioned table, shall be specifically indicated, if of a considerable amount.

The value attributed to the transactions is the following:

- The contracts' settlement price to financial instruments and currency sale/purchase contracts and derivative contracts involving forward exchange of capital (or other assets). For derivative contracts negotiated on organized markets that provide for daily liquidation of variation margins, the value is conventionally equal to the par value of the reference capital;
- The amount to be disbursed or to receive to deposit and loan contracts;
- The par value of the reference capital to derivative contracts not involving forward exchange of capital (such as contracts on interest rates and indices).

Contracts involving the exchange of two foreign currencies (or the exchange rate differential between two foreign currencies) should be recorded only once with reference to the currency to be purchased.

Contracts involving the exchange of both interest rates and currencies should be recorded only under contracts on currencies.

Derivative contracts on interest rates are conventionally classified as purchases or sales, depending on whether they entail for the bank the purchase or the sale of the fixed exchange rate.

In particular, it should be pointed out that among derivative contracts there are four IRS transactions executed with HVB on fixed-rate loans as hedge against the rate risk, besides a further derivative contract, executed with ICREA on a disbursed loan, upon which we exchange the fixed rate gaining the floating one.



Explanatory notes to the 2016 financial statements

Table 17.7 - Financial derivatives

Items / Values as of 31/12/2016	Hedging	Trading	Other operations
Derivative contracts			
With capital swaps			
Securities			
- purchases			
- sales			
Currencies			
- currencies against currencies			
- purchases against EUR			
- sales against EUR			
- Other values			
- purchases			
- Sales			
Without capital swaps			
- currencies			
- currencies against currencies			
- purchases against EUR			
- sales against EUR			
- other values			
- purchases	151,957		
- sales			

The same items and sub-items relating to derivative contracts of the previous table are listed in this table and valued at market. As it is a derivative not quoted, the fair value was calculated by the counterpart on the basis of the method mentioned at art. I.I.2, paragraph 45 of BCSM Regulation No. 2008/02.

Table 17.8 - Derivative contracts on loans

A. Derivative contracts on loans (17.8)			
Items / Values as of 31/12/2016	Hedging	Trading	Other operations
Hedge purchases		-	-
With capital swaps			
Without capital swaps			
Hedge sales		-	-
With capital swaps			
Without capital swaps			



Explanatory notes to the 2016 financial statements

Table 18.1 - Major risks

Major risks	31/12/2016	31/12/2015	Changes	
Amount	102,209,858	106,265,336	-4,055,478	3.82%
Number	8	10	-2	20.00%

The table above shows the weighted total amount and the number of risk positions toward related parties and related parties thereof, according to the current supervisory standards. To that effect, it is to be noted that the bank is subject to the required limits.

Table 18.2 - Risks to related parties

Risks to related parties	31/12/2016	31/12/2015	Changes	
Amount	30,953,921	32,296,978	-1,343,057	-4.16%
Number	8	10	-2	-20.00%

The table above shows the weighted total amount and the number of risk positions toward related parties and related parties thereof, according to the current supervisory standards. To that effect, it is to be noted that the bank is subject to the required limits.



Explanatory notes to the 2016 financial statements

Table 18.3 - Time distribution of assets and liabilities

A. Time distribution of assets and liabilities (18.3)														
Items / Residual maturities as of 31/12/2016	Total	At sight	From 1 day to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 18 months		From 18 months to 2 years		From 2 to 5 years		Over 5 years		Maturity not posted
						F	V	F	V	F	V	F	V	
Fixed rate (F) / Variable rate (V)														
Assets														
Loans to banks	153,148,166	88,912,764	36,897,392	115,572		-								27,222,438
Loans to customers	576,858,919	122,820,889	45,950,418	24,331,049	28,722,340	1,356,238	20,866,039	1,442,848	20,307,972	2,543,082	105,406,601	652,690	148,234,647	54,224,105
Bonds and other debt financial instruments	58,589,680		-	-	-	-		-		5,353,276		53,236,405		
Off-balance operations	39,597,568	7,782,402	9,071,925	5,463,947	6,287,606	1,108,833		478,540		2,675,192		6,729,123		
Liabilities	795,561,048													
Amounts due to banks	387,792	387,792												
Amounts due to customers	423,982,098	412,458,637	5,863,803	2,149,000	3,510,658									
Debts represented by financial instruments:	351,562,596	1,858,166	169,105,312	93,391,205	67,275,324	5,922,361	1,407,249	3,096,517	906,212	6,607,011	1,993,240	-	-	-
Bonds	-													
Certificates of deposit	351,562,596	1,858,166	169,105,312	93,391,205	67,275,324	5,922,361	1,407,249	3,096,517	906,212	6,607,011	1,993,240	-	-	
Other financial instruments	-													
Other liabilities: outstanding cheques	3,606,831	3,606,831												
Subordinate liabilities	16,021,731	-	4,005,433	-	-	-	4,005,433	-	-	-	8,010,865	-	-	-
Off-balance operations	39,597,568	7,782,402	9,071,925	5,463,947	6,287,606	1,108,833		478,540		2,675,192		6,729,123		



Explanatory notes to the 2016 financial statements

Memorandum Accounts

Table 19.1 - Memorandum accounts

Items / Values	31/12/2016	31/12/2015
Asset management	65,304,655	90,074,085
Customer asset management	65,304,655	90,074,085
- of which cash	25,626,741	26,404,659
- of which cash deposited at the reporting institution	25,626,741	26,404,659
- of which debt securities	2,358,814	4,219,906
- of which debt securities issued by the reporting institution	1,120,000	1,400,000
- of which capital securities and CIUs	37,319,100	57,994,549
- of which capital securities issued by the reporting institution		
Own portfolio under third party management		
Custody and administration of financial instruments	605,107,048	760,599,574
Third party financial instruments in deposit	541,144,213	603,297,539
- of which debt securities issued by the reporting institution	14,880,000	18,600,000
- of which capital securities and other values issued by the reporting institution	94,152,369	81,972,383
- of which third party financial instruments deposited at third parties	432,111,844	502,725,156
Own financial instruments deposited at third parties	63,962,835	157,302,035
Financial instruments, cash and other assets related to depository banking activity	-	-
Cash		
- of which cash deposited at the reporting institution		
Debt securities		
- of which debt securities issued by the reporting institution		
Capital securities, CIUs, other financial instruments		
-of which capital securities issued by the reporting institution		
Assets other than financial instruments and cash		

In the table relating to the memorandum accounts, the financial instruments are classified under the relevant individual line items on the basis of the contracts concluded with customers, respectively, dealing with asset management, safe-keeping and administration, trusteeship and custodian agreements.

