BANCA AGRICOLA COMMERCIALE
Istituto Bancario Sammarinese

BILANCIO 2017

BALANCE SHEET
2017

BANCA AGRICOLA COMMERCIALE
Istituto Bancario Sammarinese

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Corporate position

BAC

1 Corporate position

BOARD OF DIRECTORS	**Luigi Lonfernini** PRESIDENT **Pier Paolo Fabbri** VICE PRESIDENT **Luca Lorenzi** CHIEF EXECUTIVE OFFICER
COUNCILORS	**Giancarlo Protti** **Emanuele Rossini**
STATUTORY AUDITORS	**Gian Enrico Casali** PRESIDENT **Alberto Vaglio** AUDITOR **Stefania Maria Gatti** AUDITOR
GENERAL MANAGEMENT	**Luca Lorenzi** CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER **Marco Perotti** VICE GENERAL MANAGER **Sandro Spadoni** VICE GENERAL MANAGER

Shareholders' meeting

Shareholders' meeting

On Friday **09 May 2018** – 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. 1) Reports of the Board of Directors and the Board of Auditors; presentation of the financial statements as of 31 December 2017 and relevant decisions;
2. Determination of the amount to be given for charity.

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, 13 April 2018

The President of the Board of Directors
Avv. Luigi Lonfernini

BEST BANK GOVERNANCE SAN MARINO 2017

BAC

Analysts at Capital Finance International, London, conferred the 2017 Best Bank Governance award on Banca Agricola Commerciale spa (BAC) after carefully assessing the bank for four months.
The award recognizes the significant organizational changes made by BAC in 2017 and highlights the bank's ability to maintain, albeit in a very challenging environment, a high degree of customer satisfaction and its own brand reputation.
"This success makes us particularly proud", says Luca Lorenzi, BAC Spa Chief Executive Officer, "since it recognizes the efforts made by all of the Bank's colleagues towards offering customers an efficient and high-quality service, while maintaining high organizational and control standards. Our business results were truly remarkable: just think that in just one year almost three thousand new banking relationships were opened. Marco Perotti (BAC Vice General Manager) and his sales network did a great job!"
Going back to the reasons for the award, we are proud of the fact that CFI reaffirms the "consistency" of BAC, which, "in both its day-to-day operations and long-term performance, […] inspires an unusually high level of trust".
BAC is therefore judged as a bank to which good governance is not a formal and passing activity, because "good governance forms part of its corporate DNA".
BAC always prioritizes customer satisfaction and banking experience, while aiming to re-establish itself as a best partner for local households and enterprises.
A summary of the reasons for the 2017 Best Bank Governance San Marino award was recently published in the London magazine CFI.co, winter 2017-2018 (page 83).

Certificate of Award

For the winner

BANCA AGRICOLA COMMERCIALE

for

BEST BANK GOVERNANCE
SAN MARINO 2017

cfi.co AWARD WINNER 2017

cfi.co

CAPITALFINANCE INTERNATIONAL

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Report of the board of directors

BAC

Macroeconomic scenario

The cyclical recovery going on since mid-2016 continued to strengthen. In 2017, about 120 economies, which represent three quarters of world GDP, marked a recovery in terms of annual growth, the greatest synchronized increase in global growth since 2010.
According to the most recent IMF forecasts, the world GDP will record an increase of +3.7% in 2017 (+3.2% in 2016).
World trade also grew strongly in the last months of 2017, supported by a recovery of investments, especially in advanced economies, and by the increased manufacturing output in Asia. According to the latest IMF estimates, a growth rate of + 4.7% is forecast for 2017 (+ 2.5% in 2016).
Among the advanced economies, growth in the third quarter of 2017 was higher than expected, particularly in Germany, Japan, Korea and the United States.
The main emerging markets and the developing economies, including Brazil, China and South Africa, recorded stronger growth in the third quarter than estimated in autumn.
Inflation still struggles to gain momentum, particularly in advanced economies, with the exception of the United Kingdom, where price dynamics were affected by the depreciation of the pound sterling (-12% in nominal effective terms as of June 2016, Brexit referendum date).
As expected, at the meeting on 13 December 2017, the Federal Reserve (FED) increased the target range of interest rates on federal funds by +25 basis points, bringing them to a band of between 1.25% and 1.50% (third rise in 2017). In November 2017 inflationary pressures in Great Britain (+2.6% in 2017) prompted the Bank of England to increase the official rate back to 0.5% from 0.25%. In China, the central bank gradually tightened up monetary conditions, favoring a further increase in interbank rates, and introduced new prudential measures in the banking and asset management sectors.
In the Eurozone, growth continued at a sustained rate, driven above all by foreign demand and by a use of resources increasingly close to potential value, while inflation remained modest, reflecting the weakness of the underlying component (core inflation).
At the meeting of 26 October 2017, the Governing Council of the ECB reaffirmed that a high level of monetary accommodation remains necessary for a stable return of inflation to lower levels but close to 2%.
It was also established that starting from January 2018, net purchases under the Expanded Asset Purchase Programme (APP) will continue at a monthly rate of € 30 billion (from € 60 billion), until the end of September 2018 (or even further, if necessary) and, in any case, until a lasting adjustment is found in price evolution consistent with the inflation target.

Based on the most recent forecast picture worked out by IMF in January (WEO Update), the product of the Eurozone is expected to grow by +2.4% in 2017 (+1.8% in 2016).
The expected inflation for the Eurozone in 2017 is estimated at +1.5%, significantly higher than in 2016 (+0.2%) but below the ECB target (close to but below 2%).
The Eurozone unemployment rate is estimated at 9.2% in 2017, better than 10.0% in 2016.
The Italian economy continued its recovery process for the third year in a row, in a gradual but still significant way considering the many factors of global and European restraint and uncertainty.
Growth gained momentum in the second half of 2016 thanks to improved industrial production and, on the demand side, to an acceleration in investments and exports.
The increased product resulted from domestic demand, driven in particular by investments in capital goods, and from foreign trade to a similar extent, with a more marked increase in exports compared to imports.
The added value rose in the industry, thanks to the strong expansion in manufacturing and the recovery in construction.
In the services sector, the business remained stable overall: it decreased in the financial and information sectors, while it increased in trade and in the real estate sector.
According to the latest IMF estimates, real GDP in 2017 will mark an increase of +1.6% (+0.9% in 2016).
The high frequency indicators estimated by the IMF, inflation and unemployment rate are also favorable.
Unlike the deflation recorded in 2016 (-0.1%), an inflation rate of +1.4% is estimated for 2017 (+1.5% in 2018).
Employment growth continues relatively strongly, mainly reflecting the favorable trend in the economic activity. The 2017 unemployment rate is estimated at 11.4% (11.7% in 2016).

"Macroeconomic scenarios (percent changes and points)"	Real GDP*			Inflation**			Unemployment**		
		Forecast			Forecast			Forecast	
	2016	2017	2018	2016	2017	2018	2016	2017	2018
WORLD	3,2%	3,7%	3,9%						
Advanced countries	1,7%	2,3%	2,2%	0,8%	1,7%	1,7%	n.d.	n.d.	n.d.
USA	1,5%	2,3%	2,7%	1,3%	2,1%	2,1%	4,9%	4,4%	4,1%
Euro Zone	1,8%	2,4%	2,2%	0,2%	1,5%	1,4%	10,0%	9,2%	8,7%
Germany	1,9%	2,5%	2,3%	0,4%	1,6%	1,5%	4,2%	3,8%	3,7%
France	1,2%	1,8%	1,9%	0,3%	1,2%	1,3%	10,0%	9,5%	9,0%
Italy	0,9%	1,6%	1,4%	-0,1%	1,4%	1,5%	11,7%	11,4%	11,0%
Japan	0,9%	1,8%	1,2%	-0,1%	0,4%	0,5%	3,1%	2,9%	2,9%
Great Britain	1,9%	1,7%	1,5%	0,7%	2,6%	2,6%	4,9%	4,4%	4,4%
San Marino**	1,0%	1,2%	1,3%	0,6%	0,9%	1,0%	8,6%	8,0%	7,4%
Emerging countries	4,4%	4,7%	4,9%	4,3%	4,2%	4,4%	n.d.	n.d.	n.d.
China	6,7%	6,8%	6,6%	2,0%	1,8%	2,4%	4,0%	4,0%	4,0%
India	7,1%	6,7%	7,4%	4,5%	3,8%	4,9%	n.d.	n.d.	n.d.
Russia	-0,2%	1,8%	1,7%	7,0%	4,2%	3,9%	5,5%	5,5%	5,5%
Brazil	-3,5%	1,1%	1,9%	8,7%	3,7%	4,0%	11,3%	13,1%	11,8%

World Trade Volume (goods and services)*	2016	Fct 2017	Fct 2018
World*	2,5%	4,7%	4,6%
Advanced countries	2,6%	4,1%	4,3%
Emerging countries	2,3%	5,9%	5,1%

Consumer prices*	2016	Fct 2017	Fct 2018
Advanced countries	0,8%	1,7%	1,9%
Emerging countries	4,3%	4,1%	4,5%

London Interbank Offered Rate*	2016	Fct 2017	Fct 2018
On U.S. Dollar Deposits (six month)	1,1%	1,5%	2,3%
On Euro Deposits (three month)	-0,3%	-0,3%	-0,3%
On Japanese Yen Deposits (six month)	0,0%	0,0%	0,0%

Euro zone interest rates effective from March 2016	2016	2017
Marginal interest rate	0,25%	0,25%
Main refinancing rate	0,00%	0,00%
Deposit rate	-0,40%	-0,40%
Euribor 3M - e.o.p.	-0,32%	-0,33%
Eonia - e.o.p.	-0,35%	-0,33%

NOTES

* Source: FMI, WEO_UpDate_January 2018 - WEO update October 2017 (page 14-15)

** WEO October 2017

Macroeconomic scenario in Emilia Romagna

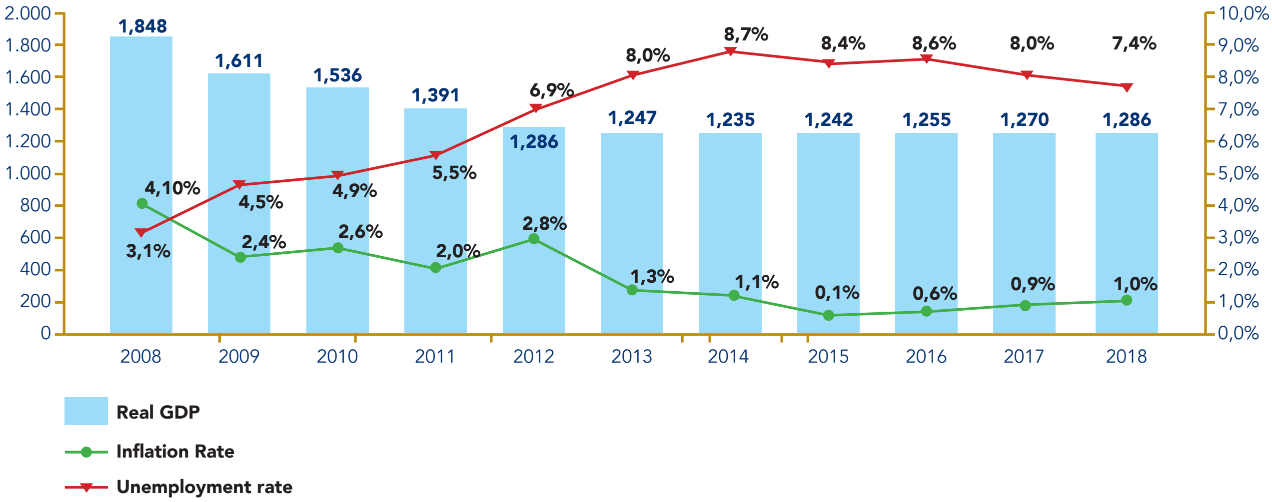
Based on the "Scenarios for local economies" developed by Prometeia and released in October 2017, the gross domestic product of the Emilia Romagna region is expected to register an increase of +1.7% in 2017 and +1.5% in 2018, in both cases above the national average.
In 2017, real GDP is expected to be 6.8% higher than the minimum levels reached at the height of the crisis in 2009, but still lower than 2007 by -1.5%.
Emilia-Romagna is once again the first Italian region by real GDP growth rate in 2017, together with Lombardy. The domestic demand growth was driven by gross fixed capital formation, +3.1%, during 2017, whose positive trend should be further strengthened in 2018 and reach growth of +3.3%.
The double recovery in the growth of both world trade and Eurozone trade positively contributed to the acceleration of the Region's export trend in 2017 (+2.9%); the positive trend is expected to grow significantly in 2018, with an increase of +4.4% in sales abroad.
From a sector point of view, the fair recovery of the industry continued. The recession phase for the construction sector came to an end and the moderate growth in services was confirmed.
In the past year, the added value produced by constructions in Emilia Romagna registered the first increase (+0.8%) after nine consecutive negative years. In 2018, the value added increase rate is expected to be +2.6%, thus confirming the positive trend.
In 2017, the industrial sector (excluding construction) confirmed a moderately positive growth trend of value added, which should stand at +1.9%.
The unemployment rate, which amounted to 2.8% in 2007, reached 8.4% in 2013 as a result of the recession. Since then it has decreased, first gradually and then more quickly with the ongoing recovery, until reaching 5.9% at the end of 2017.

San Marino macroeconomic scenario

The economy of San Marino showed signs of recovery in 2016, but the momentum is slowing down due to the uncertainties of the banking sector, with considerable losses recorded by the largest bank and the closure of a credit institution in the spring of 2017.
In December 2017, the rating agency Fitch downgraded the rating of San Marino from BBB to BBB-.
Among the key rating drivers that caused the agency to downgrade San Marino, the most important one is the relatively low capitalization of the financial system, especially of the largest bank, which is why the rating

agency Fitch, also in light of the preliminary results of the Asset Quality Review, considers future capital injections to be very probable with negative effects on public accounts.
Added to this is the high level of non-performing loans (hereinafter also NPLs) and the modest profitability of the banking system.
In relation to the NPLs between November 2016 and February 2017, the Central Bank of the Republic of San Marino, in collaboration with the IMF and assisted by a specialized company, conducted an assessment/review of the quality of the assets of San Marino credit institutions, whose outcomes have not been disclosed yet.
Starting from January 2018, the 2017 AQR will be updated with the help of a new consultancy company and concluded presumably within the first half of 2018.
In this regard, it should be noted that the IMF itself, in the April 2017 Executive Board Concludes1 and in the January 2018 Staff Concluding Statement of the 2018 Article IV Mission2, basically highlights the same critical issues identified by Fitch, together with the need for the country system to find a new business model that completes the transition to a competitive system on an international scale.
Compared to the main countries of the Eurozone, the economic and financial crisis that began in 2007 hit San Marino more markedly, as it is associated with a series of exogenous shocks among which it is worth mentioning the permanence of San Marino in the black list of the main economic and commercial partner for several years and the many foreign measures on the repatriation of capital.
These events contributed to weakening the economic/financial system that has so far had little access to the foreign capital market and cannot count on a "lender of last resort".
According to the latest IMF estimates, the country's real GDP, which recorded an increase of +1.0% in 2016 and stood at 1,255 million, will grow by +1.2% and +1.3% in 2017 and 2018 respectively.
Inflationary pressures remain moderate as in the whole Eurozone, the inflation rate for 2016 was +0.6% and expected to rise for 2017 and 2018 +0.9% and +1.0% respectively.
The 2016 unemployment rate was 8.6%. IMF projections see an improvement rate for 2017 and 2018, 8.0% and 7.4% respectively.

Macroeconomic indicator trend - San Marino



The signing of the agreement against double taxation with Italy, which allowed exiting from the Italian tax blacklist, and the multilateral agreement of the OECD on the automatic exchange of information (Common Reporting Standard), signed by San Marino in October 20141, represent two important "steps" towards building a financial system adapted to international standards.

However, the process of moving to a more sophisticated financial model is not yet fully completed: the weak "foreign demand" also reflects the competitiveness of the country system with ample room for improvement.

The analysis of the competitiveness of the country system, through the ranking created by the World Bank, shows that at the beginning of 2018 the Republic of San Marino is number 93 in the "The Ease of Doing business" ranking, down by 14 points compared to 2017 (ranked 79). The analysis takes into consideration a total panel of 190 countries, where New Zealand holds the first place and Italy the 46th.

Topics Doing business - DB 2018	San Marino Rank 93	New Zeland Rank 1	Italia Rank 46
Starting a Business	112	1	66
Dealing with Construction Permits	68	3	96
Getting Electricity	14	37	28
Registering Property	78	1	23
Getting Credit	183	1	105
Protecting Investors	175	2	62
Paying Taxes	40	9	112
Trading Across Borders	20	56	1
Enforcing Contracts	78	21	108
Resolving Insolvency	109	32	24

Fonte: World banck group, www.doingbusiness.org
- total of 190 countries

San Marino regulations and compliance activity

During 2017, the Compliance function of Banca Agricola Commerciale (hereinafter also "BAC") verified the adequacy of internal regulations to the procedures and processes of the San Marino regulatory framework, maintaining a constant reference to the best international practices. In a scenario that is constantly evolving also in the tax area, it extended the Function's scope of operations to these specific matters (Tax Compliance).

Banking and financial regulations

In banking and financial matters, the evolution of the legal framework of the Republic of San Marino was again marked by the implementation of further Community Directives (the community acquis in financial matters) as established in the Monetary Agreement signed between the Republic of San Marino and the European Union on 27/03/2012, whose last update took place with Council Decree no. 136 of 5 December 2017.

With Regulation no. 2017/01, "Regulation amending Regulations no. 2007-07, no. 2011-03 and no. 2016-02", the Central Bank of the Republic of San Marino (hereinafter also "CBSM" or "Central Bank") aims to regulate prudential supervision and the capital requirements related to risk activities through a single regulatory body, which includes all authorized entities (financial and management companies) in addition to the Banks.

With Regulation no. 2017/02, "Regulation amending Regulation no. 2006-01", the Central Bank meant to update "Regulation no. 2006/01 on the Register of Authorized Entities" in order to publish in the Register the "Beneficial Owners" of the Authorized Entities included in the definition under article 43 of Law no. 144/2013.

With Regulation no. 2017/03, "Regulation on insurance and reinsurance mediation, Update V", the Central Bank meant to update the provisions currently in force on insurance and reinsurance mediation. A person in charge of insurance mediation must be appointed having the honorability requirements set forth in art. 7 paragraph 1 of Regulation 2007/02. The Bank may use employees or collaborators who meet the requirements of art. 7 and have knowledge and professional skills acquired by participating in training courses held and organized by the Banks for which they operate. A periodic updating and certification of professional requirements is also foreseen, with specific procedures and timescales.

With Regulation no. 2017/04, "Provisions relating to Regulation Regulation 2016-02 and reviewing Circular 2015-02", the Central Bank meant to update the supervisory provisions due to changes that occurred in the regulatory framework, paying particular attention to the methods and execution times of the checks. Relevant is article 4, "changes made to circular no. 2015-02", in particular the methods of reporting non-performing positions into the Central Risk Database and the preparation of specific information for Customers.

With Regulation no. 2017/05, "Regulation amending Regulation no. 2016-01 on the Guarantee Fund for Depositors", the Central Bank meant to update the provisions of Regulation 2016-01 on the guarantee fund for depositors. The main points concern the corporate representatives and the controlling shareholders who are now covered by the Guarantee Fund. The Bank informs actual and potential depositors in the case of protected deposits. A flow is produced (aggregate position per depositor) on a quarterly basis and subjected to verification by the Internal Auditing Function, which will transmit the resulting report to the Board of Directors of the Bank on a yearly basis.

With Regulation no. 2017/06, "Miscellany of measures aimed at reviewing the supervisory provisions", the Central Bank carried out targeted review interventions on the current supervisory provisions. The main points concern the method of determining the contributions to the Guarantee Fund for Depositors. Of importance is the replacement of the terms "covered deposits" with "protected deposits", the contribution to the Intermediation Guarantee Fund and the inspection procedures on insurance intermediaries.

With Regulation no. 2017/07, "Regulation on life insurance contracts for revaluable benefits linked to a separate internal management", the Central Bank meant to establish new rules concerning the drafting of life insurance contracts with revaluable benefits linked to a separate internal management.

With Regulation no. 2017/08, "Regulation for check payment and protest in electronic format", the Central Bank indicated the methods for the payment and protest of checks in electronic format.

With Circular no. 2017/01, "Method of determining contributions to the Guarantee Fund for Depositors", the Central Bank indicated the methodology for the contributions to the Guarantee Fund for Depositors. The Circular applies the CBSM Regulation no. 2016-01, which established the Guarantee Fund for Depositors and defined the methods of determining the contribution shares to be paid by each Bank.

With Circular no. 2017/02, "Information to be transmitted pursuant to the insurance contract", the Central Bank indicated the procedures for drawing up annual accounts intended for customers. New procedures are envisaged in the event of changes to contracts such as the obligations to communicate to customers and the annual update of the information note with submission to CBSM and publication on the Company's website. The validity of electronic reporting is allowed on condition that the contractor has made prior and express acceptance.

With Circular no. 2017/03, "Information requirements regarding company budgets", the Central Bank meant to regulate the information requirements on company budgets, with reference to the statement of assets and liabilities, the profit and loss account and the explanatory notes.

With Circular no. 2017/04, "Information requirements regarding the accounting situation (SC)", the Central Bank established that, with notification as of 31/12/2017, the following reporting models must be replaced: monthly accounting situation of banks, quarterly accounting report, loans broken down by business and by technical forms, and statement of assets and liabilities, profit and loss account and off-balance sheet transactions (the latter compiled by the MANAGEMENT COMPANY).

Decree Law no. 60 of 12 June 2017 – "Profiles defining checks and regulations on the request for payment and protest of checks in electronic format". Article 4 (Electronic check submittal) introduces for the negotiator to submit the check for the payment to the drawee or the issuer in electronic format.

Law no. 94 of 7 August 2017 "Changes to the budget of the state and public sector entities for the financial year 2017 and amendments to Law no. 144 of 21 December 2016". The Law establishes various regulatory measures of interest to the banking and financial sector, including the issuance of public debt securities, the activation of the Central Risk Database, and the indication of Ateco codes.

Law no. 115 of 29 September 2017 "Changes and additions to the rules on support for economic development". Article 18 (Online accounts), opening of banking and financial investment relationships through remote communication techniques.

Anti-money laundering regulations

FIA Instruction 2017/1 "Instruction on combating money laundering and terrorist financing". It should be noted that the Instruction incorporates in the system of the Republic of San Marino Regulation 847/2015/EU on information concerning the electronic transfer of funds.

Decree Law no. 116/2017 of 29 September 2017, "Adaptation of the national legislation to international conventions and standards on preventing and combating money laundering and terrorist financing". Law no. 92/2008 is amended and the 4th Directive 849/2015/EU is implemented in our system, thus adapting San Marino legislation to international standards on the prevention and combating of money laundering and terrorist financing. The main changes introduced include the self-assessment of the designated parties, the obligation to carry out a proper verification for transfers out of the account of over € 1,000 and for transfers of cash and bearer securities between different subjects equal to or higher than € 10,000, the omnipresence of the beneficial owner and the modification of the methods of executing the simplified verification.

Decree Law no. 139/2017 of 11 December 2017" (Ratification of Decree-Law no. 116 of 29 September) "Adaptation of the national legislation to international conventions and standards on preventing and combating money laundering and terrorist financing". Among the main changes introduced, it should be noted that, once the national risk assessment by the FIA has been completed, the designated subjects will have to carry out their self-assessment, the simplified verification obligations are stricter and the exemptions have been eliminated (banking, fiduciary and financial companies). Access to information on beneficial ownership must comply with data protection rules, while for insurance contracts specific provisions have been introduced in relation to the identification of the beneficiary and to his status as PEP.

Delegated Decree no. 128 of 31 October 2017 "Provisions to favor the emergence and return of assets held abroad". This is the so-called "San Marino fiscal shield", entered into force on 01/11/2017. This Decree introduces a program of fiscal compliance to which Law no. 92/2008, FIA Instruction 2014/03 and Regulation no. 7 of 24 October 2014 apply. Voluntary tax compliance programs are intended to facilitate the regularization of the taxpayer's situation with regard to funds or benefits previously unreported or incorrectly reported to the tax authorities. The assets that benefit from the tax compliance plans are subject to the customer due diligence procedure.

International Agreements

Among the international agreements to be mentioned is Delegated Decree no. 44 of 24 April 2017 "Amendment to Law no. 174 of 27 November 2015 – "International Tax Cooperation and subsequent amendments". The changes introduced concern retention terms that become 5 years from the end of the period in which the exchange of information was made, the communication obligation of non-resident entities for the purposes of the Common Reporting Standard (CRS) erroneously omitted and the introduction of the anti-illusion clause.
The Central Liaison Office (CLO) issued the Guidelines concerning the aforementioned Law (version 1.2 April 2017 and version 1.3 July 2017).
It should be noted that Council Decree no. 136 of 5 December 2017 ratifies the amendments made to the annex of the monetary agreement between the European Union and the Republic of San Marino and that Council Decree no. 108 of 19 September 2017 ratifies the declaration

on the date of entry into force of information exchanges under the multilateral agreement between the competent authorities on the automatic exchange of information on financial accounts.

Legislation

The legislative measures to be mentioned include Delegated Decree no. 16 of 31 January 2017 (Ratification of Delegated Decree no. 84 of 12 July 2016) concerning the amendments to the Environmental Code referred to in DD 44_2012 regarding the responsibilities of real estate owners. Delegated Decree no. 46 of 5 May 2017 reiterates DDs no. 115, 117, 120, 126 and 127/2016, the latter regarding the rules for updating registration taxes and then ratified with Delegated Decree no. 55 of 26 May 2017. With regard to subsidized loans, Delegated Decree no. 51 of 24 May 2017 ratifies Delegated Decree no. 126 of 30 August 2016 "Amendments to Delegated Decree no. 5 of 26 January 2015 - incentives for carrying out energy redevelopment and plant upgrading operations on existing buildings and for installing plants for the production of energy from renewable sources or cogeneration". With Delegated Decree no. 58 of 9 June 2017, changes are made to DD no. 93 of 24 July 2013 "Provisions on facilitated loans to support companies" ratified with Delegated Decree no. 77 of 6 July 2017. Legislative measures also concerned the definition of the maximum spread and the interest rate to be applied until 30 September 2018 for loans assisted by the state contribution referred to in Delegated Decree no. 105 of 14 September 2017, amendments to article 103, paragraph 4 of Law no. 166 of 16 December 2013 "General income tax and subsequent amendments" pursuant to Delegated Decree no. 114 of 27 September 2017, amendments and additions to the rules on support for economic development as per Delegated Decree no. 119 of 19 October 2017, ratified by Delegated Decree no. 137 of 5 December 2017 and, finally, amendments to Annex B of Law no. 40 of 31 March 2014 "Discipline of licenses for the exercise of industrial, service, craft and commercial activities" pursuant to Delegated Decree no. 121 of 26 October 2017.

FIA regulations and instructions on money laundering 2017

Date	Type	Title
18/07/2017	Instruction 2017/01	Instruction on combating money laundering and terrorist financing.
29/09/2017	Decree Law no. 116	Adaptation of the national legislation to international conventions and standards on preventing and combating money laundering and terrorist financing.
11/12/2017	Decree Law no. 139 (Ratification of Decree Law no. 116 of 29 September)	Adaptation of the national legislation to international conventions and standards on preventing and combating money laundering and terrorist financing.
31/10/2017	Delegated Decree no. 128	Provisions to favor the emergence and return of assets held abroad.

Banking regulations 2017

Regulations	Subjects
Regulation no. 2017-01	Regulation amending Regulations no. 2007-07, no. 2011-03 and no. 2016-02
Regulation no. 2017-02	Regulation amending Regulation no. 2006-01
Regulation no. 2017-03	Regulation on insurance and reinsurance mediation – Update V.
Regulation no. 2017-04	Provisions relating to regulation 2016-02 and reviewing circular 2015-02.
Regulation no. 2017-05	Regulation amending Regulation no. 2016-01 on the Guarantee Fund for Depositors.
Regulation no. 2017-06	Miscellany of measures aimed at reviewing the supervisory provisions.
Regulation no. 2017-07	Regulation on life insurance contracts for revaluable benefits linked to a separate internal management.
Regulation no. 2017-08	Regulation for check payment and protest in electronic format.
Circular no. 2017-01	Method of determining contributions to the guarantee fund for depositors
Circular no. 2017-02	Information to be transmitted pursuant to the insurance contract.

Circular no. 2017-03	Information requirements on company budgets.
Circular no. 2017-04	Information requirements on the accounting situation (SC).
Law no. 94 of 7 August 2017	Changes to the budget of the state and public sector entities for the financial year 2017 and amendments to Law no. 144 of 21 December 2016.
Decree Law no. 60 of 12/06/2017	Profiles defining checks and regulations on the request for payment and protest of checks in electronic format.
Law no. 115 of 29 September 2017	Changes and additions to the rules on support for economic development.

Main legislative interventions in San Marino system 2017

- Delegated Decree no. 19 of 7 February 2017, reiteration of Delegated Decrees nos. 103, 107, 115,117, 120, 122, 125, 126 and 127 of the year 2016.
- Delegated Decree no. 29 of 10 March 2017 – Urgent measures establishing state incentives in the event of a corporate crisis, as provided for by the current legislation, ratified with Decree Law no. 56 of 26 May 2017.
- Decree Law no. 49 of 11 May 2017 – Urgent provisions on operations to guarantee social security funds.
- Decree Law no. 72 of 29 June 2017 – Temporary measures to protect the depositors of Asset Banca SpA in compulsory winding-up
- Decree Law no. 78 of 10 July 2017 – Urgent measures supporting the banking system, ratified by Decree Law no. 88 of 27 July 2017.
- Decree Law no. 79 of 10 July 2017 – Urgent measures supporting savings protection operations.
- Decree Law no. 80 of 10 July 2017 – Provisions for the sale of assets and liabilities of Asset Banca SpA – in compulsory winding-up – to Cassa di Risparmio della Repubblica di San Marino SpA., ratified by Decree Law no. 89 of 27 July 2017.
- Decree Law no. 82 of 11 July 2017 – Urgent measures relating to social safety cushions and sustainability to employment, and early retirement benefits.
- Decree Law no. 87 of 21 July 2017 – Urgent measures supporting savings protection operations, ratified by Decree Law no. 93 of 7 August 2017.
- Decree Law no. 101 of 30 August 2017 – Measures to guarantee the economic stability of the Republic of San Marino, ratified by Decree Law no. 122 of 27 October 2017.

- Decree Law no. 113 of 25 September 2017 – Profiles defining checks and regulations on the request for payment and protest of checks in electronic format, ratified by Decree Law no. 123 of 27 October 2017.
- Decree Law no. 117 of 5 October 2017 – Extension of the effects of D.L. no. 72 of 29 June 2017 – Temporary measures to protect the depositors of Asset Banca SpA in compulsory winding-up, ratified by Decree Law no. 120 of 24 October 2017.
- Delegated Decree no. 145 of 20 December 2017 – Update of rent for buildings used as homes.
- Delegated Decree no. 146 of 20 December 2017 – Update of rent for buildings intended for professional, business and social activities.
- Law no. 140 of 14 December 2017 – Consolidated text of urban planning and building laws.
- Law no. 147 of 21 December 2017 – Budget estimates of the State and Public Bodies for the financial year 2018 and Multi-Annual Budgets 2018/2020.

Dear Shareholders,

Before starting to analyze the accounts for 2017, it seems appropriate to note that the past financial year was particularly complex for the entire San Marino banking system.

The numerous cases of distress significantly influenced all the main economic indicators and caused a substantial outflow of capital from the Republic of San Marino.

In light of this situation, the economic results achieved by your Bank must be considered with great positivity, especially if framed in the challenging path of change in governance set by the Board of Directors.

The award received last December by the analysts of Capital Finance International (CFI co) in London, who elected BAC as "2017 Best Bank Governance San Marino" after a four month evaluation process, is therefore particularly gratifying.

The prestigious award published by the authoritative journal CFI.co Winter 2017-18 enhances the Bank's effort to adopt efficient and adequate governance for the types of business implemented by the BAC Group.

To this end, the internal control system was strengthened, responsibilities were clarified and interference was avoided, especially between the sales network and the lending chain.

This allowed the issuance of articulate delegated powers for correct and transparent operational management. In 2017, 47 Regulations were updated and/or issued, besides subsequent 12 in the first few months of 2018.

The corporate turnaround started in 2016 and continued in 2017 was not only rewarded by London analysts, but also by customers through the opening in one year of numerous new current accounts.

The corporate restructuring involved both the governance composition and processes and the business model with the introduction of a highly customer-oriented model.

BAC focused on smart web-based and ATM services, assisting customers with the introduction of new services and aiming to improve their bank customer experience. At the same time, the restructuring of governance processes strengthened the control structures oriented towards international best practices.

It should also be noted that the Central Authority, with notice dated 07/11/2017 (protocol 17/10021), concluded the inspections at the Institute carried out since 17/11/2016. The report delivered to us on 05/01/2018 showed no particularly critical elements and the Bank promptly and effectively reported on 01/02/2018, also highlighting the corrective measures already implemented. At the moment we are still awaiting the final assessments by the Central Bank.