The aforementioned financial instruments are booked in the memorandum of accounts at market value.



Explanatory notes to the 2016 financial statements

Table 19.2 - Assets held in the exercise of trustee function

	31/12/2016	31/12/2015
A) Assets	-	-
A.1 Cash and cash equivalents	-	-
A.2 Loans	-	-
A.3 Financial instruments	-	-
A.4 Tangible assets	-	-
A.5 Intangible assets	-	-
A.6 Other	-	-
TOTAL ASSETS	-	-
B) Liabilities	-	-
B.1 Debts	-	-
B.2 Other liabilities	-	-
TOTAL LIABILITIES	-	-
C) Operating income/charge difference	-	-

Profit and Loss Account item 10

Table 20.1 - Breakdown of item 10 "Interest income and similar revenues"

A. Breakdown of item 10 "Interest and similar revenues" (20.1)		
Items / Values	31/12/2016	31/12/2015
On loans to bank	217,588	349,813
Current accounts	67,380	121,980
Deposits	150,207	227,834
Other loans		
- of which on leases		
On loans to customers	21,676,776	25,209,158
Current accounts	674,5451	7,855,484
Deposits		
Other loans	14,931,325	17,353,675
- of which on leases	4,345,848	4,965,584
On debt financial instruments issued by banks	9,585	328,306
Certificates of deposit		
Bonds	9,585	328,306
Other financial instruments		
On debt financial instruments to customers (issued by other issuers)	1,878,342	4,940,369
Bonds	1,878,342	4,940,369
Other financial instruments		
Total	23,782,291	30,827,647



Explanatory notes to the 2016 financial statements

These items show, on an accrual basis, the interests, the revenues and similar charges relating to receivables and financial instruments, inclusive of the balance between default interests accrued during the fiscal year and the value adjustment corresponding to the portion prudentially considered as totally unrecoverable.

Profit and Loss Account item 20

Table 20.2 - Breakdown of item 20 “
Interest expense and similar charges”

A. Breakdown of item 20 “Interest expense and similar charges” (20.2)		
Items / Values	31/12/2016	31/12/2015
On amounts due to banks	1,213	15,499
Current accounts	1,213	15,499
Deposits		
Other debts		
On amounts due to customers	1,249,580	2,040,999
Current accounts	1,031,177	1,511,973
Deposits	16,852	26,662
Other debts	201,551	502,365
On payables represented by financial instruments to banks		
-of which certificates of deposit		
On payables represented by financial instruments to customers	6,222,686	8,534,959
-of which certificates of deposit	6,222,686	8,533,394
On subordinate liabilities	295,199	499,546
Total	7,768,679	11,091,002

Profit and Loss Account item 30

Table 21.1 - Breakdown of item 30 “Dividends and other revenues”

A. Breakdown of item 30 “Dividends and other revenues” (21.1)		
Items / Values	31/12/2016	31/12/2015
On stocks, shares and capital financial instruments		
On investments	155,000	76,504
On investments in bank group companies	763,907	875,746
Total	918,907	952,250



Explanatory notes to the 2016 financial statements

Item On investments in bank group companies includes the dividend recorded on an accrual basis by our subsidiary San Marino Life Spa for EUR 763,907, while the amount of EUR 155,000 is the dividend recognized for cash by the subsidiary SSIS.

Profit and Loss Account item 40

Table 40.1 - Breakdown of item 40 "Commission income"

A. Breakdown of item 40 "Commission income" (22.1)		
Items / Values	31/12/2016	31/12/2015
Guarantees given	200,737	165,639
Credit derivatives		
Investment services:	1,161,030	1,866,660
order receipt and trasmission (lett. D1 All.1 LISF)	833,243	1,472,932
order execution (lett. D2 All.1 LISF)		
financial instrument portfolio management (lett. D4 All.1 LISF)	327,786	393,728
financial instrument placing(lett. D5 e D6 All.1 LISF)		
Financial instrument consulting		
Distribution of third party services and products other than placement	1,102,120	1,176,362
asset management		
insurance products	237,000	275,000
other services or products	865,120	901,362
Collection and payment services	1,029,988	1,046,149
Depository banking services		
Custody and administration of financial instruments	352,145	424,091
Trust services	55,094	71,905
Collection and receipt services		
Brokerage	304,723	411,458
Other services	779,558	875,072
Total	4,985,395	6,037,335

Commission income suffers a slight decline due to the continuing micro-economic downturn. The commission segment for receipt and transmission of orders undergoes a significant reorganization due to a decrease in direct and indirect deposits arising from the "Voluntary Disclosure" conclusion.



Explanatory notes to the 2016 financial statements

Profit and Loss Account item 50

Table 50.1 - Breakdown of item 50 "Commission expense"

Items / Values	31/12/2016	31/12/2015
Guarantees given	332	4.070
Credit derivatives		
Investment services:	471,260	603,461
order receipt and transmission (lett. D1 All.1 LISF)	301,665	335,510
order execution (lett. D2 All.1 LISF)	86,085	208,325
financial instrument portfolio management (lett. D4 All.1 LISF)	16,643	21,075
- own portfolio		
- third party portfolio	16,643	21,075
financial instrument placing(lett. D5 e D6 All.1 LISF)	66,867	38,551
Financial instrument, product and service cold calling		
Collection and payment services	173,368	197,137
Other services	103,600	179,056
Total	748,561	983,724

A decrease in commission expense is recorded together with the decline in commission income.

Profit and Loss Account item 60

Table 23.1 - Breakdown of item 60

"Profits (losses) on financial transactions"

A. Breakdown of item 60 "Profits (losses) on financial transactions" (23.1)			
Items / Operating segments / Values as of 31/12/2016	Operations on financial instruments	Operation on currencies	Other operations
Revaluations			
Writedowns	694,521		
Other profits / losses (+/-)	-938,836	338,633	-74,711
Total by operating segment	-1,633,358	338,633	-74,711
General total	-1,369,436		



Explanatory notes to the 2016 financial statements

Item 60 includes the net result obtained from purchases of financial assets and foreign currency by customers, from the management of the financial trading portfolio of the bank. With respect to 2015, we will have the following details:

B. Breakdown of Profits (losses) on valuations and tradings of the segment "Transactions on financial instruments" according to the financial instrument categories (23.1)	Items / Values as of 31/12/2016	Items / Values as of 31/12/2015
	Operations on financial instruments	Operations on financial instruments
Government securities (+/-)	-1,301,504	-3,152,210
Other debt financial instruments (+/-)	-332,008	-752,552
Capital financial instruments (+/-)	155	-788
Derivative contracts on financial instruments (+/-)		
Total (+/-)	-1,633,358	-3,905,550

The negative dynamics of the trading portfolio can be attributed to its breakdown represented by securities with short durations, which suffered strong market volatility.

Profit and Loss Account item 90

Table 24.1 - Number of employees by category

A. Number of employees by category (24.1)			
Items / Values	Average	Actual number as of 31/12/2016	Actual number as of 31/12/2015
Directors	6	6	5
Managers	17	17	16
Remaining personnel	125	123	127
Clerks	125	123	127
Other personnel			
Total	147	146	148

It should also be noted that personnel expenses also include fees to corporate executives: directors and statutory auditors, as requested by art. IV.IV.6 of the regulation 2008-02. By comparison with the previous year, personnel expenses fell by EUR 116,165 and the number of employees decreased by two units. For this reason the bank made no provision for MBO, namely, one-off bonuses paid to employees on the basis of the performances gained from the Network and Organizational Units.



Explanatory notes to the 2016 financial statements

Table 24.2 - Breakdown of sub-item b) "Other administrative expenses"

B. Breakdown of sub-item b) "Other administrative expenses" (24.2)		
Items / Values	31/12/2016	31/12/2015
Other administrative expenses	5,221,166	5,436,464
Expenses for professional services	877,660	898,754
Expenses for purchase of non-professional goods and services	1,807,272	1,686,665
Rental expenses and instalments	1,784,233	1,815,572
Insurance	220,029	263,448
Supervision charges	450,000	420,000
Charges for charity	60,000	85,350
Indirect taxes and taxes	21,972	266,674

Profit and Loss Account items 100-110

Table 25.1 - Breakdown of items 100-110

"Value adjustments on intangible and tangible assets"

A. Breakdown of items 100-110 "Value adjustments on intangible and tangible assets" (25.1)

Items / Values	31/12/2016	31/12/2015
Intangible asset adjustments:	947,271	930,261
- on leased assets		
- on other intangible assets	947,271	930,261
1.1. Software	415,711	421,254
1.2. Studies, research and training	52,403	37,899
1.3. Various long-term costs	329,245	321,197
1.5. Expenses for rented premises	85,787	85,787
1.6. Concession rights and underpass works	41,813	41,813
1.7. Goodwill intangible assets	22,311	22,311
Tangible asset adjustments:	17,501,279	28,109,006
- on leased assets	16,191,268	26,762,342
- on other intangible assets	1,310,010	1,346,664
2.1. Furniture, safes and plants	221,228	242,987
2.2. Electronic machines	128,700	140,965
2.3. Vehicles	19,984	24,554
2.4. Buildings and lands	918,494	912,849
2.5. Equipment and machines	21,604	25,309
TOTAL	18,448,549	29,039,267



Explanatory notes to the 2016 financial statements

The contributions to the various amortization funds of the assets functional to the fiscal year constitute the sum of the shares accrued in 2016, calculated in relation to their residual possibility of utilization and coinciding with the percentages established by the new tax legislation 166/2013. Below is a list of the rates applied:

Buildings	3%
Furniture, Safes and Plants	15%
Electronic Machines	20%
Vehicles	20%
Software	20%
Expenses for rented premises	20%
Studies, Research, Training and Various	20%
Concession rights and underpass works	3%

The amortization rates include also the capital shares accrued during the fiscal year, relating to lease instalments of assets under financial leases, recorded as revenue in the other operating revenues as requested by the Reg. 2008/02 of Central Bank ref. art.IV.V.5.

Profit and Loss Account item 120

Table 25.2 - Breakdown of item 120 "Reserves for risks and charges"

A. Breakdown of item 120 "Provisions for risks and charges" (25.2)		
Items / Values	31/12/2016	31/12/2015
Provisions		
Provisions for legal disputes	348,000	
Totali	348,000	-

Provisions amounting to EUR 348,000 were made for reserves for risks and charges in accordance with the timely update on loss forecasts relating on-going disputes.



Explanatory notes to the 2016 financial statements

Profit and Loss Account item 130

Table 25.3 – Breakdown of item 130 “Provisions for risk on credits”

A. Breakdown of item 130 “Provisions for risks on credits” (25.3)		
Items / Values	31/12/2016	31/12/2015
Total	-	-

Profit and Loss Account item 140

Table 25.4 - Breakdown of item 140 “Value adjustments on loans and provisions for guarantees and commitments”

A. Breakdown of item 140 “Value adjustments for loan and provisions for guarantees and commitments” (25.4)		
Items / Values	31/12/2016	31/12/2015
Value adjustments for loans	6,069,679	3,157,440
- of which flat-rate adjustments for country risk	1	68
- of which other flat-rate adjustments	357,528	192,413
Provisions for guarantees and commitments		
- of which flat-rate provisions for country risk		
- of which other flat-rate provisions		
Total	6,069,679	3,157,440

In accordance with the Regulation 2008-02, as already explained before, the bank should carry out analytical write-downs on the basis of each debtor’s solvency and portfolio write-downs on the basis of the performance of its own economic sector and of the analogue country’s one.

The value adjustments made in 2016 increase the provision for credits adjusting assets to a value suitable for the analytical write-downs related to the loss forecasts of each debtor and for the portfolio write-downs, as mentioned above, on the basis of the economic sector and the country risk, and are able to guarantee a 6.18% coverage of cash and off-balance-sheet loans, in line with the coverage data of San Marino system and with data on the credit quality of the main Italian banking concerns. With reference to some non-performing and bad loan postings, it should be noted that part of debt recovery is connected with the result of legal actions subject to some uncertainties due to their unpredictable realization times and non-quantifiable amounts.



Explanatory notes to the 2016 financial statements

Table 25.5 - Different types of movements in item 140
"Value adjustments on loans and provisions for guarantees
and commitments"

B. Other types of transactions in item 140				
"Value adjustments for loans and provisions for guarantees and commitments" (25.5)				
Items / Values	31/12/2016		31/12/2015	
	Analytical	Flat-rate	Analytical	Flat-rate
Total cash credit writedowns	5,712,150	357,529	2,964,959	192,481
Credit writedown - non-performing	3,468,371		1,558,140	
Credit writedown - bad	1,399,351		919,044	
Credit writedown - other	844,428	357,529	487,775	192,481
Total cash credit losses	-	-	-	-
Non performing				
Bad				
Other				
Total cash credit value adjustments (B010+B020)	5,712,150	357,529	2,964,959	192,481
Total provisions for guarantees and commitments	-	-	-	-
Guarantees				
Commitments				
Total	5,712,150	357,529	2,964,959	192,481
General Total		6,069,679		3,157,440

During 2016, losses from bad debts were recorded for an amount of EUR 5,382,545, which was covered using risk provisions for credits adjusting assets.