Particularly interesting for the future of the BAC Group was the authorization to set up the management company “BAC Investment SG”, granted by the Supervisory Authority on 12/12/2017.

The San Marino Banking Act (activity referred to in letter “E” of Annex 1 of the LISF) provides for the possibility of exercising investment services in the territory of San Marino. In this context, in order to promote its growth activity with the acquisition of new market shares through the expansion of its range of products and services, Banca Agricola Commerciale established the asset management company called BAC Investments SG Spa (hereinafter BAC SG).

The mission of BAC SG will be to promote, establish and manage San Marino mutual funds. BAC SG will manage five open common funds intended for the general public and subject to UCITS regulations1[1] (already authorized by the Central Bank of the Republic of San Marino).

The establishment of a management company is an important "step" in asset management, which qualifies BAC SG as asset manager at the level of the other investment houses within the European panorama.

The BAC Group also includes: BAC Fiduciaria spa – wholly owned and operating in the trust sector, as well as the main San Marino life insurance company, San Marino Life spa, acquired for the entire share capital in 2012 – for which BAC has also acted as an intermediary since 2009, the year the company was established.

The BAC Group also controls IBS Immobiliare srl, established in 2011 by IBS for the management of assets, especially real estate, IBS Rent srl, operating in the rental sector, which put into voluntary liquidation in 2014 and will be extinguished during 2018 following striking off at the Court Registry Office on 28/02/2018.

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.

Information is provided 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".

1. UCITS (Undertakings for Collective Investment in Transferable Securities) refers to the EU Directive 65/EC of 13/01/2019 which established the terms for the placement of funds domiciled in one of these.

Main data

Profit and loss account data

PROFIT AND LOSS ACCOUNT	31/12/2017	31/12/2016	CHANGE	
			ABSOLUTE	%
Interest margin	15.211.942	16.932.520	-1.720.578	-10,16%
Commission income	3.623.757	4.236.834	-613.077	-14,47%
Profits and losses on financial transactions	397.399	-1.369.436	1.766.835	129,02%
Revenues from intermediation	5.744.703	4.512.862	1.231.842	**27,30%**
Intermediation margin	**20.956.645**	**21.445.381**	**-488.737**	-2,28%
Personnel expenses	-9.599.022	-10.891.646	1.292.624	-11,87%
Administrative expenses	-5.328.904	-5.221.166	-107.738	2,06%
Tangible and intangible asset adjustments	**-2.045.177**	**-2.257.281**	**212.104**	**-9,40%**
Operating costs	**-16.973.104**	**-18.370.093**	**1.396.990**	**-7,60%**
Operating result	3.983.541	3.075.288	908.253	29,53%
Provisions and net adjustments on credits and financial assets	-4.762.353	-6.417.679	1.655.326	-25,79%
Margin on investment securities/extraordinary income	998.188	164.894	833.294	505,35%
Tax on income	-226.961	-615.563	388.602	**-63,13%**
Result for the year	**-7.585**	**-3.793.060**	**3.785.475**	**99,80%**

Balance sheet data

PROFIT AND LOSS ACCOUNT	31/12/2017	31/12/2016	CHANGE	
			ABSOLUTE	%
Total assets	**927.227.822**	**984.696.337**	**-57.468.515**	**-5,84%**
Loans to customers	542.798.321	571.202.491	-28.404.170	-4,97%
- *of which impaired loans*	119.105.683	122.356.002	-3.250.320	-2,66%
Financial assets	39.534.103	63.109.912	-23.575.809	-37,36%
Amounts due to customers and outstanding securities	**707.029.682**	**775.544.694**	**-68.515.012**	**-8,83%**
- of which amounts due	413.157.964	423.982.098	-10.824.134	-2,55%
- of which outstanding securities	293.871.718	351.562.596	-57.690.878	-16,41%
Interbank net position (including securities)	**120.416.107**	**152.760.374**	**-32.344.267**	**-21,17%**
Net equity (including net result)	**90.264.495**	**90.133.793**	**130.703**	**0,15%**

Financial Assets of Customers

Financial Assets of Customers	31/12/2017	31/12/2016	CHANGE	
			ABSOLUTE	%
Total financial assets	**1.284.647.903**	**1.352.933.397**	**-68.285.494**	**-5,05%**
Direct deposits	**660.913.159**	**704.181.008**	**-43.267.849**	**-6,14%**
Amounts due to customers at sight	363.177.160	361.145.184	2.031.976	0,56%
Outstanding securities	279.242.200	340.435.000	-61.192.800	-17,97%
Term deposits	18.493.799	2.600.825	15.892.975	611,07%
Indirect deposits and third-party asset managements	**623.734.744**	**648.752.388**	**-25.017.645**	**-3,86%**
- administered saving	255.470.568	279.125.916	-23.655.348	-8,47%
- managed saving	368.264.176	369.626.472	-1.362.296	-0,37%
- common investment funds	85.503.358	66.874.236	18.629.121	27,86%
- stock insurance bank	225.736.795	237.537.060	-11.800.265	-4,97%
- third-party asset managements	57.024.023	65.215.176	-8.191.153	-12,56%

MAIN INDICATORS	31/12/2017	31/12/2016
Structure data		
Number of employees e.o.p.	131	146
Number of branches	9	12
MAIN INDICATORS	**31/12/2017**	**31/12/2016**
Credit risk ratios		
Net non-performing loans/Net loans to customers	9,64%	8,01%
Net doubtful loans/Net loans to customers	21,94%	21,19%
Coverage on total loans	7,01%	6,18%
MAIN INDICATORS	**31/12/2017**	**31/12/2016**
Supervisory capital and ratios		
Supervisory capital	84.167.481	81.313.369
Weighted risk assets	462.676.445	486.030.490
Solvency ratio	18,19%	16,73%
Total asset	927.227.822	984.696.337
PROFITABILITY INDICATORS	**31/12/2017**	**31/12/2016**
Interest margin/Intermediation margin	72,59%	78,96%
Service margin/Intermediation margin	17,29%	19,76%
Cost/income ratio	80,99%	85,66%
Cost/income gross of value adjustments	19,01%	14,34%
Leverage (medium assets/medium equity)	10,27	10,92
ROA e.o.p.	0,00%	-0,39%
ROE e.o.p.	-0,01%	-4,21%

Reclassified financial statements

RECLASSIFIED ASSETS	31/12/2017	31/12/2016	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2017	31/12/2016
Cash and cash equivalents	6.140.397	5.333.556	806.841	15,13%	0,66%	0,54%
Loans to banks	121.200.553	153.148.166	-31.947.612	-20,86%	13,07%	15,55%
Loans to customers	542.798.321	571.202.491	-28.404.170	-4,97%	58,54%	58,01%
Financial assets	39.534.103	63.109.912	-23.575.809	-37,36%	4,26%	6,41%
Shareholdings	12.221.284	12.060.851	160.434	1,33%	1,32%	1,22%
Tangible assets	93.765.359	87.637.408	6.127.951	6,99%	10,11%	8,90%
Intangible assets	1.598.958	2.122.446	-523.488	-24,66%	0,17%	0,22%
Other assets	109.968.847	90.081.507	19.887.339	22,08%	11,86%	9,15%
Total assets	**927.227.822**	**984.696.337**	**-57.468.515**	**-5,84%**	**100,00%**	**100,00%**

RECLASSIFIED LIABILITIES	31/12/2017	31/12/2016	CHANGE		COMPOSITION	
			ABSOLUTE	%	31/12/2017	31/12/2016
Amounts due to banks	784.447	387.792	396.655	102,29%	0,08%	1,69%
Amounts due to customers	413.157.964	423.982.098	-10.824.134	-2,55%	44,56%	42,55%
Payables represented by securities	293.871.718	351.562.596	-57.690.878	-16,41%	31,69%	38,28%
Provisions for risks and charges	2.975.597	3.704.993	-729.396	-19,69%	0,32%	0,32%
Non-adjusting provision for risks on credits	0	0	0	-	0,00%	0,00%
Other liabilities	114.157.457	98.903.335	15.254.122	15,42%	12,31%	9,13%
Subordinate liabilities	12.016.144	16.021.731	-4.005.588	-33,34%	1,30%	1,58%
Net equity	90.264.495	90.133.793	130.703	0,15%	9,73%	6,45%
- Capital and reserves	94.065.140	93.926.852	138.287	0,15%	10,14%	6,33%
- Retained losses	-3.793.060	0	-3.793.060	100,00%	0,41%	0,00%
- Result for the year	-7.585	-3.793.060	3.785.475	-99,80%	0,00%	0,25%
Total liabilities	**927.227.822**	**984.696.337**	**-57.468.515**	**-5,84%**	**100,00%**	**100,00%**

RECLASSIFIED PROFIT AND LOSS ACCOUNT	31/12/2017	% incidence on interest margin	31/12/2016	% incidence on interest margin	CHANGE	
					ABSOLUTE	%
Interest income and similar charges	**19.660.080**	**-115,83%**	**23.782.291**	**110,90%**	**-4.122.211**	**-17,33%**
of which: a) Interest income to customers	19.041.146	**90,86%**	21.676.776	**101,08%**	-2.635.629	-12,16%
b) Interest income to banks	82.390	**0,39%**	217.588	**1,01%**	-135.198	-62,13%
c) Interest income on debt securities	536.543	**2,56%**	1.887.928	**8,80%**	-1.351.384	-71,58%
Interest expense and similar charges	**-4.923.553**	**-23,49%**	**-7.768.679**	**-36,23%**	**2.845.126**	**-36,62%**
of which: a) Interest expense to customers	-839.331	-4,01%	-1.249.580	**-5,83%**	410.248	-32,83%
b) Interest expense on payables represented by securities	-4.082.595	-19,48%	-6.517.886	**-30,39%**	2.435.291	-37,36%
c) Interest expense to banks	-1.627	-0,01%	-1.213	**-0,01%**	-413	34,05%
Interest margin	**14.736.527**	**70,32%**	**16.013.612**	**74,67%**	**-1.277.086**	**-7,98%**
Dividends and other revenues	475.415	2,27%	918.907	**4,28%**	-443.493	-48,26%
Financial margin	**15.211.942**	**72,59%**	**16.932.520**	**78,96%**	**-1.720.578**	**-10,16%**
Net commissions	3.623.757	17,29%	4.236.834	**19,76%**	-613.077	-14,47%
of which: a) commission income	4.465.221	21,31%	4.985.395	**23,25%**	-520.174	-10,43%
b) commission expense	-841.463	-4,02%	-748.561	**-3,49%**	-92.903	12,41%
Profits and losses on financial transactions	397.399	1,90%	-1.369.436	**-6,39%**	1.766.835	129,02%
of which: a) on securities	65.119	0,31%	-1.633.358	**-7,62%**	1.698.477	103,99%
b) on exchanges	332.280	1,59%	338.633	**1,23%**	68.358	25,90%
c) on other operations	0	0,00%	-74.711	**0,00%**	0	0,00%
Other net revenues	1.723.547	8,22%	1.645.463	**7,67%**	78.084	4,75%
Service margin	**5.744.703**	**27,41%**	**4.512.862**	**21,04%**	**1.231.842**	**27,30%**
Intermediation margin	**20.956.645**	**100,00%**	**21.445.381**	**100,00%**	**-488.737**	**-2,28%**
Operating costs	**-16.973.104**	**-80,99%**	**-18.370.093**	**-85,66%**	**1.396.990**	**7,60%**
of which: a) Personnel expenses	-9.599.022	-45,80%	-10.891.646	**-50,79%**	1.292.624	11,87%
b) Other administrative expenses	-5.328.904	-25,43%	-5.221.166	**-24,35%**	-107.738	-2,06%
c) Tangible and intangible asset adjusments	-2.045.177	-9,76%	-2.257.281	**-10,53%**	212.104	9,40%
Operating result	**3.983.541**	**19,01%**	**3.075.288**	**14,34%**	**908.253**	**29,53%**
Provisions and net adjustments on credits	-4.691.353	-22,39%	-6.069.679	**-28,30%**	1.378.326	22,71%
Provisions for risks and charges	-71.000	-11,92%	-348.000	**-1,62%**	277.000	79,60%
Financial asset adjustments	0	0,00%	0	**0,00%**	0	0,00%
Income from ordinary activities	**-778.812**	**-3,72%**	**-3.342.391**	**-15,59%**	**2.563.579**	**76,70%**
Extraordinary profit (loss)	998.188	4,76%	164.894	**0,77%**	833.294	505,35%
Variation of the General banking risk fund (+/-)	0	0,00%	0	**0,00%**	0	0,00%
Tax on income	-226.961	-1,08%	-615.563	**-2,87%**	388.602	63,13%
Result for the year	**-7.585**	**-0,04%**	**-3.793.060**	**-17,69%**	**3.785.475**	**99,80%**

Main results and performance for the period

Profit and loss account

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

The Profit and Loss Account for the year 2017 essentially broke even, recording a loss of € -0.0075 million, € +3.785 million compared to previous year (€ -3.793 million was the result for the year 2016).

Operating result structure

Data analysis about the 2017 financial year shows that the result of ordinary assets at the end of December 2017 – negative for € -0.778 million – shows a recovery equal to € +2.563 million compared to the previous year (€ -3.342 million).

The negative performance of this Result is once again attributable to value adjustments on loans which, albeit down compared to the previous year by € 1.378 million, are very substantial (€ 4.691 million).

In addition to this, a negative performance of the financial margin was recorded, with a decrease of € -1.720 million compared to the final result for 2016 (-10.16%), despite the improvement in the loans/deposits gap which recorded an increase of +17 bps (2.93% 31/12/17 vs 2.76% 31/12/16).

This contraction is due to the contraction in the stock of Gross loans to customers (€ -31.141 million vs. previous year), to the downsizing of the property securities portfolio (€ -23.575 vs previous year) which did not guarantee the income stream present in 2016 and finally to a smaller contribution from group companies compared to the year 2016.

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 significant provisions and net adjustments on loans for this year as well.

As indicated above, 2017 shows an improvement in the loans/deposits gap (+17 bps) due to the decrease in the cost of funding, as a result of prudent policies aimed at aligning interest rates with the international money market, combined with the decrease in deposits.

Conversely, revenues from intermediation show an increase, due to a significant profit on the side of financial transactions, while the pure commission margin shows a decrease due to the contraction of volumes. On the cost side, thanks to prudent restructuring and containment policies, there was a total decrease of -7.60%, attributable to the reduction in external consultancy services and the agreement with employees on a 6.5% reduction in the Conguaglio Maggiorazione Contrattuale component, in addition to the reduction in the number of managerial figures, which led to a saving on staff costs of 11.87%.