Explanatory notes to the 2016 financial statements

Profit and Loss Account item 150 - 160

Table 25.6 - Breakdown of item 150 "Writebacks on loans and on provisions for guarantees and commitments"

A. Breakdown of item 150 "Writebacks on loans and on provisions for guarantees and commitments" (25.6)

Items / Values	31/12/2016	31/12/2015
Writebacks		
On non-performing loans		
On bad loans		
On other loans		

Table 25.7 - Breakdown of item 160 "Financial asset adjustments" (25.7)

Items / Values	31/12/2016	31/12/2015
Value adjustments		
- of which on investments		
- of which on investments in group companies		
- of which on other capital financial instruments		
- of which on other debt financial instruments		
- of which on derivative financial instruments		

Table 25.8 - Breakdown of item 170 "Financial asset writebacks"

Items / Values	31/12/2016	31/12/2015
Writebacks		
- of which on investments		
- of which on investments in group companies		
- of which on other capital financial instruments		
- of which on other debt financial instruments		
- of which on derivative financial instruments		

No value adjustment or writeback was made in the investment portfolio.



Explanatory notes to the 2016 financial statements

Profit and Loss Account item 70 - 80

Table 26.1/26.2 - Breakdown of items 70/80

"Other operating income", "Other operating charges"

	31/12/2016	31/12/2015	Changes	
			amount	%
Other operating income:				
Rental income/Commission income	889,528	1,122,629	-233,101	-20.76%
Recovery of expenses	77,863	200,631	-122,767	-61.19%
Rental income	547,656	390,918	156,738	40.09%
Advice				
Other income on financial leasing contracts	16,321,684	26,838,100	-10,516,416	-39.18%
Total	17,836,731	28,552,277	-10,715,545	-37.53%

	31/12/2016	31/12/2015	Changes	
			amount	%
Other operating charges:		-	-	0%
Leasing instalments		-	-	0%
Total	-	-	-	-

In accordance with the regulation on the preparation of the consolidated financial statements, we reiterate that the leasing instalments accrued during the fiscal year are recorded in the part concerning interests in the item Interest income and similar income, and in the part concerning the share capital in the item Other operating income. At the same time, the bank reduces the value of the asset covered by financial lease for the principal amount by recording the amortization, therefore, the capital shares accrued are recorded under the item Other income on assets leased, as well as redemptions and down-payments, whose amount is equal to EUR 26,838,100 in 2015 and EUR 16,321,684 in 2016.



Explanatory notes to the 2016 financial statements

Table 26.3: Breakdown of item 190 “Extraordinary income”

	31/12/2016	31/12/2015	Changes	
			amount	%
Extraordinary income:				
- Margin on investment securities	-	2,824,108	-2,824,108	
- Windfall gains	221,884	578,452	-356,568	-61.64%
- Collection on positions turned into losses	152,876	292,063	-139,186	-47.66%
- Redemption of customer relationships	204	13,275	-13,071	-
- Redemption of provisions for legal and revocatory actions	236,000	197,070	38,930	-
Total	610,964	3,904,967	-3,294,003	-84.35%

Table 26.4 - Breakdown of item 200 “Extraordinary charges”

	31/12/2016	31/12/2015	Changes	
			amount	%
Extraordinary charges:				
-Operating damage	-12,359	-10,213	-2,146	-21%
-Repayment of interest income, commissions and charges from customers	-49,770	-20,822	-28,949	-139.03%
-Redemption of customer relationships	-37,683	-51,835	14,152	27.30%
-Other extraordinary charges	-346,258	-827,932	481,674	58.18%
-Losses from disposal of property			-	-
-Investment securities	-	-2,327,000	2,327,000	
Total	-446,070	-3,237,802	2,791,732	86.22%



Explanatory notes to the 2016 financial statements

Table 26.5 - Breakdown of item 220 "Tax for the year"

	31/12/2016	31/12/2015	Changes	
			amount	%
Income tax for the year	615,563	769,144	-153,581	-19.97%
Total	615,563	769,144	-153,581	-19.97%

Table 27.1 - Remuneration

C. Remunerations (27.1)		
Items / Values	31/12/2016	31/12/2015
Directors	-158,623	-142,678
Auditors	-81,820	-80,780
Total	-240,443	-223,458

PART D
– Other information


The following table provides an overview of the pro-forma profit and loss account and the main indicators:

PROFIT AND LOSS ACCOUNT	31/12/2016	% Intermed. Margin	31/12/2015	% Intermed. Margin	CHANGE	
					ABSOLUTE	%
Interest income and similar revenues	23,782,291	110.90%	30,827,647	127.16%	-7,045,356	-22.85%
of which: a) Interest income to customers	21,676,776	101.08%	25,209,158	103.99%	-3,532,383	-14.01%
b) Interest income to banks	217,588	1.01%	349,813	1.44%	-132,226	-37.80%
c) Interest income on debt securities	1,887,928	8.80%	5,268,675	21.73%	-3,380,748	-64.17%
Interest expense and similar charges	-7,768,679	-36.23%	-11,091,002	-45.75%	3,322,324	-29.96%
of which: a) Interest expense to customers	-1,249,580	-5.83%	-2,040,999	-8.42%	791,419	-38.78%
b) Interest expense on payable represented by securities	-6,517,886	-30.39%	-9,034,505	-37.27%	2,516,619	-27.86%
c) Interest expense to banks	-1,213	-0.01%	-15,499	-0.06%	14,285	-92.17%
Interest margin	16,013,612	74.67%	19,736,644	81.41%	-3,723,032	-18.86%
Dividends and other revenues	918,907	4.28%	952,250	3.93%	-33,343	-3.50%
Financial margin	16,932,520	78.96%	20,688,895	85.34%	-3,756,375	-18.16%
Net commissions	4,236,834	19.76%	5,053,611	20.85%	-816,777	-16.16%
of which: a) commission income	4,985,395	23.25%	6,037,335	24.90%	-1,051,940	-17.42%
b) commission expense	-748,561	-3.49%	-983,724	-4.06%	235,163	-23.91%
Profit and loss on financial transactions	-1,369,436	-6.39%	-3,289,600	-13.57%	1,920,164	-58.37%
of which: a) On securities	-1,633,358	-7.62%	-3,905,550	-16.11%	2,272,192	-58.18%
b) On exchanges	263,922	1.23%	615,950	2.54%	-352,028	-57.15%
Other operating income	1,645,463	7.67%	1,789,935	7.38%	-144,472	-8.07%
Other overhead costs				0.00%	0	
Service margin	4,512,862	21.04%	3,553,946	14.66%	958,915	26.98%
Intermediation margin	21,445,381	100.00%	24,242,841	100.00%	-2,797,460	-11.54%
Operating costs	-18,370,093	-85.66%	-18,731,624	-77.27%	361,530	-1.93%
of which: a) Personnel expenses	-10,891,646	-50.79%	-11,018,234	-45.45%	126,588	-1.15%
b) Other administrative expenses	-5,221,166	-24.35%	-5,436,464	-22.43%	215,298	-3.96%
c) Tangible and intangible asset adjustments	-2,257,281	-10.53%	-2,276,925	-9.39%	19,644	-0.86%
Operating result	3,075,288	14.34%	5,511,217	22.73%	-2,435,929	-44.20%
Allocations and net adjustments on credits	-6,069,679	-28.30%	-3,157,440	-13.02%	-2,912,238	92.23%
Provisions for risks and charges	-348,000				-348,000	
Financial asset adjustments		0.00%		0.00%	0	
Profit from operations	-3,342,391	-15.59%	2,353,777	9.71%	-5,696,168	-242.00%
Extraordinary profit (los)	164,894	0.77%	667,165	2.75%	-502,271	-75.28%
Change in reserves for general banking risks (+/-)	0	0.00%	0		0	
Income tax	-615,563	-2.87%	-769,144	-3.17%	153,581	-19.97%
Net profit for the period	-3,793,060	-17.69%	2,251,798	9.29%	-6,044,858	-268.45%
Tax rate	-19.37%		25.46%			
Cost/income	85.66%		77.27%			
Interest margin/Intermediation margin	74.67%		81.41%			
Service margin/Intermediation margin	21.04%		14.66%			
Operating result/Intermediation margin	14.34%		22.73%			
Roe	-4.21%		2.36%			
PERSONNEL EXPENSES/INTERMEDIATION MARGIN	50.79%		45.45%			
ADMINISTRATIVE EXPENSES (total)/INTERMEDIATION MARGIN	75.13%		67.87%			
ADMINISTRATIVE EXPENSES (other expenses)/INTERMEDIATION MARGIN	24.35%		22.43%			
Roa	-0.39%		0.20%			

San Marino, 30 March 2017

The Chief Executive Officer

The President of the Board of Directors



Consolidated
Balance Sheet
Financial
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Consolidated Balance Sheet Financial Statement Reports and Balance Sheet 2016

As of 31/12/2016, the group has a consolidated value of total deposits of 1,353 million, divided into direct and indirect deposits, for EUR 704 and 648 million respectively; the aggregate shows a reduction of 12.25% compared to 31/12/2015 due to the known “Voluntary Disclosure” referred to in the individual financial statements.

Total balance sheet assets amount to 1,225 million compared to 1,368 million as of 31/12/2015, while loans to customers, expressed at their estimated realizable value (therefore already net of the risk provision for credits of EUR 38.018 million) fell from 648 million to 571 million, showing a decrease of 77 million in absolute terms.

In the year 2016, the group achieved a consolidated intermediation margin of EUR 39.139 million, showing a reduction if compared to 2015, -25.78% in percentage terms and 13.592 million in absolute terms.

Operating costs, equal to -36.028 million, decreased by 23.40% (compared to 47.032 million in the year 2015), can basically be attributed to the amortization for the capital share of assets subject to financial leasing granted to customers, accounting for 16.191 million on 2016 and 26.762 million on 2015, while the effective adjustments on immovable fixed assets are equal to 2.363 million in 2016 compared to 2.319 million in 2015.

Personnel costs show a reduction equal to -0.200 million (-1.71% compared to 31/12/15), while the administrative expenses keep falling due to the rationalization and the optimized economies of scale already adopted in the previous year, with a decline of 4.42% (-0.275 million).

The Report shows a decrease in the operating result equal to -2.589 (-45.43%) compared to 5.700 million in 2015, and consolidated profit (loss) of EUR -3.750 million, after expending significant risk provisions for credits and provisions for risks and charges for a total of -6.417 million, which arise from an accurate and strict assessment of the credits of all the companies of the group.

The Report sets out the consolidated data for 2016, compared with the data for 2015, processed on the basis of the new consolidation area that saw the entry of the Insurance Company in 2012. The consolidated data were reconstructed according to the accounting principles pertaining to the consolidated balance sheet and were compared with those processed the previous year.

In consideration of the foregoing, reference should be made to the tables set out below and to the Report of the Parent Company for a summary overview of the Statement of Assets and Liabilities and the Profit



Consolidated Balance Sheet Financial Statement Reports and Balance Sheet 2016

and Loss Account consolidated as of 31 December 2016, which were drawn up according to the following stages:

- the individual accounting situation of BAC as of 31/12/2016, which was added to that of the subsidiaries of the group at 100% in order to obtain a first reference aggregate;
- the reciprocal balance sheets existing on 31/12/2016 were annulled and the reciprocal cost and revenue postings occurred during the year between the companies of the group were reversed;
- the items of the shareholders' equity of the subsidiaries were cancelled as a counter part of the values of the shareholding interests and the resulting difference (consolidated surplus) was attributed to the shareholders' equity of the parent company.



Consolidated Balance Sheet Financial Statement Reports and Balance Sheet 2016

Financial statements Items in asset postings

Consolidated Financial Statement BAC - Bac Fiduciaria - San Marino Life					
Item code	Asset items	31/12/2016	31/12/2015	absolute change	Item code
10	Cash and cash equivalents	5,333,870	4,504,145	829,725	18.42%
20	Loans to banks	158,652,361	112,445,967	46,206,394	41.09%
	a. at sight	94,416,960	45,829,232	48,587,728	106.02%
	b. other receivables	64,235,402	66,616,735	-2,381,333	-3.57%
30	Loans to customers	456,218,495	504,209,266	-47,990,771	-9.52%
40	Bonds and other debt financial instruments	192,263,732	309,704,236	-117,440,504	-37.92%
	a. public issuers	108,647,808	189,696,828	-81,049,020	-42.73%
	b. bank issuers	803,153	5,783,800	-4,980,647	-86.11%
	b.1. of which own financial instruments	-	-	-	-
	c. investors (investment firms)	-	-	-	-
	d. other issuers	82,812,771	114,223,608	-31,410,837	n.d.
50	Shares, stocks and other capital financial instruments	112,945,013	124,064,982	-11,119,968	-8.96%
60	Shareholdings	4,730,450	4,559,508	170,942	3.75%
70	Investments in bank group companies	337,689	337,689	1	0.00%
80	Intangible fixed assets	2,171,224	2,664,516	-493,291	-18.51%
	a. of which goodwill	32,498	54,810	-22,311	
90	Tangible fixed assets	202,814,961	214,758,142	-11,943,180	-5.56%
	a. of which financial leases	115,166,013	144,680,403	-29,514,390	-20.40%
	b. of which assets awaiting lease	5,656,428	20,089,463	-14,433,035	-71.84%
100	Subscribed paid capital not paid-in	-	-	-	
110	Treasury shares or stocks	14,378	11,518	2,860	24.83%
120	Other assets	89,418,291	90,441,044	-1,022,753	-1.13%
130	Accrued income and prepaid expenses	723,682	777,575	-53,893	-6.93%
	a. accrued income	490,156	453,752	36,404	8.02%
	b. prepaid expenses	233,526	323,823	-90,297	-27.88%
140	Total assets	1,225,624,149	1,368,478,588	-142,854,439	-10.44%