Financial margin

The financial margin amounted to € 15.211 million compared to € 16.932 million in 2016 (-1.720 million).
The margin represents the balance between net interest equal to € 14.736 million and dividends of € 0.475 million deriving entirely from the Group's operating companies. In 2016 these items were respectively equal to € 16.013 million and € 0.919 million.
The balance of net interest income declined by € -1.720 million compared to the previous year (-10.16%).
The decrease is to be considered of taking into account: the dynamics of financial market rates which, as mentioned in the introduction, see the three-month Euribor continuing its decline also in 2017, lining up to an average -0.329%, and the decrease in gross loans by -31.141 million. The decline in net interest income is partially curbed by the average spread related to the gap in loans/deposits vs. customers equal to 2.93%, +17 bps, compared to the same period in 2016 (2.93% vs. 2.76% previous year), recording a trend reversal compared to the previous years, thanks to the deposit rate realignment policies.
As regards dividends, the component relating to the Group companies amounted to € 0.475 million, which shows a substantial decrease compared to the previous year due to the only contribution of the San Marino Life dividend amounting to € 0.475 million, down by € 0.290 million, while the 2017 profits of SSIS Spa, 50% owned by Cassa di Risparmio Spa, amounting to € 0.053 million, were not distributed but capitalized.

figures in thousands of euro

Investee Company	% held	dividends 2017	dividends 2016
BacFiduciaria Spa	100%	0,00	0,00
San Marino Life Spa	100%	0,48	763,91
SSIS Srl	50%	0,00	155,00

FINANCIAL MARGIN	31/12/2017	31/12/2016	CHANGE		% incidence on interest margin	
			ABSOLUTE	%	31/12/2017	31/12/2016
Interest income on loans to customers	19.041.146	21.676.776	-2.635.629	-12,16%	125,17%	128,02%
Interest expense on amounts due to customers	-736.157	-1.048.028	311.871	-29,76%	-4,84%	-6,19%
Interest expense on payables represented by securities (CD bonds)	-4.082.595	-6.517.886	2.435.291	-37,36%	-26,84%	-38,49%
ORDINARY CUSTOMER MARGIN	**14.222.394**	**14.110.862**	**111.532**	**0,79%**	**93,49%**	**83,34%**
Interest income on debt securities	536.543	1.887.928	-1.351.384	-71,58%	3,53%	11,15%
Interest expense on payables represented by securities (pct)	-103.174	-201.551	98.378	-48,81%	-0,68%	-1,19%
FINANCIAL INVESTMENT MARGIN	**433.369**	**1.686.376**	**-1.253.007**	**-74,30%**	**2,85%**	**9,96%**
BANKING MANAGEMENT MARGIN	**14.655.764**	**15.797.238**	**-1.141.475**	**-7,23%**	**96,34%**	**93,30%**
Interest income on credit institutions	82.390	217.588	-135.198	-62,13%	0,54%	1,29%
Interest expense on credit institutions	-1.627	-1.213	-413	34,05%	-0,01%	-0,01%
INTERBANK MARGIN	**80.763**	**216.374**	**-135.611**	**-62,67%**	**0,53%**	**1,28%**
Dividends and other revenues	475.415	918.907	-443.493	-48,26%	3,13%	5,43%
FINANCIAL MARGIN	**15.211.942**	**16.932.520**	**-1.720.578**	**-10,16%**	**100,00%**	**100,00%**

PROFIT AND LOSS ACCOUNT	31/12/2017	31/12/2016	CHANGE		% incidence on interest margin	
			ABSOLUTE	%	31/12/2017	31/12/2016
Interest margin	14.736.527	16.013.612	-1.277.085	-7,97%	70,32%	74,67%
Dividends and other revenues	475.415	918.907	-443.493	-48,26%	2,27%	4,28%
Intermediation revenues and other	5.744.703	4.512.862	1.231.842	27,30%	27,41%	21,04%
Intermediation margin	**20.956.645**	**21.445.381**	**-488.737**	**-2,28%**	**100,00%**	**100,00%**

Intermediation margin

At the end of December 2017 there was an intermediation margin of € 20.956 million, down by € 0.488 million (-2.28%) in the annual comparison. An examination of the tables below shows that the increase in intermediation income mitigates the negative performance on net interest income. Indeed, the composition of the ownership instruments portfolio, completely revised in the previous year and downsized in quantity, did not undergo high volatility in prices, as conversely happened in

2016. The interest margin contributes with 70.32% to the formation of the intermediation margin while the intermediation income accounts for 27.41%. Lastly, the contribution of the dividends of the companies belonging to the BAC Banking Group is equal to 2.27%.

This trend, although not growing, read in the microeconomic context mentioned above, reveals the attention and professionalism of the entire structure of BAC in managing the heavy crisis that characterized the year 2017, while the Eurozone economy shows signs of recovery supported by the monetary policy of the ECB aimed at supporting companies with low interest rates policies and the unconventional measures undertaken since 2015.

The commission margin at the end of December 2017, which amounted to 5.744 million, although down compared to the 2016 final balance (-14.47%), remains appreciable despite the decrease in funding volumes.

Intermediation margin

INTERMEDIATION REVENUES AND OTHER	31/12/2017	31/12/2016	CHANGE		% incidence on interest margin	
			ABSOLUTE	%	31/12/2017	31/12/2016
Net commissions	**3.623.757**	**4.236.834**	**-613.077**	**-14,47%**	**63,08%**	**93,88%**
Commission income	**4.465.221**	**4.985.395**	**-520.174**	**-10,43%**	**77,73%**	**110,47%**
- guarantees given	*113.772*	*200.737*	*-86.966*	*-43,32%*	1,98%	4,45%
- management services, intermediation, cons.	2.096.803	2.670.420	-573.617	-21,48%	36,50%	59,17%
of which managed saving (common funds and managements)	885.418	1.171.902	-286.485	-24,45%	15,41%	25,97%
of which placement, trading, security custody	948.509	1.206.393	-257.883	-21,38%	16,51%	26,73%
of which financial activity	47.830	55.094	-7.264	-13,18%	0,83%	1,22%
of which insurance bank	215.046	237.031	-21.985	-9,28%	3,74%	5,25%
- currency trading	327.223	329.988	-2.764	-0,84%	5,70%	7,31%
- other services	1.927.423	1.784.250	143.173	8,02%	33,55%	39,54%
of which current accounts	334.958	361.342	-26.384	-7,30%	5,83%	8,01%
of which portfolio	364.102	352.662	11.441	3,24%	6,34%	7,81%
of which collection and payment services	1.015.530	893.474	122.056	13,66%	17,68%	19,80%
of which loans granted	152.833	146.772	6.061	4,13%	2,66%	3,25%
Commission expenses	**-841.463**	**-748.561**	**-92.903**	**12,41%**	**-14,65%**	**-16,59%**
- collection and payment services	-319.694	-172.343	-147.351	85,50%	-5,57%	-3,82%
- management services, intermediation, cons.	-417.521	-460.637	43.115	-9,36%	-7,27%	-10,21%
- currency trading	-63.920	-67.726	3.806	-5,62%	-1,11%	-1,50%
- other services	-40.328	-47.855	7.527	-15,73%	-0,70%	-1,06%
Profits and losses on financial transactions	**397.399**	**-1.369.436**	**1.766.835**	**129,02%**	**6,92%**	**-30,35%**
On securities:	65.119	-1.633.358	1.698.477	103,99%	1,13%	-36,19%
- security trading	-7.131	-938.836	931.706	99,24%	-0,12%	-20,80%
- security valuation	72.250	-694.521	766.771	-110,40%	1,26%	-15,39%
- currency trading	332.280	338.633	-6.353	-1,88%	5,78%	7,50%
- other activities	0	-74.711	n.d.	n.d.	0,00%	-1,66%
Operating income and charges	1.723.547	**1.645.463**	**78.084**	**4,75%**	**30,00%**	**36,46%**
. Other revenues	1.627.808	1.437.214	190.594	13,26%	28,34%	31,85%
. Expense recovery	95.738	208.249	-112.510	-54,03%	1,67%	4,61%
SERVICE MARGIN	**5.744.703**	**4.512.862**	**1.231.842**	**27,30%**	**100,00%**	**100,00%**

Operating result

PROFIT AND LOSS ACCOUNT	31/12/2017	31/12/2016	CHANGE	
			ABSOLUTE	%
Intermediation margin	**20.956.645**	**21.445.381**	**-488.737**	**-2,28%**
Administrative expenses	-14.927.927	-16.112.812	1.184.886	-7,35%
- Personnel expenses	-9.599.022	-10.891.646	1.292.624	-11,87%
- General expenses	-5.328.904	-5.221.166	-107.738	2,06%
Tangible and intangible asset adjustments	**-2.045.177**	**-2.257.281**	**212.104**	**-9,40%**
Total operating costs	**-16.973.104**	**-18.370.093**	**1.396.990**	**-7,60%**
Operating result	**3.983.541**	**3.075.288**	**908.253**	**29,53%**

Operating costs

At the end of December 2017 the total operating costs amounted to 16.973 million, showing a significant decrease compared to the same period of the previous year equal to 1.396 million (-7.60%)

Personnel expenses, which amounted to 9.599 million, decreased in comparison with the same period of 2016 by about 1.292 million (-11.87%). This important contraction is mainly due to: the evolution of the workforce, which stands at 131 units as at 31/12/2017, showing a decrease of 15 resources compared to the previous year, due to voluntary resignations and retirements, in addition to the 6.5% decrease agreed with the employees relating to the Conguaglio Maggiorazione Contrattuale. No further provision was made for the Bonus System – namely one-off premiums to be granted to employees depending on the achievement of objectives.

Other administrative expenses record a value of 5.328 million in 2017, increasing by 0.107 million (-2.06%) compared to the same period of the previous year. This increase is attributable to the recognition of the contribution in the Guarantee Fund for Depositors established by Reg. 2006/01 which accounted for € 0.218 million, in addition to the charges recognized to the Supervisory Authority for the 2017 AQR amounting to € 0.152 million and an increase in the ABS membership dues equal to 0.042 million. Therefore, net of these additional expenses, the policy of reducing structural costs and rationalizing the organizational structure continued.

Tangible and intangible asset adjustments

amounted to 2.045 million, decreasing by 0.212 million compared to 2.257 million in 2016.
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 4.691 million, decreasing by 22.71% compared to the same period of 2016, 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. We also point out the presence of an additional provision for risks on credits for 1.077 million, already set up in the previous years to face potential risks deriving from pending lawsuits and proceedings, endowed during the year with further 0.071 million.
It should be noted that non-performing loans were determined as required by the legislation in force (CBSM Regulation 2007/07).
For a detailed analysis on the dynamics of the so-called "credit quality" see the appropriate paragraph of this Report.

Result of operating activities

The result of operating activities, impacted by significant provisions on credit adjustments, is negative for -0.778 million, improving compared to 2016 when it recorded a loss of -3.342 million (+2.563 million vs 2016).

Extraordinary revenues and charges

The bank recorded extraordinary revenues amounting to 1.131 million and extraordinary charges for 0.133 million.
It should be noted that extraordinary revenues include 0.124 million resulting from collections on loss positions, 0.010 million for closures of receivable balances that can no longer be claimed by law, divestments of movable and immovable properties for 0.352 million, 0.049 million for discharge of holidays enjoyed fund and 0.352 million for adjustments on NPLs collected on which specific provisions were envisaged.
The extraordinary charges include 0.125 million for closures of liabilities no longer due and 0.07 million for extinctions of customer relationships.

Income tax

The tax rate is equal to 103.43% and is an expression of counting of payable taxes in compliance with tax standards, since the excess of the adjustments over 5% of loans must be taken up in taxation.
It should also be noted that BAC benefits from tax credit of about 2.531 million resulting from the Decree-Law 174/2011 relating to the in-bulk acquisition of legal relations by a bank in compulsory winding-up.

Net profit

For explanatory purposes, the table below shows the steps that lead from the operating result to the net result for the period, compared with 2016 data.

PROFIT AND LOSS ACCOUNT	31/12/2017	31/12/2016	CHANGE	
			ABSOLUTE	%
OPERATING RESULT	**3.983.541**	**3.075.288**	**908.253**	**29,53%**
Provisions and value adjustments	**-4.762.353**	**-6.417.679**	**1.655.326**	**-25,79%**
- Provisions and value adjustments on credits	-4.691.353	-6.069.679	**1.378.326**	**-22,71%**
- Provisions for risks and charges	-71.000	-348.000	277.000	79,60%
- Financial asset adjustments	0	0	n.d.	n.d.
INCOME ON OPERATIONS	**-778.812**	**-3.342.391**	**2.563.579**	**76,70%**
Margin on investment securities	0	0	0	0,00%
Extraordinary revenues	1.131.081	610.964	520.117	85,13%
Extraordinary charges	-132.893	-446.070	313.178	-70,21%
Extraordinary revenue and charge balance and margin on investment securities	998.188	164.894	833.294	505,35%
Profit before tax	219.376	-3.177.497	3.396.873	106,90%
Tax on income	-226.961	-615.563	388.602	-63,13%
Net result	**-7.585**	**-3.793.060**	**3.785.475**	**99,80%**

The year 2017 ended with a net loss of -0.0075 million, to be compared to the net loss of -3,793 million (+99.80%) recorded at the end of December 2016.

Statement of assets and liabilities

Loans to customers

Net loans to customers as at 31 December 2017 amounted to 542.798 million, decreasing by 34.060 million compared to the end of 2016.

LOANS TO CUSTOMER AND CREDIT QUALITY	31/12/2017	31/12/2016	CHANGE		COMPOSITION %	
			ABSOLUTE	%	31/12/2017	31/12/2016
Customer current accounts	**117.254.542**	**124.284.525**	**-7.029.983**	**-5,66%**	**20,09%**	**21,10%**
of which current account advances	58.252.232	44.967.489	13.284.743	29,54%	9,98%	6,94%
Loans/Salary loans	**256.075.532**	**270.414.256**	**-14.338.724**	**-5,30%**	**43,87%**	**38,42%**
of which unsecured	102.861.401	109.851.909	-6.990.509	-6,36%	17,62%	16,21%
mortgage	97.564.768	99.529.882	-1.965.114	-1,97%	16,71%	13,27%
soft	55.649.363	61.032.464	-5.383.101	-8,82%	9,53%	8,95%
Non-performing loans (net of advances)	**78.260.197**	**67.919.851**	**10.340.346**	**15,22%**	**13,41%**	**11,66%**
Total Foreign Loans	**26.840.953**	**25.899.266**	**941.687**	**3,64%**	**4,60%**	**6,66%**
of which FinImport Euro	12.887.209	13.825.695	-938.487	-6,79%	2,21%	3,24%
FinImport Currency	191.614	897.723	-706.108	-78,66%	0,03%	0,30%
FinExport Euro	10.129.605	7.386.694	2.742.911	37,13%	1,74%	0,70%
FinExport Currency	151.027	355.102	-204.076	-57,47%	0,03%	0,03%
Currency loans	1.576.498	1.529.052	47.446	3,10%	0,27%	2,15%
Euro customer loans	1.905.000	1.905.000	-	0,00%	0,33%	0,24%
Leasing	**98.709.609**	**119.957.916**	**-21.248.308**	**-17,71%**	**16,91%**	**20,82%**
of which fixed	93.526.646	115.043.796	-21.517.150	-18,70%	16,02%	19,96%
investment	5.182.963	4.914.121	268.843	5,47%	0,89%	0,86%
intangible			-			
Other	**6.594.905**	**6.401.312**	**193.593**	**3,02%**	**1,13%**	**1,33%**
Total loans	**583.735.737**	**614.877.127**	**-31.141.390**	**-5,06%**	**100,00%**	**100,00%**
Endorsement loans	**17.704.978**	**26.192.920**	**-8.487.942**	**-32,41%**	**3,03%**	**4,54%**
Total loans	**601.440.715**	**641.070.047**	**-39.629.332**	**-6,18%**	**103,03%**	**104,54%**

At the end of 2017, gross **impaired loans** amounted to 157.518 million, recording a slight decrease compared to the previous year.
Due to the high level of the non-performing loans, BAC continued to make significant provisions and adjustments during 2017 as well.
These additional provisions increased total adjustments by +2.919 million compared to the 2016 final result.
In addition to making the adjustments of analytical value, BAC has real and personal collaterals on these impaired loans to strengthen hedging.
The tables below show the hedging of the main categories of impaired loans (Non-performing – Substandard).

31/12/2017	**NPLs**	
Type of real collateral	**No. positions**	**Gross Exp.**
Ecc.ma Camera	4	0,28
1st degree leg. mortg.	18	3,40
Over 1st degree leg. mortg.	50	18,10
1st degree mortgage	20	11,16
Over 1st degree mortgage	4	0,79
MAV other values	1	1,19
Company shares pledge	5	8,56
Convent. mov. privilege	1	0,04
Total secured	**103**	**43,52**
With surety	63	27,86
Without surety	44	18,96
Total unsecured	**214**	**34,73**
With surety	99	15,06
Without surety	115	19,67
Total	**317**	**78,25**

31/12/2017	**Substandard**	
Type of real collateral	**No. positions**	**Gross Exp.**
Ecc.ma Camera	4	0,37
1st degree leg. mortg.	5	0,21
Over 1st degree leg. mortg.	22	2,20
1st degree mortgage	18	11,54
Over 1st degree mortgage	11	3,38
Pledge	2	2,15
Convent. immov. privilege	1	0,10
Non-covered relations		10,38
Total secured	61	30,33
With surety	33	21,06
Without surety	28	9,27
Total unsecured	105	26,23
With surety	52	16,14
Without surety	53	10,09
Total	166	56,57

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 worsening of the crisis affecting the San Marino economic system and consequently the deterioration in debtors' repayment capacity led to a careful reclassification of the positions. Added to this, the entry into service (30/09/2017) of the Central Risk Database (hereinafter also "CR") contributed significantly towards a more coordinated classification of the risk positions present on the San Marino banking system. The effective management of impaired positions was considered decisive for the achievement of the overall profitability targets. The Bad Credit Management Unit was introduced for a timely management of that part of customers showing signs of tension and/or difficulties in regular fulfillment. In addition, all positions classified as substandard and non-performing loans were attributed to specific managers, for a more in-depth and efficient recovery/disposal of the same. The attention dedicated to bad loans thus generated considerable re-allocations: 28.475 million in 2017 alone (consisting of both actual collections and the positive definition of specific positions). In this context, the incidence of non-performing loans (at gross values) is equal to 13.41% of total loans to customers (11.05% at the end of 2016), while substandard loans decreased to 9, 62% (11.83% at the end of 2016).
With regard to performing loans, which amounted to € 426.217 million at nominal value as at 31/12/2017 (€ 456.741 million as at 31/12/2016), value adjustments for a total of € 2.244 were prudentially carried out. These are the expression of the lump-sum devaluation carried out on the basis of the difficult situation in servicing the debt by the countries where debtors reside, taking into account the negative economic trends concerning homogeneous categories of loans, such as the economic activity segment. Furthermore, the write-down was carried out and prudently established by the administrative bodies.
Overall, therefore, total customer loans totaled a nominal amount of € 583.735 million, for which value adjustments were made amounting to € 40.937 million, which bring the degree of general coverage of loans to customers to 7.01% (it was 6.18% as at 31/12/2016).
The following summary tables provide the reconstructed data for the years 2017 and 2016.