* expressed at the fair value (total adjustment provisions for credits amounting to EUR 38,018,207)



Consolidated Balance Sheet Financial Statement Reports and Balance Sheet 2016

Items in liability postings and equity

Item code	Liability Items	31/12/2016	31/12/2015	absolute change	percent change
10	Amounts due to banks	621,740	2,727,790	-2,106,050	-77.21%
	a. at sight	389,356	2,453,640	-2,064,284	-84.13%
	b. term or without notice	232,384	274,150	-41,766	-15.23%
20	Amount due to customers	422,610,430	490,203,673	-67,593,244	-13.79%
	a. at sight	411,083,068	475,467,636	-64,384,568	-13.54%
	b. term or without notice	11,527,361	14,736,038	-3,208,676	-21.77%
30	Paybles represented by financial instruments	351,562,596	386,707,916	-35,145,320	-9.09%
	a. bonds	-	-	-	-
	b. certificates of deposit	351,562,596	386,707,916	-35,145,320	-9.09%
	c. other financial instruments	-	-	-	-
40	Other liabilities	99,916,147	99,550,505	365,642	0.37%
50	Accrued expenses and deferred income	72,072	77,915	-5,842	-7.50%
	a. accrued expenses	19,677	26,900	-7,223	-26.85%
	b. deferred income	52,395	51,015	1,381	2.71%
60	Severance	1,063,159	1,219,378	-156,219	-12.81%
70	Reserves for risks and charges	3,068,930	3,371,940	-303,010	-8.99%
	a. provision for pensions and similar obligations	-	-	-	-
	b. tax reserves	1,047,122	1,064,949	-17,827	-1.67%
	c. other reserves	2,021,808	2,306,990	-285,182	-12.36%
80	Risk provisions for credits not adjusting assets	-	-	-	-
90	Technical reserves	240,539,171	269,348,670	-28,809,499	-10.70%
100	Subordinate liabilities	16,021,731	20,030,402	-4,008,671	-
110	Share capital	20,880,080	20,880,080	-	0.00%
120	Share premium reserves	-	-	-	-
130	Reserves	58,410,046	57,510,721	899,325	1.56%
	a. ordinary reserves	58,395,668	57,499,203	896,465	1.56%
	b. treasury and share reserves	14,378	11,518	2,860	24.83%
	c. extraordinary reserves	-	-	-	-
	d. other reserves	-	-	-	-
140	Revaluation reserves	14,651,105	14,597,800	53,305	nd
150	Retained earnings (losses) (+/-)	-	-	-	-
160	Net income (loss) for the period (+/-)	-3,750,697	2,357,942	-6,108,639	-259.07%
	Minority interests	-	-	-	-
	Merger surplus	-42,361	-106,143	63,782	-60.09%
170	Total liabilities	1,225,624,149	1,368,478,588	-142,854,439	-10.44%



Consolidated Balance Sheet Financial Statement Reports and Balance Sheet 2016

Profit and loss account

Item code	Profit and Loss Account Items	31/12/2016	31/12/2015	absolute change	percent change
	Insurance premiums	48,283,456	43,678,636	4,604,820	10.54%
10	Interest income and similar revenues	25,131,811	32,145,239	-7,013,428	-21.82%
	a. on loans to customers	21,666,553	25,191,727	-3,525,175	-13.99%
	b. on debt securities	3,247,670	6,603,888	-3,356,218	-50.82%
	c. on amounts due from banks	217,588	349,623	-132,036	-37.77%
20	Interest expense and similar charges	-7,768,679	-11,090,812	3,322,134	-29.95%
	a. on loans to customers	-1,249,580	-15,309	-1,234,271	8062.64%
	b. on bond paybles	-6,517,886	-2,040,999	-4,476,886	219.35%
	c. on amounts due from banks	-1,213	-9,034,505	9,033,291	-99.99%
30	Dividends and other revenues	155,000	76,504	78,496	102.60%
	a. on stocks	-	-	-	
	b. on shares	155,000	76,504	78,496	102.60%
	c. on group company shares				
40	Commission income	5,131,122	6,351,969	-1,220,847	-19.22%
50	Commission expense	-512,190	-709,655	197,465	-27.83%
60	Profits (losses) on financial transactions (+/-)	4,686,951	3,404,211	1,282,741	37.68%
70	Other operating income	19,136,874	30,215,932	-11,079,058	-36.67%
80	Other overhead costs	-55,104,539	-51,339,562	-3,764,977	7.33%
90	Administrative expenses	-17,474,177	-17,950,026	475,849	-2.65%
	a. personnel expenses	-11,519,850	-11,720,192	200,342	-1.71%
	a.1. salaries and wages	-8,167,555	-8,364,014	196,459	-2.35%
	a.2. welfare contributions	-2,092,219	-2,108,777	16,559	-0.79%
	a.3. severance	-781,052	-821,721	40,669	-4.95%
	a.4. dormancy and similar	-	-	-	
	a.5. directors and auditors	-326,052	-268,140	-57,913	21.60%
	a.6. other personnel costs	-153,049	-157,540	4,492	-2.85%
	b. other administrative expenses	-5,954,327	-6,229,834	275,507	-4.42%
100	Intangible asset adjustment	-967,035	-965,026	-2,009	0.21%
	of which on intangible assets leased			-	
110	Tangible asset adjustments	-17,587,741	-28,117,134	10,529,393	-37.45%
	of which on tangible assets leased	-16,191,268	-26,762,342	10,571,074	-39.50%
120	Provisions for risks and charges	-348,000		-348,000	
130	Provisions for risks on credits			-	
140	Value adjustments for loans and provisions for guarantees and commitments	-6,069,679	-3,157,440	-2,912,238	92.23%
150	Writebacks on loans and on provisions for guarantees and commitments				
160	Financial asset adjustments				
170	Financial asset writebacks				
180	Operating income (loss)	-3,306,824	2,542,835	-5,849,659	-230.04%
190	Extraordinary income	687,741	3,949,291	-3,261,550	-82.59%
200	Extraordinary expense	-451,104	-3,274,457	2,823,353	-86.22%
210	Extraordinary income (loss)	236,637	674,834	-438,197	-64.93%
220	Variations in general banking risk reserves (+/-)			-	
230	Taxation for the year	-680,511	-859,727	179,216	-20.85%
240	Income (loss) for the period	-3,750,697	2,357,942	-6,108,639	-259.07%