Loans to customers Credit quality	31/12/2017	31/12/2016	CHANGE		COMPOSITION %	
			ABSOLUTE	%	31/12/2017	31/12/2016
Total gross loans	**583.735.737**	**614.877.127**	**-31.141.390**	**-5,06%**	**100,00%**	**100,00%**
Provisions for risk on credits	**40.937.416**	**38.016.982**	**2.920.434**	**7,68%**	**7,01%**	**6,18%**
loss forecasts	**38.412.428**	**35.780.006**	**2.632.422**	**7,36%**	**6,58%**	**5,82%**
analytical and flat-rate value adjustments	**40.937.416**	**38.018.208**	**2.919.208**	**7,68%**	**7,01%**	**6,18%**
coverage ratio	**7,01%**	**6,18%**				
Total loans net of provisions for risk on credits	**542.798.321**	**576.858.919**	**-34.060.598**	**-5,90%**	**92,99%**	**93,82%**
Loans net of non-performing loans	505.475.540	546.957.276	-41.481.736	-7,58%	86,59%	88,95%
Non-performing/performing loans	**13,41%**	**11,05%**				
Non-performing loans net of advances	**78.260.197**	**67.919.851**	**10.340.346**	**15,22%**	**13,41%**	**11,05%**
Non-performing loans net of advances	25.919.964	21.724.584	4.195.380	19,31%	4,44%	3,53%
analytical value adjustments	25.919.964	21.724.584	4.195.380	19,31%	4,44%	3,53%
coverage ratio	33,12%	31,99%				
non-performing loans net of value adjustments	**52.340.233**	**46.195.267**	**6.144.966**	**13,30%**	**8,97%**	**7,51%**
Total substandard loans	**56.128.963**	**72.755.065**	**-16.626.102**	**-22,85%**	**9,62%**	**11,83%**
loss forecasts	7.192.920	8.765.016	-1.572.095	-17,94%	1,23%	1,43%
analytical value adjustments	7.192.920	8.765.016	-1.572.095	-17,94%	1,23%	1,43%
coverage ratio	12,81%	12,05%				
non-performing loans net of value adjustments	**48.936.043**	**63.990.049**	**-15.054.006**	**-23,53%**	**8,38%**	**10,41%**
Total past due loans	**319.106**	**122.058**	**197.048**	**161,44%**	**0,05%**	**0,02%**
loss forecasts	3.309	1.221	2.089	171,13%	0,00%	0,00%
flat-rate value adjustments	3.309	1.221	2.089	171,13%	0,00%	0,00%
coverage ratio	1,04%	1,00%				
past due loans net of value adjustments	**315.797**	**120.838**	**194.959**	**161,34%**	**0,05%**	**0,02%**
Total restructured loans	**22.798.067**	**17.334.779**	**5.463.288**	**31,52%**	**3,91%**	**2,82%**
loss forecasts	5.296.220	5.289.181	7.039	0,133%	0,91%	0,86%
analytical value adjustments	5.296.220	5.289.181	7.039	0,133%	0,91%	0,86%
coverage ratio	23,23%	30,51%				
restructured loans net of value adjustments	**17.501.847**	**12.045.598**	**5.456.249**	**45,30%**	**3,00%**	**1,96%**
Total loans to at-risk countries	**11.777**	**4.256**	**7.522**	**176,75%**	**0,00%**	**0,00%**
loss forecasts	14	5	9		0,00%	0,00%
flat-rate value adjustments	14	5	9	176,67%	0,00%	0,00%
coverage ratio	0,12%	0,12%				
loans to at-risk countries net of value adjustments	**11.763**	**4.250**	**7.513**	**176,75%**	**0,00%**	**0,00%**
Total faulty loans	**157.518.110**	**158.136.008**	**-617.898**	**-0,39%**	**26,98%**	**25,72%**
loss forecasts	**38.412.428**	**35.780.006**	**2.632.422**	**7,36%**	**6,58%**	**5,82%**
value adjustments	**38.412.428**	**35.780.006**	**2.632.422**	**7,36%**	**6,58%**	**5,82%**
coverage ratio	**24,39%**	**22,63%**				
faulty loans net of value adjustments	**119.105.683**	**122.356.002**	**-3.250.320**	**-2,66%**	**20,40%**	**19,90%**
Total performing loans	**426.217.626**	**456.741.119**	**-30.523.492**	**-6,68%**	**73,02%**	**74,28%**
value adjustments	**2.524.988**	**2.238.202**	**286.786**	**12,81%**	**0,43%**	**0,36%**
coverage ratio	0,59%	0,49%				

Administered values

Total deposits amounted to 1.285 million, with a decrease of -5.05% compared to the end of 2016 (-68.285 million).
The following table shows the financial resources of customers as at 31/12/2017 divided by technical form and included in the aggregates of direct and indirect deposits compared to 2016 BAC data.

Customers' financial resources *(amounts in euro)*	**31/12/2017**	**31/12/2016**	**CHANGES**		**COMPOSITION %**	
			ABSOLUTE	**%**	**31/12/2017**	**31/12/2016**
A) Direct deposits						
Savings deposits	3.830.533	4.447.946	-617.412	-13,88%	0,30%	0,33%
Certificates of deposit	276.610.000	337.325.400	-60.715.400	-18,00%	21,53%	24,93%
Euro and foreign currency accounts	359.346.627	356.697.238	2.649.388	0,74%	27,97%	26,36%
Bonds issued	2.632.200	3.109.600	-477.400	-15,35%	0,20%	0,23%
Total traditional deposits	642.419.360	701.580.184	-59.160.824	-8,43%	50,01%	51,86%
Repurchasing agreements	18.493.799	2.600.825	15.892.975	611,07%	1,44%	0,19%
Total direct deposits	**660.913.159**	**704.181.008**	**-43.267.849**	**-6,14%**	**52,05%**	**52,05%**
B) Indirect deposits (market value)						
Fixed-income securities	132.997.043	140.116.565	-7.119.522	-5,08%	10,35%	10,36%
Equity securities	122.473.525	139.009.352	-16.535.827	-11,90%	9,53%	10,27%
Total administered indirect deposits	**255.470.568**	**279.125.916**	**-23.655.348**	**-8,47%**	**19,89%**	**20,63%**
Asset managements	57.024.023	65.215.176	-8.191.153	-12,56%	4,44%	4,82%
Funds	85.503.358	66.874.236	18.629.121	27,86%	6,66%	4,94%
Structured financial instruments	0	0	0		0,00%	0,00%
Insurance bank	225.736.795	237.537.060	-11.800.265	-4,97%	17,57%	17,56%
Total Managed Deposits	**368.264.176**	**369.626.472**	**-1.362.296**	**-0,37%**	**28,67%**	**27,32%**
Total indirect deposits (market value)	**623.734.744**	**648.752.388**	**-25.017.645**	**-3,86%**	**48,55%**	**47,95%**
C) Total deposits	**1.284.647.903**	**1.352.933.397**	**-68.285.494**	**-5,05%**	**100,00%**	**100,00%**

Direct deposits amounted to 660.913 million, decreasing by -43.267 million (-6.14%) compared to the end of 2016. More precisely:

- sight deposits decreased by -0.617 million;
- current accounts increased by +2.649 million;
- customer deposit repurchasing agreements increased by +15.892 million;
- certificates of deposit decreased by -60.715 million;
- bonds issued by the bank decreased by -0.477 million.

In 2017, debts represented by outstanding securities and amounting to 279.242 million decreased by 61.192 million due to a decrease in certificates of deposit and a reduction in bonds, which is partly smaller because they were offset by their conversion into other forms of deposits (repurchasing agreements). It should be noted that the Bank in 2013 issued a subordinate loan, amounting to nominal 20 million and maturing in March 2020, which provides for a 20% annual repayment starting from 2016, reclassified in the tables above among indirect deposits for € 12 million.

Indirect deposits, which amounted to 623.734 million, decreased by -25.017 million (-3.86%) compared to the 2016 figure of € 648.752 million. In particular, the aggregate shows:
- a reduction of -23.655 million (-8.47%) in assets under administration,
- a reduction of -1.362 million (-0.37%) in assets under management.

Financial investments

Financial investments decreased by € 23.575 million (-37.36%) as a result of the combination of changes in trading financial assets (€ -26.198 million), investment financial assets, which increased by € 2.642 million, and the write-down of the investment in the loans fund (NAV of 31/12/2017). The write-down was converted into tax credit as regulated by Delegated Decree no. 174 of 27/11/2011 "urgent measures to support savings protection operations" due to the acquisition of the assets of Credito Sammarinese in compulsory winding-up.

FINANCIAL ASSETS	31/12/2017	31/12/2016	CHANGE	
			ABSOLUTE	%
Investment securities	28.143.889	25.521.429	2.622.459	10,28%
of which bonds	25.489.532	25.521.429	-31.897	-0,12%
Trading securities	11.390.214	37.588.482	-26.198.268	-69,70%
of which bonds	7.235.564	33.068.251	-25.832.687	-78,12%
Total financial portfolio	**39.534.103**	**63.109.912**	**-23.575.809**	**-37,36%**

FINANCIAL ASSETS Issuers	31/12/2017	31/12/2016	CHANGE	
			ABSOLUTE	%
Investment securities	28.143.889	25.521.429	25.521.429	10,28%
of which public issuers	25.489.532	25.521.429	25.521.429	-0,12%
of which credit issuers	0	0	0	0,00%
of which financial issuers	0	0	0	0,00%
of which others	2.654.357	0	0	100,00%
Trading securities	11.390.214	37.588.482	-26.198.268	-69,70%
of which credit issuers	0	0	0	0,00%
of which financial issuers	4.154.650	4.520.231	-365.581	-8,09%
of which public issuers	7.235.564	33.068.251	-25.832.687	-78,12%
of which others	0		0	0,00%
Total debt securities	**39.534.103**	**63.109.912**	**-23.575.809**	**-37,36%**

FINANCIAL ASSETS Fixed/variable rate	31/12/2017	31/12/2016	CHANGE	
			ABSOLUTE	%
Investment securities	28.143.889	25.521.429	2.622.459	10,28%
of which fixed rate	25.489.532	25.521.429	-31.897	-0,12%
of which variable rate	2.654.357	0	2.654.357	100,00%
Trading securities	11.390.214	37.588.482	-26.198.268	-69,70%
of which fixed rate	7.235.564	33.068.251	-25.832.687	-78,12%
of which variable rate	4.154.650	4.520.231	-365.581	-8,09%
Total debt securities	**39.534.103**	**63.109.912**	**-23.575.809**	**-37,36%**

FINANCIAL ASSETS-BONDS Residual Life	31/12/2017	31/12/2016	CHANGE	
			ABSOLUTE	%
Investment securities	25.489.532	25.521.429	-31.897	-0,12%
- within 12 months	0	0	0	0,00%
- within 3 years	0	0	0	0,00%
- within 5 years		0	0	
- over 5 years	25.489.532	25.521.429	-31.897	-0,12%
Trading securities	7.235.564	33.068.251	-25.832.687	-78,12%
- within 12 months	0	0	0	0,00%
- within 3 years	0	0	0	0,00%
- over 3 years	5.206.629	5.353.276	-146.647	-2,74%
Total debt securities	**32.725.096**	**58.589.680**	**-25.864.584**	**-44,15%**

For the sake of clarity, the balance of the portfolio and its composition compared to 2016 data are also provided.
In consideration of the market conditions and in compliance with the investment policies, outstanding securities as at 31/12/2016 were progressively sold with the aim of recomposing the asset allocation of the securities portfolio. Of these:

- securities sold on the free portfolio with maturities between 5 and 7 years,
- security bought on the free portfolio with maturities between 4 and 7 years,
- MID were set up with the Central Banking Authority,
- the unrestricted financial instruments produced a trading loss equal to € -0.007 and valuation losses equal to € -0.072.

Non-fixed financial instruments comprise € 7.235 million of government issued bonds and € 4.288 million of investment funds in the San Marino area. The latter were subscribed on 29/12/2012 following the en-bloc sale of legal relationships by Credito Sammarinese in compulsory winding-up, in compliance with the contractual clauses provided for in the deed of sale which provided for a commitment for all transferee banks to transfer the acquired credits to a San Marino management company established ad hoc. This item decreased by € 0.366 million due to the valuation of the fund at NAV 31/12/2017; we specify that the write-down had no effect on the profit and loss account because it was recorded, as per regulations, under item "temporary tax differences", since only later will it turn into tax credit due to the losses that will be ascertained according to the effective realization of the assets sold.
The fixed financial instruments purchased in 2016 consist of five government issued bonds with a maturity of over five years, plus the subscription of the first four tranches of the "Tower Credit Opportunities PLC" fund.
2017 saw the establishment of the English fund for small and medium-sized Italian companies, of which BAC subscribed shares up to an amount of 10,000,000.
The subscription partnership is with Quadrivio Spa, a leader in the sector of loans to small and medium-sized Italian companies (SMEs), which represents a strategic development opportunity for BAC in this business. The Tower Credit Opportunities PLC fund will be dedicated to supporting the growth of Italian SMEs by funding investment programs, extraordinary finance operations and interventions to support the financial structure. The expected duration will be 12 years starting from the final date of the last closing.

Shareholdings

Shareholdings	31/12/2017	31/12/2016	CHANGE		Composition %	Composition %
			ABSOLUTE	%	31/12/2017	31/12/2016
Shareholdings	4.768.052	4.730.450	37.602	0,79%	39,01%	39,22%
Investments in group companies	7.453.232	7.330.401	122.832	1,68%	60,99%	60,78%
Total shareholdings	**12.221.284**	**12.060.851**	**160.434**	**1,33%**	**100,00%**	**100,00%**

Equity investments in group companies showed an increase of +0.160 due to:

- the revaluation of the investment of BAC Fiduciaria S.p.A. for -0.065 million, based on the net asset values expressed in the financial statements at 31/12/2017;
- the revaluation of the investment of San Marino Life S.p.A. for 0.053 million, based on the net asset values expressed in the financial statements at 31/12/2017;
- the revaluation of the investment of SSIS S.p.A. for 0,027 million, based on the net asset values expressed in the financial statements at 31/12/2017;
- the revaluation of the investment of IBS Immobiliare Srl for 0.005 million, based on the net asset values expressed in the financial statements at 31/12/2017.
- and finally the takeover of 10% shareholding in Techno Science Park San Marino Italia Spa for 0.011 million, issued by the state and other San Marino credit institutions.

No change was recorded in the values of the holdings of the Central Bank and the Chamber of Commerce, for which we hold a minority share, and the participation of Centro Servizi, which was recorded at the 2016 acquisition value corresponding to the estimated market value of the company at the time of purchase.
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

The Bank, as part of its financial activities, recorded a positive net inter-bank balance between assets (121.200 million) and liabilities (0.784 million) at the end of 2017, equal to 120.416 million. Compared to the corresponding figures at the end of 2016 (net of € 152.760 million), the balance recorded a decrease in net assets of € -32.344 million resulting from the reduction in loans to banks (-31.947 million) due to the recomposition and disinvestment of the securities portfolio explained in the dedicated paragraph, and a slight increase in bank deposits for € 0.396 million. The net position remains high and bears witness to the absence of interbank debt, confirming the good liquidity situation of company and the constant management and monitoring of liquidity risk.