Consolidated Balance Sheet Financial Statement Reports and Balance Sheet 2016

Guarantees and commitments

Item code	Items	31/12/2016	31/12/2015	absolute change	percent change
10	Guarantees given	26,192,920	22,136,593	4,056,327	18.32%
	a. acceptances	1,496,369	2,431,138	-934,768	-38.45%
	b. other guarantees	24,696,551	19,705,455	4,991,096	25.33%
20	Commitments	26,101,701	66,718,016	-40,616,315	-60.88%
	a. for specific use	-	-	-	0.00%
	a.1. of which financial instruments	-	-	-	
	b. for unspecific use	1,968,852	8,784,883	-6,816,031	-77.59%
	b.1. of which financial instruments	-	-	-	
	c. other commitments	24,132,849	57,933,134	-33,800,284	-58.34%
30	Total	52,294,621	88,854,609	-36,559,988	-41.15%

Deposit and Loans to customers

Deposits/Loans	31/12/2016	31/12/2015	absolute change	percent change
Amounts due from customers	571,384,508	648,889,669	-77,505,161	-11.94%
Coverage	6.15%	6.15%	0.00%	0.00%
Coverage on doubtful loans	23.16%	23.16%	0.00%	0.00%
Loans/direct deposits	81.14%	71.87%	9.27%	12.91%
Direct deposits	704,181,008	795,056,278	-90,875,270	-11.43%
of which CD	337,325,400	370,031,400	-32,706,000	-8.84%
of which Bonds	3,109,600	3,787,000	-677,400	-17.89%
of which deposits at sight	361,145,184	420,387,897	-59,242,713	-14.09%
			-	
Indirect deposits	648,752,388	746,701,549	-97,949,160	-13.12%
a. Administered deposits	279,125,916	319,372,841	-40,246,925	-12.60%
a.1. of which administered funds	-	-	-	
b. Managed deposits	369,626,472	427,328,708	-57,702,236	-13.50%
b.1. of which managed funds	102,196,694	121,524,063	-19,327,369	-15.90%
b.2. of which insurance bank	237,537,060	269,029,281	-31,492,222	-11.71%
c. of which Trust assets included in the indirect deposits and at sight	112,204,408	112,204,408	-	0.00%
Total Deposits	1,352,933,397	1,541,757,827	-188,824,430	-12.25%



Consolidated Balance Sheet Financial Statement Reports and Balance Sheet 2016

Reclassified consolidated profit and loss account

Consolidated income statement	31/12/2016	31/12/2015	CHANGE	
			ABSOLUTE	%
Interest margin	17,518,133	21,130,930	-3,612,798	-17.10%
Net commissions	4,618,933	5,642,314	-1,023,382	-18.14%
Profits and losses from financial transactions	4,686,951	3,404,211	1,282,741	37.68%
Other revenues	-35,967,665	-21,123,630	-14,844,035	70.27%
Brokerage income	-26,661,780	-12,077,105	-14,584,676	120.76%
Margin on insurance operations	48,283,456	43,678,636	4,604,820	10.54%
Intermediation margin	39,139,808	52,732,462	-13,592,654	-25.78%
Personnel expenses	-11,519,850	-11,720,192	200,342	-1.71%
Administrative expenses	-5,954,327	-6,229,834	275,507	-4.42%
Tangible and intangible asset adjustments	-18,554,776	-29,082,160	10,527,384	-36.20%
-of which Value adjustments on tangible and intangible assets leased	-16,191,268	-26,762,342	10,571,074	-39.50%
Operating costs	-36,028,953	-47,032,187	11,003,233	-23.40%
Operating result	3,110,855	5,700,275	-2,589,420	-45.43%
Provisions and net adjustments on credits	-6,417,679	-3,157,440	-3,260,238	103.26%
Extraordinary profit	236,637	674,834	-438,197	-64.93%
Taxation on income for the year	-680,511	-859,727	179,216	-20.85%
Result for the year	-3,750,697	2,357,942	-6,108,639	259.07%



Consolidated Balance Sheet Financial Statement Reports and Balance Sheet 2016

Aggregate data of the banking group and San Marino banking system – market share as of 31/12/2016 –

(Figures in thousands of Euro)

Description of items	System Aggregate Data	Aggregate data of the bank group	Group market share vs
	30/09/2016	31/12/2016	30/09/2016
Main asset items			
Loans	3,471,135	614,877	17.71%
of which non-performing loans	626,769	67,920	10.84%
Bonds and debt securities	927,638	192,264	20.73%
Interests and equity securities	352,747	118,013	33.46%
Deposits			
Direct deposits	4,648,874	704,181	15.15%
of which deposits to customers at sight	1,992,008	361,145	18.13%
of which Certificates of Deposit	1,896,390	337,325	17.79%
of which Bonds	526,618	3,110	0.59%
Indirect deposits	1,846,871	648,752	35.13%
of which: administered securities	1,631,246	583,537	35.77%
of which: classical asset managements	197,614	65,215	33.00%
Total deposits	6,495,745	1,352,933	20.83%
Deposits and interbank loans			
Credits vs banks	451,436	158,652	35.14%
Debts vs banks	58,659	622	1.06%
Shareholders' equity and total assets			
Shareholders' Equity	420,500	90,148	
Total assets	5,444,698	1,225,624	
Operating indicators			
loans/direct deposits	74.67%	87.32%	
Gross non-performing loans/Gross loans	18.06%	11.05%	
Shareholders' equity/Total assets	7.72%	7.36%	

San Marino, 30 March 2017

The President



**Auditor
report on
the financial
Statement**

Auditing firm's report

pursuant to article 33 of Law no. 165/2005, article 68 of Law no. 47/2006 and article VI.II.3 of Regulation 2007-07.

To the shareholders of BAC S.p.A.

Report on the financial statements

We audited the enclosed financial statements of BAC S.p.A., made up of the statement of assets and liabilities as at 31 December 2016, the profit and loss account for the year closed as at such date and the explanatory notes.

Responsibility of the directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with the legislation in force in the Republic of San Marino which governs their preparation.

Responsibility of the auditing firm

Our responsibility is to provide a professional opinion on such financial statements, based on our audit. We carried out our audit in accordance with the international audit principles (ISA Italy) drawn up pursuant article 11, paragraph 3, of Legislative Decree 39/2010. These standards require compliance with ethical principles, as well as the planning and conduct of the audit in order to obtain reasonable assurance whether the financial statements are free from significant errors.

The audit implies the conduct of procedures intended to obtain the evidence supporting the amounts and information contained in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of significant errors in the financial statements due to fraud or unintentional conduct or events. In making these risk assessments, the auditor considers the internal control relating to the preparation of the company's financial statements that give a true and fair view in order to design procedures appropriate to the circumstances, and not to express an opinion on the effectiveness of the company's internal control. The audit includes the assessment of the appropriateness of the accounting policies used, the reasonableness of the accounting estimates made by the directors, and the assessment of the presentation of the financial statements as a whole.

We believe that we obtained sufficient and appropriate evidence on which to base our judgment.



Judgment

In our opinion, the financial statements give a true and fair view of the equity and financial position of BAC S.p.A. as at 31 December 2016 and the economic result for the year closed as at such date, in accordance with the legislation in force in the Republic of San Marino which governs their preparation.

A note to public disclosure

Without prejudice to our judgment, we call attention to the information provided by the Directors of the explanatory notes and management report.

In the first months of 2017 a new three-year plan 2017-2019, whose guidelines and development actions are defined in the management report, has been approved. Specifically, the plan aims at carrying forward and covering, with the three-year profits, the net income (loss) for the period 2016, mostly due to provisions and adjustments on credits, in accordance with the resolution of the shareholders' meeting – after having accrued significant amounts for risks expected in the Plan period – with total recognition of such profits as an increase in the risk weighted assets.

Bologna, 12 April 2017

BDO Italia S.p.A

Livio Mezzetti
Partner

Aosta, Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Novara, Padova, Palermo, Pescara, Potenza, Roma, Torino, Treviso, Trieste, Verona, Vicenza

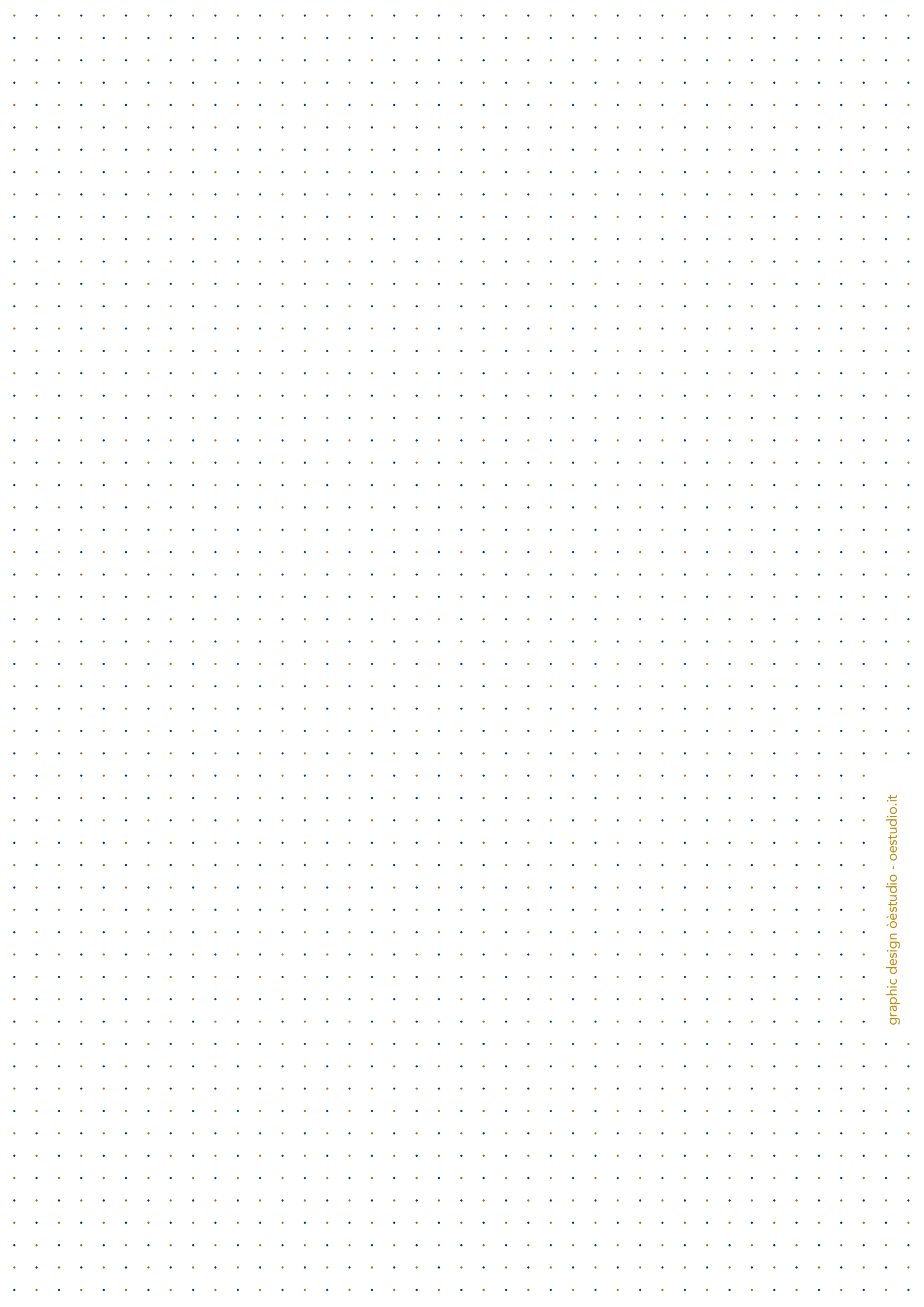
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Iscritta al Registro dei revisori Legali al n. 167911 con D.M. del 15/03/2013 G.U. n. 26 del 02/04/2013

BDO Italia S.p.A., società per azioni italiana, è membro di BDO International Limited, società di diritto inglese (company limited by guarantee), e fa parte della rete internazionale

BDO, network di società indipendenti.





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