Interbank	31/12/2017	31/12/2016	CHANGE		COMPOSITION %	
			ABSOLUTE	%	31/12/2017	31/12/2016
Loans to banks	**121.200.553**	**153.148.166**	**-31.947.612**	**-20,86%**	**100,0%**	**100,0%**
- in euro	114.502.558	144.102.420	-29.599.862	-20,54%	94,5%	94,1%
- in foreign currency	6.697.995	9.045.746	-2.347.751	-25,95%	5,5%	5,9%
Amounts due to banks	**784.447**	**387.792**	**396.655**	**102,29%**	**100,0%**	**100,0%**
- in euro	784.447	387.792	396.655	102,29%	100,0%	100,0%
- in foreign currency	0	0	0	0,00%	0,0%	0,0%
Net position	**120.416.107**	**152.760.374**	**-32.344.267**	**-21,17%**	**100,0%**	**100,0%**
- in euro	113.718.111	143.714.627	-29.996.516	-20,87%	94,4%	94,1%
- in foreign currency	6.697.995	9.045.746	-2.347.751	-25,95%	5,6%	5,9%

Interbank	31/12/2017	31/12/2016	CHANGE		COMPOSIZIONE %	
			ABSOLUTE	%	31/12/2017	31/12/2016
Loans to banks	**121.200.553**	**153.148.166**	**-31.947.612**	**-20,86%**	**100,0%**	**100,0%**
- short term (up to 12 months)	90.804.015	125.925.727	-35.121.713	-27,89%	74,9%	82,2%
- medium and long term (over 12 months)	30.396.539	27.222.438	3.174.100	11,66%	25,1%	17,8%
Amounts due to banks	**784.447**	**387.792**	**396.655**	**102,29%**	**100,0%**	**100,0%**
- short term (up to 12 months)	784.447	387.792	396.655	102,29%	100,0%	100,0%
- medium and long term (over 12 months)	0	0	0	0,00%	0,0%	0,0%
Net position	**120.416.107**	**152.760.374**	**-32.344.267**	**-21,17%**	**100,0%**	**100,0%**
- short term (up to 12 months)	90.019.568	125.537.935	-35.518.367	-28,29%	74,8%	82,2%
- medium and long term (over 12 months)	30.396.539	27.222.438	3.174.100	11,66%	25,2%	17,8%

Net equity and capital ratios

Net equity

If the proposal of the draft budget approved by the Directors is accepted by the Shareholders' Meeting, the net equity as at 31/12/2017 will amount to 90.278 million compared to 90.148 million at the end of 2016, with an increase of +0.130 million.
During 2017, the increase of 0.130 million is due to:

- the increase of +0.138 million in the revaluation reserve following the valuation of shareholding at net equity;
- the formation of the 2017 net income equal to -0.008 million.

The table below shows the assets of the institution in comparison to BAC data and 2016 data:

NET EQUITY	31/12/2017	31/12/2016	CHANGE	
			ABSOLUTE	%
Share capital - subscribed and paid-up shares	20.880.080	20.880.080	0	0,00%
Ordinary reserve fund	58.395.668	58.395.668	0	0,00%
Extraordinary reserve fund	0	0	0	n.d.
Share premium reserve fund	0	0	0	n.d.
Own share reserve fund	14.378	14.378	0	0,00%
Revaluation reserves	14.789.392	14.651.105	138.287	0,94%
Retained loss	-3.793.060		-3.793.060	-100,00%
Result for the year	-7.585	-3.793.060	3.785.475	99,80%
Total	**90.278.873**	**90.148.171**	**130.703**	**0,14%**

Share capital

The share capital, fully subscribed and paid-in, amounts to € 20.880.080.00 divided into 803.080 shares with a nominal value of € 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 84.167 million, formed by Core Capital for 73.876 million (73.360 million as at 31 /12/2016).

The capital of the bank is suitable to hedge all said risks, with a Total Capital Ratio of 18.19%, 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	31/12/2017	31/12/2016	CHANGE	
			ABSOLUTE	%
Supervisory capital	**84.167.481**	**81.313.369**	**2.854.112**	**3,51%**
Core capital	**73.876.145**	**73.360.242**	**515.903**	**0,70%**
A. WEIGHTED RISK ASSETS				
A.1 Credit and counterpart risk	**462.676.445**	**486.028.615**	**-23.352.170**	**-4,80%**
net of risk positions deducted from supervisory capital	5.099.098	11.363.121	**-6.264.023**	**-55,13%**
B. TOTAL CAPITAL REQUIREMENTS				
B.1 Credit and counterpart risk	**50.894.409**	**53.463.148**	**-2.568.739**	**-4,80%**
B.2 Operating risk	**3.673.664**	**3.787.049**	**-113.385**	**-2,99%**
C. SUPERVISORY RATIOS				
C.1 Supervisory capital/weighted assets	**18,19%**	**16,73%**		

RISK ASSETS	31/12/2017	WEIGHTING FACTOR	31/12/2017	31/12/2016	WEIGHTING FACTOR	31/12/2016	CHANGE	
	RISK ASSETS		WEIGHTING VALUE	RISK ASSETS		WEIGHTING VALUE	ABSOLUTE	%
Balance sheet assets	**730.892.379**		**455.926.536**	**818.083.670**		**479.402.555**	**-23.476.019**	**-5%**
Cash	5.251.835	0%	-	4.753.240	0%	0	n.d.	n.d.
Loans secured by collaterals	8.166.841	0%	-	12.072.695	0%	0	n.d.	n.d.
Loans secured by collaterals	-	20%	-	-		0	n.d.	n.d.
Loans to or secured by States	179.760.198	0%	-	204.442.508	0%	0	n.d.	n.d.
Loans to credit entities	26.487.494	20%	5.297.499	37.474.621	20%	7.494.924	-2.197.425	-29%
Loans to supervised financial companies	8.072.653	20%	1.614.531	8.148.421	20%	1.629.684	-15.154	-1%
Loans to simplified supervised financial companies	-	40%	-	-	40%	0	n.d.	n.d.
Mortgage loans to individuals	40.610.408	50%	20.305.204	25.616.574	50%	12.808.287	7.496.917	59%
Leases - on fixed assets	49.994.692	50%	24.997.346	58.883.406	50%	29.441.703	-4.444.357	-15%
Loans to individuals	317.202.313	100%	317.202.313	356.806.475	100%	356.806.475	-39.604.162	-11%
Stocks, shares	3.705.871	100%	3.705.871	693.898	100%	693.898	3.011.974	434%
Stocks, shares		150%	-	315.000		472.500		
Cash values	888.562	20%	177.712	580.316	20%	116.063	61.649	53%
Accrued income	32.314	50%	16.157	279.958	50%	139.979	-123.822	-88%
Other assets	5.653.869	100%	5.653.869	3.231.612	100%	3.231.612	2.422.257	75%
Financial instruments to States	32.725.096	0%	-	58.589.680	0%	0	n.d.	n.d.
Financial instruments to Multilateral Development Banks		0%	-		0%	0	n.d.	n.d.
Financial instruments to Banks	-	20%	-	-	20%	0	n.d.	n.d.
Financial instruments to supervised financial companies		20%	-		20%	0	n.d.	n.d.
Financial instruments to other issuers	-	100%	-	-	100%	0	n.d.	n.d.
Non-performing loans	49.231.601	150%	73.847.402	40.744.326	150%	61.116.489	12.730.912	21%
Non-performing loans on leases	3.108.632	100%	3.108.632	5.450.941	100%	5.450.941	-2.342.309	-43%
Off-balance sheet assets	**195.319.352**		**11.849.007**	**217.617.752**		**17.989.181**	**-6.140.174**	**-34%**
Guarantees given and low risk commitments	175.970.607	0%	0	185.128.193	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	13.845.803	50%	6.346.065	18.527.737	50%	7.910.589	-1.564.524	-20%
Guarantees given and full risk commitments	5.502.942	100%	5.502.942	13.961.822	100%	10.078.592	-4.575.650	-45%
Total weighted assets	926.211.731		467.775.543	1.035.701.422		497.391.736	-29.616.193	-6%
Risk positions deducted from supervisory capital to be deducted			5.099.098			11.363.121	-6.264.023	-55%
Total weighted risk assets net of doubtful results			**462.676.445**			**486.028.615**	**-23.352.170**	**-5%**

Relations with subsidiaries and associated concerns

The transactions with investee companies 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** opened by the bank correspondence accounts for the current management of its assets whose amount at the end of 2017 was 0.009 million.
- **San Marino Life Spa** opened by the bank correspondence accounts for the current management of its assets whose amount at the end of 2017 was 1.321 million.
- **IBS Immobiliare Srl** opened by the bank correspondence accounts for 0.027 million and SAL leasing contracts for a total of 12.958 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	**31/12/2017**	**31/12/2016**
Individual limit (25% of the supervisory capital)	21.041.870	20.328.342
Total limit (8 times as much as supervisory capital)	673.339.850	650.506.952

Contractual relations with related parties		
Individual limit (20% of the supervisory capital)	16.833.496	16.262.674
Total limit (60% of the supervisory capital)	50.500.489	48.788.021

Limit to medium and long term investments		
Limit to investments (supervisory capital)	84.167.481	81.313.369
BAC medium and long term investments	101.496.901	92.652.242

Limit to medium and long term loans		
Limit to medium and long term loans (surplus + medium and long term deposits)	214.647.416	236.554.314
Medium and long term loans (residual life of loans and leasing)	209.914.272	230.723.991

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

Assets and liabilities to parent company, subsidiaries and investee companies

	31/12/2017	31/12/2016
Assets		
loans to banks	98.944.294	-
- BANCA CENTRALE	98.944.294	-
loans to customers	**13.856.918**	**14.278.717**
- SSIS SPA	859.231	911.151
- BAC FIDUCIARIA SPA	8.840	-
- IBS RENT SPA	2.491	2.491
- IBS IMMOBILIARE SRL	12.986.356	13.365.075
bonds and other debt financial instruments	-	-
Shareholdings	**4.768.052**	**4.730.450**
- SSIS SPA	446.778	420.176
- CAMERA DI COMMERCIO	1.032	1.033
-TECNO SCIENCE PARK SAN MARINO -ITALIA	11.000	
- BANCA CENTRALE SM	4.059.241	4.059.241
- CENTRO SERVIZI	**250.000**	**250.000**
Investments in bank group companies	7.453.232	7.330.401
- BAC FIDUCIARIA SPA	681.516	616.523
- IBSRENT Srl	22.689	22.689
- SAN MARINO LIFE SPA	6.429.012	6.376.188
- IBS IMMOBILIARE SRL	320.015	315.000
Other Companies	-	-
- TP@Y SPA	-	-
TOTAL ASSETS	**125.022.496**	**26.339.568**
Liabilities		
amounts due to customers	**1.864.939**	**1.480.919**
- BAC FIDUCIARIA SPA	-	480.402
- IBSRENT Srl	5.755	6.105
- SAN MARINO LIFE SPA	1.320.533	895.166
- IBS IMMOBILIARE SRL	-	11.363
- SSIS SPA	235.127	87.883
-TECNO SCIENCE PARK SAN MARINO -ITALIA	303.525	
payables represented by financial instruments	-	
- BAC FIDUCIARIA SPA	-	-
other liabilities	-	-
- BAC FIDUCIARIA SPA	-	-
TOTAL LIABILITIES	**1.864.939**	**1.480.919**
Guarantees and commitments	0	0
- guarantees given		
- commitments		

Revenues and expenses to related parties: subsidiaries and parent company

	31/12/2017	31/12/2016
Interest income and similar revenues	-	-
- SAN MARINO LIFE SPA		
Interest expense and similar charges	-	-
- BAC FIDUCIARIA SPA		
- IBS LEASING SPA		
- SAN MARINO LIFE SPA		
Dividends	**475.415**	**763.907**
- BAC FIDUCIARIA SPA	-	-
- SAN MARINO LIFE SPA	475.415	763.907
Interest margin	**475.415**	**763.907**
Commission income	**215.000**	**237.000**
- SAN MARINO LIFE SPA	215.000	237.000
- BAC FIDUCIARIA SPA		
Other net proceeds	**47.659**	**46.660**
- BAC FIDUCIARIA SPA	38.330	38.330
- IBS LEASING SPA		
- SAN MARINO LIFE SPA	9.329	8.330
Service margin	**738.074**	**1.047.567**
Intermediation margin	**738.074**	**1.047.567**
Operating costs	-	-
a) Personnel expenses	-	-
OPERATING RESULT	**738.074**	**1.047.567**

In order to strengthen the Group's governance on subsidiaries, it should be noted that the following company representatives are present in the Board of Directors of the aforementioned companies in the interest of the Parent Company BAC:

Bac Fiduciaria Spa

- members of the Board of Directors: Chairman: Pier Paolo Fabbri; Chief Executive Officer: Sandro Spadoni and Director: Daniele Savegnago.

- members of the Board of Statutory Auditors: Chairman: Corrado Taddei; Sindaco: Roberto Protti; Auditor: Vaglio Alberto.

San Marino Life Spa
- members of the Board of Directors: Chairman: Luca Lorenzi; Vice Chairman: Emanuele Rossini; Directors: Pier Paolo Fabbri, Sandro Spadoni, Chief Executive Officer: Daniele Savegnago.
- members of the Board of Statutory Auditors: Chairman: Corrado Taddei; Auditor: Lombardi Andrea; Sindaco: Andrea Belluzzi.

IBS Immobiliare Srl
- Chairman: Emanuele Rossini, Director: Sandro Spadoni; Sole Auditor: Stefania Maria Gatti.

Communication, marketing and commercial activity

In 2017 the Bank activated a communication plan aimed at promoting the new image of the Group, according to the headline “BAC, la banca che vuoi tu” (BAC, the bank you want).

To this end, the Bank designed a specific communication campaign, visible at its facilities and conveyed to newspapers, television, the web and social media.
The campaign declines the concept of “Bank, how and when the customer wants”, articulating it through:
- the availability of the home service, emphasized by the new company cars customized with the BAC logo;
- web and mobile channels, for autonomous access to information services and devices of the Bank;
- the self-service areas for deposits, wire transfers and withdrawals, accessible 24h a day and 7 days a week.

The campaign was developed through paper and digital insertions, web-marketing and TV commercials broadcast on the participated RAI San Marino RTV broadcaster.

Subsequently, during the second half of 2017, the second level of communication was designed and activated, aimed at encouraging the flow of customers and potential customers to our commercial structures. The second campaign thus defined the headline “Passa in BAC” (Become a BAC customer), understood as both an “invitation to know us” and an incentive to “change your bank”.

The second campaign also developed through paper and digital insertions, web-marketing and TV commercials broadcast on the San Marino RTV broadcaster.
Furthermore, in addition to the aforementioned media plan, public billboards were also made.

The aforementioned communication activity was and still is flanked by constant direct marketing, which involves the entire sales network with great commitment and excellent results.
In this regard, it should be noted that since October 2016, namely the start of the commercial restructuring of the Bank, over 3,000 new current account relationships have been turned on.

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:
    - private customers of the "High net worth individuals" segment managed by private branches;
    - retail customers of the affluent and mass market segment managed by retail branches;
- companies/professional activities:
    - corporate customers managed by the corporate branch;
    - small business customers managed by the 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.

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

e reorganization process of the "Commercial Network structure" completed during the year entailed the closure of 4 branches (WTC, Ciarulla, Cailungo and Faetano) in order to make the management of employees more efficient by directing these professional skills to services dedicated to customers, as well as to favor an improvement in the company cost/income.

In this regard, it should be noted that the closed facilities were located near larger branches, a circumstance that allowed the level of commercial service offered to customers to be maintained substantially unchanged.

At the same time, the Bank's "organizational structure" was revised with an important updating work, both in terms of review of the management composition and as regards operational processes, which can be summarized as follows:

- distribution of operating activities according to the "competence line" principle assigned respectively to the Administration and Finance Department and to the Sales Department;
- simplification of the Management organizational units through both mergers for homogeneous activities and the establishment of new structures (e.g.: Bad Credit Management Unit);
- reorganization of the lending process with the strengthening of the operational separation between the proposing structure (Sales network) and the operating structure (Loans Unit), the latter with autonomous decision-making powers. The loan performance trend monitoring function, previously held by the Loans Unit and now assigned to the Risk Management Unit, was also reviewed.
- the Bad Loan Management Unit was introduced for a pro-active management of the loan portfolio, which highlights some signs of difficulty. This activity was carried out alongside the person in charge of the relationship with the customer with the aim of safeguarding the credit as well as the commercial recovery of the customer.
- finally, the activity of the Litigation and Credit Recovery Unit was reorganized through the complete portfolio management of the positions managed and the implementation of the recovery monitoring processes.

Moreover, still with a view to pursuing operational efficiency, the tasks of the following Operating Units were reviewed: Litigation and Credit Recovery, AML Compliance and Legal, Centralized Services, Loans, and part of the activities were reallocated according to functional competence logics.As a result of the above, the "General Regulation of the Corporate Bodies, the General Management and the Peripheral Facilities" was updated.

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, as summarized below:

- upgrade of the OCSE rule on international tax cooperation and consequent automatic exchange of information (the so called CRS),
- compliance of CBSM provisions regarding the Guarantee Fund for Depositors,
- adjustments regarding the application of withholding taxes on interest, dividends, capital gains and income from insurance contracts dependent on the legislative provisions on general income tax,
- activation of IT procedures and related functional processes to implement the directives relating to the CIT Check Image Truncation procedure, which regulates the new methods of negotiating checks in the Italian payment system.

Specific upgrades to the IT efficiency were also activated, including:

- Electronic Overdraft Practice (PEF) adjustment for the implementation of the classifications envisaged by the San Marino central risk database (CR);
- adjustment of the MONTHLY BUDGET REPORTING programs due to the new regulatory requirements;
- activation of the procedure for monitoring the so-called "abnormal" positions, including performance data (GPA);
- activation of the Customer Relationship management procedure and the PRODUCT CATALOG for the commercial management of customers;
- activation of the SINGLE OFFICE (upgrade of front/back office IT utilities to centralize customer inquiry functions);
- integration of the EXCESS MANAGEMENT (IT upgrade for the management of excesses/surpluses).

With regard to cyber security, additional tools were implemented to protect the corporate network with advanced threat prevention and connection monitoring functions that significantly increase the security of the corporate network.
In addition to the above measures, the revision and integration of the Disaster Recovery project relating to technological safeguards for the operational continuity of the Bank's information systems was started.
The operation will represent a further streamlining of the technological structure and foresees various implementation steps, with start-up expected in the 2018 financial year and completion estimated in 18-20 months.

During the period, the consolidation of the "Electronic Money" project (issuing of new credit cards and planning of the new POS and ATM acquiring services) continued, through the payment institute T.P@Y Spa and the company Centro Servizi Srl (both legal entities are co-owned by the main San Marino Banking Institutes). During the year, the project for the definition of a new Bancomat/PagoBancomat debit card was also launched (issued by the Bank by virtue of its participation in the Italian Bancomat/PagoBancomat Consortium - COBAN), which will replace the card used currently and introduce further functions and ancillary services, the activation of which was scheduled for the second half of 2018.

In view of the aforementioned projects and the related investments, structural costs (administrative costs and depreciation of capital goods) were nevertheless optimized and decreased significantly compared to those incurred in the previous year (-2.72% compared to 2016), as shown in the detailed table below:

Description	31/12/2017	31/12/2016	absolute change	% change
Administrative expenses	5.291.562	5.199.194	92.369	1,78%
indirect tax	37.341	51.817	-14.476	-27,94%
Depreciations on capital goods	1.975.177	2.257.281	-282.104	-12,50%
	7.304.081	7.508.292	-204.211	-2,72%

Regarding regulatory adjustments, in addition to the evidence already expressed above, we report the following:

- updating of the internal regulation on the R.I.A. (Anti-Money Laundering Manager and AML Unit);
- updating of the FIA provisions on risk assessment and customer due diligence;
- issuance of provisions concerning "virtual cash" operations pursuant to FIA provisions;
- issuance of the circular on insurance mediation;
- issuance of the operational circular for the implementation of the CIT procedure;
- updating of the operating provisions on CR (San Marino central risk database).

Additional internal regulations were also issued, including:

- updating of the "foreign operations" manual managed by the Organizational Unit (Foreign OU);
- publication of the "treasury" operating manual;
- updating of the contract format for "financing services";
- updating of the "General Regulation of the Corporate Bodies, the General Management and the Peripheral Facilities" in light of the organizational changes already mentioned in the previous paragraph "Planning aspects" including updates on the "signature powers" and "management powers for the bank transfer authorization";
- updating of the operating circular on credit card management and similar services.

In addition, various regulations were issued for the credit sector, also in light of changes to the organizational structure, which are listed below:

- Credit regulation;
- Credit risk monitoring;
- Operations of the Bad Credit Management and Litigation and Credit Recovery units;
- Delegations in matters of credit granting, customer classification and withdrawal of assignments;
- Preliminary investigation and improvement of credits;
- Management of excesses/surpluses.

The logistic operations worth mentioning are:

- active management of assets in non-functional properties, both as regards the technical/operational aspects and the commercial ones

(maintenance, sales and rentals), entrusted to a resource with specific skills;
- constant updating of the functional structures (General Management and Branches) to guarantee the correct performance of the operating activities;
- updating of the main security safeguards in the physical field (tools for the management of values, extraordinary maintenance of alarm and anti-intrusion devices) and logic (evolution of dedicated software).

Staff

Evolution and composition of the Staff

The Staff in service at 31 December 2017 totaled 131 units, with a decrease of 15 resources compared to the previous year.
This difference is due to the exit of 9 resources due to voluntary resignations (of which 3 Directors, 2 Executives, 1 Manager and 3 Office Workers), the natural end of the fixed-term employment relationship of 8 resources and the entry of 2 new resources (1 Director and 1 Office Worker).
Also for the year 2017, recourse was made to secondment (Law 131/2005), and 3 resources from Group companies were employed until October, reduced to 2 resources in the last two months.
At the end of the year 7 employees were absent from service, of which 1 for trade union secondment, 1 for secondment to Group companies, 1 on post-partum leave, 1 for unpaid leave and 3 for puerperium. Three resources work part time.

In light of the above, "full time equivalent" amounted to 123.92 resources.
At the end of the year, the workforce saw the presence of 4 Directors representing 3.05% of the total, 17 Executives equal to 12.98% of the workforce, 14 Managers equal to 10.69% of the total personnel and 96 employees who have a 73.28% impact on the overall workforce.
51.20% of staff is included in the Sales Network, while 48.80% in the General Management.
The average age of personnel stands at 43.85 years.
The following tables show the composition of the workforce by qualification, by age group, by length of service and by educational qualification.

Composition by Position				
	Men	Women	Total	% Incidence
Executives	4	0	4	3,05
Officers	13	4	17	12,98
Managers	12	2	14	10,69
Clerks	50	46	96	73,28
total	79	52	131	100

Composition by Age				
	Men	Women	Total	% Incidence
Over 50	16	5	21	16,03
from 41 to 50	42	24	66	50,38
from 31 to 40	20	22	42	32,06
Up to 30	1	1	2	1,53
total	79	52	131	100

Composition by Length of Service				
	Men	Women	Total	% Incidence
Over 30	6	2	8	6,11
from 21 to 30	24	20	44	33,59
from 11 to 20	36	21	57	43,51
up to 10	13	9	22	16,79
total	79	52	131	100

Composition by Educational Qualification				
	Men	Women	Total	% Incidence
University degree	22	13	35	26,72
School diploma	55	39	94	71,76
Other	2	0	2	1,53
total	79	52	131	100

Training

BAC considers the growth of skills and professionalism of the people who work there strategic for the expansion and economic growth of the company, in addition to the development of the sense of proud

belonging to the Institute; therefore, during the year 2017, the development of human resources activities continued.
With the aim of supporting and improving the professionalism of its employees, the Bank promoted access to numerous training initiatives, welcoming the ABS proposal to organize in-house training courses with ABI teaching and promoted specific requests concerning credit matters, debt collection and control functions.
2017 saw total training hours totaling 1,088, down compared to the year 2016 exclusively due to the interruption of the English language course and the postponed anti-money laundering training hours in early 2018.

Trade union relations

The dialogue with the trade unions and the trade union representatives took place in an environment of constructive confrontation that, given the current uncertainty in the banking sector, brought out the staff's need to have employment levels guaranteed, thus avoiding the possibility of collective redundancies. With this awareness, an Agreement was signed on April 4, 2017 to ensure the stabilization of personnel in service for the three-year period 2017-2019, against the suspension of item "Conguaglio Maggiorazione Contrattuale" equal to 6.5% of the total gross economic treatment.

Year interventions on the organizational structure and internal inspections

Risk management and support control methods

The overall assessment of the Internal Control System remains "sufficiently adequate" on the basis of the results of the Internal Audit conducted during the year 2017.
The activity carried out by the entire Organizational structure continues to be efficient, in the closure of the evidence collected. The results obtained are more than satisfactory.
The Risk Management function, in charge of monitoring risks, carried out its activities in the manner and frequency established by internal regulations.
The decision to entrust the Credit Risk control function to the function was effective for the early detection of signs of deterioration of positions.
The results of the risk level analysis (i.e. credit, market, liquidity, rate) confirm the compliance with the regulatory limits set by the supervisory legislation.

The Compliance function, in ensuring appropriate management of the non-compliance risks to which the Bank is exposed, carried out inspections regarding the legislative and regulatory provisions issued by the Supervisory Authority, the Internal Measures concerning the Consolidated Texts, the Operative manuals, the Circulars, the Service Communications and the contracts in general. Full organizational and regulatory compliance was noted on all.
Control actions were also carried out in specific areas, the activity was completely compliant with the provisions.
The Anti-Money Laundering Manager (RIA), as per the internal regulations and the plan of the interventions, carried out constant and continuous monitoring of the risks regarding the prevention and combating of money laundering and terrorist financing.
The resolutions of the State Congress concerning the fight against money laundering and terrorist financing were regularly brought to the attention of the Administrative Body in compliance with the provisions.
All the control functions, in the management of the processes, maintain a continuous critical interaction through periodic moments of comparison and reciprocal exchange of information flows. The Board of Statutory Auditors avails itself of the support of the control functions for the relevant verifications.

Charity

BAC has always paid great attention to socially oriented charitable initiatives characterized by high ethical values. Therefore, also in the past 2017 and in compliance with the resolution of the Shareholders' Meeting on 05/05/2017, the Bank's Board of Directors supported the following associations during the past financial year:

- Associazione Oncologica Sammarinese,
- San Marino Paralympic Committee,
- San Marino Rotary Club,
- Borgo Maggiore Madonna della Consolazione Parish,
- Kiwanis International Cultural Association,
- San Marino cerebral aging pathologies association,
- Festa di Casole Committee,
- Festa di San Rocco Committee.

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 2018, the International Monetary Fund (hereinafter also the "IMF"), carried out the usual follow-up, after the mission undertaken in 2016 in our Republic, to assess its rating, the economic attractiveness and the soundness of the financial system also in light of possible loan interventions. BAC was chosen as the main interlocutor of the San Marino private banking sector, and therefore it hosted the delegation where the Bank's main statistical data were presented; an effective comparison emerged on the main topics of the financial and banking sector.
The IMF mission also requested the Supervisory Authority to update the data related to the exercise of the Asset Quality Review on the evidence as at 30/06/2017 and by February 2018 the information was transmitted with the details and segmentations requested.
In 2018 BAC also sold the shares of Techno Science Park San Marino Italia to the Ecc.ma Camera, as requested by letter of 13/01/18 by the Industry Secretary to all participating credit institutions, paying a price equal to the nominal value of the shares equal to the investment in the company.
However, the San Marino Executive Committee underlined the intention to maintain a strong involvement of the banking and financial system in the development projects of the Body.

Business outlook

In 2018 the Bank will continue renewing and improving the efficiency of the Banking Group through the following directories:

- Strong focus on the most profitable business priorities with less capital absorption;
- Careful management of the credit provision process through a new selection of investment opportunities;
- Accurate "in-house" management of the NPL stock, whose net value is expected to be significantly reduced;
- Further significant provisions for credit risk funds;
- Accurate risk management through specific "mapping" of the "BAC Risk Universe", in order to accurately monitor the management risks of the entire Group;
- Further reduction in management expenses, with a consequent reduction in the cost-income ratio;
- Strong determination in the commercial development of the subsidiaries, in particular BAC Investments SG;
- Full recognition of the expected profits to increase the regulatory capital.

In light of the objectives set in the budgeting process, the Bank expects to close the future years profitably. Therefore, it will be able to fully absorb both the loss generated in 2016 and the modest loss recorded in the current year (2017).

* * * * * * * * * * *

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 31/12/2017 along with this report and to deliberate on carrying forward the 2017 loss in the year 2018 (-0.0075 million), which will be added to the loss of financial year 2016, also "carried forward" (-3.793 million).
With the aforementioned approval, the composition of corporate assets will be as follows:

NET EQUITY	31/12/2017
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	14.789.392
Retained loss	-3.800.644
Result for the year	0
Total	**90.278.873**

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

San Marino, 13 April 2018

Chairman of the Board
of Directors

5

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

BAC

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

"Board of Statutory Auditors' Report to the Shareholders' Meeting of Banca Agricola Commerciale Istituto Bancario Sammarinese S.p.A. pursuant to article 83 L.47/2006 as amended"

Dear Shareholders,

with this Report the Board of Statutory Auditors reports on the supervisory activity carried out during the year ended 31 December 2017, in compliance with current legislation, taking into account the behavioral principles recommended by Professional Associations and referring to the Articles of Association and Legislative Regulations governing the formation of the Financial Statements.

The text of the Report that we submit to the Assembly includes news, data and information that this Board deemed, in its independent assessment, appropriate to provide to the Bank's shareholders.

The Board examined the draft financial statements for the year ended on 31 December 2017, which were prepared by the Directors and submitted to the Board, together with the management report, the tables and the annexes.

During the year, we carried out our assignment and monitored the observance of the law and company by-laws, in compliance with the principles of correct administration, the adequacy of the internal control system and the administrative-accounting system, as well as the reliability of the latter in correctly representing management facts on the modes of effectively implementing corporate governance rules. We report on this activity through this document that we submit to the Assembly.

1. Results of the year

The financial statements as at 31 December 2017, which are submitted to the approval of the Shareholders' Meeting, present a loss of € 7,585 resulting from the positive and negative income components analytically indicated in the Profit and Loss Account and broadly illustrated in both the Management Report of the Board of Directors and the Explanatory Notes, documents to which the Board of Statutory Auditors refers.

In particular, the Bank's financial statements for the year ended 31 December 2017 show:

- net equity of € 90,278,873;
- - own funds for supervisory purposes equal to € 84,167,481;
- - "total capital ratio" solvency ratio of 18.19%;
- - allocation of the lump-sum and analytical devaluations fund equal to € 40,937,416. The loan coverage degree at the end of the 2017 financial year is equal to 7.01%, compared to 6.18% of the previous year.

2. Activities of the Board of Statutory Auditors

With regard to the modes of carrying out our institutional activity, we formulate the following considerations.
The information acquired on the most important economic, financial and equity transactions carried out by the Bank made it possible to ascertain compliance with the Law and the Articles of Association and compliance with the corporate interest; we also believe that these operations, fully described in the Management Report, do not require specific observations by the Board.
We acquired adequate information on transactions with related parties. No transactions of an atypical or unusual nature with related parties or with third parties were carried out.
We read the report on the financial statements issued on 16 April 2018 by the auditing company BDO Italia S.p.A., which does not highlight any findings, exceptions or reservations. By way of information, the auditing company reports what is specified by the Directors in the specific explanatory notes to the financial statements regarding the foreseeable evolution of operations in accordance with the 2017-2019 three-year plan approved at the meeting on 1 March 2017.
The auditing company, as per previous meetings, reported on the work carried out for the audit and the absence of situations of uncertainty and limitations in the audits carried out.
We hereby acknowledge that during the year no complaints were filed with the Board of Statutory Auditors pursuant to article 65 of Law n. 47/2006 and subsequent amendments.
During the financial year 2017, we participated in 21 meetings of the Board of Directors, and obtained, in compliance with current legislation, timely and appropriate information on the general management trend and its foreseeable evolution, as well as on the most significant transactions, by size or characteristics, carried out by the Bank.
In particular, the decision-making process of the Board of Directors appeared to us to be correctly inspired by the respect for the fundamental principle of acting knowledgeably.
In 2017, we held eighteen meetings of the Board of Statutory Auditors.
We monitored compliance with the principles of correct administration, through direct observations, gathering of information from the heads of company functions, constant connection with the auditing company, the internal audit function, the compliance and anti-money laundering function, and the risk management function, for the purpose of the mutual exchange of relevant data and news. In particular, we took note of the work done by the internal audit and compliance functions, of which we attest to hierarchical and functional independence. We examined the general aspects, the management

processes and the methods of measuring the risks inherent in and connected to the Bank's activities, as well as their suitability and effectiveness in dealing with the emergence of serious, persistent, widespread and generalized difficulties. We followed the evolution of the management according to the pre-established strategic objectives, as well as the evolution of the organizational changes in line with the aforementioned objectives, also verifying that the constant updating of the information apparatus was maintained.
In addition to the above, we acquired knowledge of and supervised, as far as we are responsible, the compliance with the fundamental criterion of the sound and prudent management of the Bank and the more general principle of diligence, all on the basis of our participation in the meetings of the Board of Directors, the documentation and timely information received from the various management bodies in relation to the transactions carried out by the Bank, as well as periodic analyzes and audits.
The information acquired made it possible to verify that the actions resolved and implemented were compliant with the Law and the Articles of Association and that they were not manifestly imprudent or risky, in potential conflict of interests or in conflict with the resolutions adopted by the Shareholders' Meeting, or detrimental to the rights of members and third parties.
We found that the Bank adopted a suitable risk management policy, which is shown in the explanatory notes.
Furthermore, the Management Report summarizes the relationships with the group companies.
We monitored the appropriate definition of the delegated powers and the evolution of the Bank's organizational structure.
In 2017, a significant number of internal regulations, which also complied with the provisions of the regulations and general regulations of the Supervisory Authorities, were produced and adopted.
The Bank, in line with the law and supervisory regulations, adopted a system of internal controls that is suitable for detecting, measuring and verifying the risks typical of its activity.
The internal control system is periodically subject to ascertainment and adjustment in relation to the evolution of company operations and the reference context. In particular, internal auditing is performed by the internal audit function, which reports the results of its activities directly to the Board of Directors and the Board of Statutory Auditors.
We believe that this system is adequate to the Bank's management characteristics and meets the requirements of efficiency and effectiveness in monitoring risks and in compliance with internal and external procedures and provisions.
To the extent of our competence, we evaluated the reliability of the administrative and accounting system in correctly incorporating and representing

management events both by means of direct surveys on accounting documents, and through information obtained from the managers of the various functions, periodic meetings with the auditing firm and the analysis of the results of the work carried out by the same.
We acknowledge that our supervisory activity took place on a normal basis and that no significant facts emerged that would require mentioning in our report.

3. Remarks and proposal regarding the financial statements and their approval

As for the monitoring of the correct keeping of accounts and recording of management events in the accounting records, as well as the correspondence checks between the financial statement information and the results of the accounting entries and the compliance of the financial statements with the law, it should be noted that these tasks are entrusted to the auditing company BDO Italia S.p.A. For our part, we monitored the general approach given to the financial statements.
In particular, having first established, through our meetings with the heads of the departments involved and the independent auditors, the adequacy of the administrative and accounting system to correctly incorporate and represent the management facts and translate them into reliable data systems for external information, we monitored its general structure and compliance with the law as regards its formation and structure, and in this regard the Board of Statutory Auditors has no particular observations to report.
We believe that the information submitted to the Assembly meets the provisions and contains a faithful, balanced and comprehensive analysis of the Bank's situation, the progress and the operating result.

Dear Shareholders,
taking into account all the foregoing and considering the content of the Report prepared by the auditing company and the reference to disclosure, the Board of Statutory Auditors finds no impediment to the approval of the financial statements for the year ended 31 December 2017, as prepared by the Directors.

San Marino, li 24 April 2018

Rag. Gian Enrico Casali (Chairman)
Dott.ssa Stefania Gatti (Auditor)
Avv. Alberto Vaglio (Auditor)

2017 Financial Statements

BAC

A. Statement of assets

Item code	Statement of assets	31/12/2017	31/12/2016
10	**Cash and cash equivalents**	**6.140.397**	**5.333.556**
20	**Treasury Securities and other financial instruments eligible for refinancing with central banks**		
	Treasury Securities and other similar financial instruments		
	Other financial instruments eligible for refinancing with central banks		
30	**Loans to banks**	**121.200.553**	**153.148.166**
	At sight	67.301.684	88.912.764
	Other credits	53.898.869	64.235.402
40	**Loans to customers**	**446.368.389**	**456.036.478**
	At sight	186.734.960	169.933.325
	Other credits	259.633.429	286.103.153
50	**Bonds and other debt financial instruments**	**32.725.096**	**58.589.680**
	Public issuers	32.725.096	58.589.680
	Banks		
	Investors (investment firms)		
	Other issuers		
60	**Stocks, shares and other capital instruments**	**6.809.007**	**4.520.231**
70	**Shareholdings**	**4.768.052**	**4.730.450**
	Financial enterprises	4.059.241	4.059.241
	Non-financial enterprises	708.811	671.209
80	**Investments in bank group companies**	**7.453.232**	**7.330.401**
	Financial enterprises	7.110.528	6.992.712
	Non-financial enterprises	342.704	337.689
90	**Intangible fixed assets**	**1.598.958**	**2.122.446**
	Financial leases		
	- of which assets being constructed		
	Assets awaiting financial lease for lease termination		
	- of which for breach by tenant		
	Assets from credit recovery		
	- of which assets for credit discharge through settlement agreement		
	Goodwill		32.498
	Start-up costs		
	Other intangible fixed assets	1.598.958	2.089.948
100	**Tangible fixed assets**	190.195.291	202.803.421
	Financial leases	93.809.146	115.166.013
	- of which assets being constructed	14.253.575	15.797.832
	Assets awaiting financial lease for lease termination	2.620.786	5.656.428
	- of which for breach by tenant	2.620.786	5.656.428
	Assets from credit recovery	63.536.379	50.646.404
	- of which assets for credit discharge through settlement agreement	63.536.379	50.646.404
	Land and buildings	29.507.601	30.330.395
	Other tangible fixed assets	721.379	1.004.181
110	Subscribed share capital not paid-in		
	- of which called capital		
120	Own shares or stocks	**14.378**	**14.378**
130	Other assets	**109.498.985**	**89.809.676**
140	Accrued income and prepaid expenses	**469.861**	**271.832**
	Accrued income and prepaid expenses	32.314	47.315
	Prepaid expenses	437.547	224.517
150	Total assets	**927.242.199**	**984.710.715**

A. Statement of liabilities

Item code	Statement of liabilities	31/12/2017	31/12/2016
10	**Amounts due to banks**	**784.447**	**387.792**
	At sight	784.447	387.792
	Term or with notice		
20	**Amounts due to customers**	**413.157.964**	**423.982.098**
	At sight	394.485.471	412.458.637
	Term or with notice	18.672.493	11.523.461
30	**Paybles represented by financial instruments**	**293.871.718**	**351.562.596**
	Bonds		
	Certificates of deposit	293.871.718	351.562.596
	Other financial instruments		
40	**Other liabilities**	**114.078.939**	**98.831.262**
	- of which outstanding checks and similar securities	845.016	3.606.831
50	**Accrued expense and deferred income**	**78.517**	**72.072**
	Accrued expense and deferred income	12.511	19.677
	Deferred income	66.006	52.395
60	**Severance**	**609.394**	**1.008.210**
70	**Reserves for risks and charges**	**2.366.203**	**2.696.783**
	Provision for pensions and similar obligations		
	Tax reserves	916.930	1.044.172
	Other reserves	1.449.273	1.652.611
80	**Risk provisions for credits**		
90	**Provisions for general banking risks**		
100	**ubordinate liabilities**	**12.016.144**	**16.021.731**
110	**Share capital**	**20.880.080**	**20.880.080**
120	**Share premium reserves**		
130	**Reserves for risks and charges**	**58.410.046**	**58.410.046**
	Ordinary reserves	58.395.668	58.395.668
	- of which tax-suspended Riserves	1.227.968	1.227.968
	Own share reserves	14.378	14.378
	Extraordinary reserves		
	Other reserves		
140	**Revaluation reserves**	**14.789.392**	**14.651.105**
150	**Retained earnings (losses) (+/-)**	**-3.793.060**	
160	**Net income (loss) for the period (+/-)**	**-7.585**	**-3.793.060**
170	**Total liabilities**	**927.242.199**	**984.710.715**

Guarantees and commitments

Code	Items	31/12/2017	31/12/2016
10	**Guarantees given**	**17.704.978**	**26.192.920**
	Acceptances	2.340.201	1.496.369
	Other guarantees	15.364.777	24.696.551
20	**Commitments**	**3.418.819**	**13.404.648**
	For specific use		
	- of which financial instruments		
	or unspecific use	2.163.767	1.968.852
	- of which financial instruments		
	Other commitments	1.255.052	11.435.796
	Total	**21.123.797**	**39.597.568**

Profit and Loss Account

Item code	Profit and Loss Account items	31/12/2017	31/12/2016
10	**Interest income and similar revenues**	**19.660.079**	**23.782.291**
	On amounts due from banks	82.390	217.588
	On loans to customers	19.041.146	21.676.776
	On debt securities	536.543	1.887.928
20	**Interest expense and similar charges**	**4.923.553**	**7.768.679**
	on amounts due to banck	1.627,00	1.213
	On payables to customers	839.331,00	1.249.580
	On bond payables	4.082.595,00	6.517.886
	- of which on subordinate liabilities	212.212,00	295.199
	Interest margin	**14.736.526**	**16.013.612**
30	**Dividends and other revenues**	**475.415**	**918.907**
	On stocks, shares and other variable-income securities		
	On shares		155.000
	On group company shares	475.415	763.907
40	**Commission income**	**4.465.221**	**4.985.395**
50	**Commission expense**	**841.463**	**748.561**
60	**Profit (losses) on financial transactions (+/-)**	**397.399**	**-1.369.436**
70	**Other operating income**	**16.806.786**	**17.836.731**
80	**Other overhead costs**		
	Intermediation margin	**36.039.884**	**37.636.649**
90	**Administrative expenses**	**14.927.927**	**16.112.812**
	Personnel expenses	9.599.023	10.891.646
	- salary and wages	6.897.365	7.760.195
	- welfare contributions	1.769.013	2.008.921
	- severance	618.979	729.115
	- Dormancy and similar		
	- directors and auditors	254.563	240.443
	- other personnel expenses	59.103	152.972
	Other administrative expenses	5.328.904	5.221.166
100	**Intangible asset adjustments**	**739.939**	**947.271**
110	**Tangible asset adjustments**	**16.388.476**	**17.501.279**
120	**Provisions for risks and charges**	**71.000**	**348.000**
130	**Provisions for risks on credits**		
140	**Value adjustments for loans and provisions for guarantees and commitments**	**4.691.353**	**6.069.679**
150	**Writebacks on loans and on provisions for guarantees and commitments**		
160	**Financial asset adjustments**		
170	**Financial asset writebacks**		
180	**Operating income (loss)**	**-778.811**	**-3.342.391**
190	**Extraordinary income**	**1.131.081**	**610.964**
200	**Extraordinary expense**	**132.894**	**446.070**
210	**Extraordinary income (loss)**	**998.187**	**164.894**
220	**Taxation for the year**	**226.961**	**615.563**
230	**Variations in general banking risk reserves (+/-)**		
240	**Income (loss) for the period**	**-7.585**	**-3.793.060**

Explanatory notes to the 2017 financial statements

BAC

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

PART A
Accounting principles – Corporate merger

SECTION 1
Illustration of accounting principles

SECTION 2
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PART B
Information on the Statement of Assets and Liabilities

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Other information

Structure and content of the financial statements

The financial statements for the year 2017 were prepared in accordance with the provisions of Regulation no. 2016-02 on the preparation of corporate financial statements and consolidated financial statements of authorized entities issued on 31 August 2016 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' management report, 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 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.
The tables in the notes to the financial statements provided for by the 2017/03 application circular of Reg.2016/02, whenever being zero and non-significant for Banca Agricola Commerciale Spa for the illustration of stock and flow data of the activity carried out by the company, are not contained in this document.

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 Credit Institutions (asset item no. 30): this item shows all loans to banks, whatever their technical form is, except for those represented by financial instruments, which require posting under item no. 50 "Bonds and other debt financial instruments".
Loans to credit institutions 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. 40): 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 debt financial instruments".
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 business performed and any guarantees issued.
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 CBSM 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)

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, and consider the risk that is historically hidden in the loan portfolio. In determining these adjustments, any analytical write-downs already made with regard to individual positions are taken into account. In the absence of adequate historical series able to ensure statistical robustness, the flat-rate write-down is left to the prudent evaluation of the administrative bodies.

Bonds and other debt financial instruments (asset item no. 50):
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.
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.4 of BCSM regulation 2016-02, only if they are destined to stable investments by the bank.

More specifically:
Investment 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 5 of art III.II.5 of BCSM Regulation 2016-02:
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.

Shareholdings (asset items no. 70 and 80)
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. 90)
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. 100)

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.

Operazioni attive di locazione finanziaria (leasing – voce 100 dell'attivo)

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.7.

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. 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 Credit Institutions (liability item no. 10)
This item shows all the amounts due to domestic or foreign banks whatever their technical form, except for those represented by bonds or other securities which require to be posted under liability items no. 30 and 100.
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.

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 CBSM Regulation 2007/07. 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 130 – 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. 140 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.
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.

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 unused holiday fund;
- the fund for contractual rises in employee wages in view of the gap between contracts existing until 31/12/2010.

Provisions for risks on credits (item no. 80)
Credit risk funds include all the funds that are intended to cover only possible credit risks and which therefore do not have an adjustment function. The provision for the credit risk fund is made through specific provisions recorded in the profit and loss account under item 130 "Provisions for risks on credits" and not through the allocation of profit for the year.

Reserves (liability item no. 130)
The ordinary reserve consists of the allocation of profits formed in previous years as required by the articles of association. Furthermore, it contains the reconstruction of the suspended taxation reserve following the extraordinary demerger operation by reverse incorporation of the company Istituto Bancario Sammarinese Spa, which occurred in November 2012, in application of the law deriving from the tax deduction for increases of the own capital established by Delegated Decree no. 172 of 26/10/2010, subsequently replaced with the law 166/2013 art.74. According to the aforementioned legislation, article 78 establishes that the suspended taxation reserves recorded in the last financial statements of the demerged company must be reconstituted by the beneficiaries according to the proportional shares. In the event of a partial demerger, the reserves of the demerged company are reduced accordingly. If the tax suspension depends on events concerning specific assets of the demerged company, the reserves must be re-established by the beneficiaries who acquire such elements.

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 unspecific use, which may lead to credit risks (e.g. the margins available on irrevocable credit lines granted to customers or banks).
The commitments arising from derivative contracts are valued on the basis of their notional value.

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.

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 Litigation and Credit Recovery Unit for impaired positions. Allocations to the "Exempt Provision for risks on credits" 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.

PART B – Information on the Statement of Assets and Liabilities

Asset item no. 10

Table 1.1. – breakdown of item 10 "Cash and cash equivalents"

	31/12/2017	31/12/2016	Changes	
Cash and cash equivalents:			**amount**	**%**
€ cash	3.720.912	3.219.917	500.995	15,56%
Foreign currency cash	754.409	760.655	-6.246	-0,82%
ATM cash	732.595	723.570	9.025	1,25%
€/foreign currency cheques	888.562	580.316	308.246	53,12%
Other	43.919	49.097	-5.179	-10,55%
Total	**6.140.397**	**5.333.556**	**806.841**	**15,13%**

Asset item no. 30

Table 3.1 – Loans to Banks

A. Breakdown of item 30 in asset postings: "Loans to banks" (3.1)	**31/12/2017**		**31/12/2016**	
Details by technical form/currency	**In EUR**	**In foreign currency**	**In EUR**	**In foreign currency**
At sight	64.106.019	3.195.665	81.879.981	7.032.782
Reciprocal accounts opened for services rendered	61.560.864		70.222.973	
Current accounts	2.545.155	3.195.665	11.657.008	7.032.782
Other				
Other loans		3.502.330	62.222.438	2.012.964
Time deposits		3.502.330	62.222.438	2.012.964
Current accounts				
Repurchasing agreements				
Repurchasing agreements				
TOTAL	114.502.558	6.697.995	144.102.420	9.045.746
GENERAL TOTAL	**121.200.553**		**153.148.166**	

The breakdown of loans to banks shows a decrease in sight deposits on current accounts for services of € 8,662,110 and on the other current accounts for € 12.948.970 due to a downsizing of deposit masses partly attributable to the last remaining capital repatriation towards Italy for the so-called "Voluntary disclosure" launched in 2015 and to the microeconomic dynamics that saw the Republic still suffer from a systemic crisis. The breakdown of the other loans to Credit Institutions also reflects the contraction in deposit volumes. It should be noted that the item "Time deposits" includes the time deposit for Compulsory Reserve in Central Bank amounting to € 28,125,985, established by decree no. 163 of 3 December 2009, whose contribution percentage was raised by a basis point starting from November 2017, three-month deposits to the Central Bank for € 20,000,000 and overnight deposits on foreign banks in dollars, for a counter-value of € 3,502,331.

Table 3.2 – Situation of cash loans to banks

B. Situation of cash loans to banks (3.2)	**31/12/2017**			**31/12/2016**		
Categorie / Valori	**Gross exposure**	**Total value adjustments**	**Net exposure**	**Gross exposure**	**Total value adjustments**	**Net exposure**
Doubtful loans		-	-	-	-	-
Non-performing loans			-			-
Substandard loans			-			-
Restructured loans			-			-
Past due/overdrawn loans			-			-
Unsecured loans to at-risk countries			-			-
Crediti in bonis	121.200.553		121.200.553	153.148.166		153.148.166
of which from financial leasing transactions						
TOTAL	**121.200.553**	**-**	121.200.553	**153.148.166**	**-**	**153.148.166**

Table 3.3 – Dynamics of doubtful loans to banks (3.3)

C. Dynamics of doubtful loans to banks (3.3)	31/12/2017					31/12/2016				
Causali / Categorie	**Non-performing loans**	**Sub-standard loans**	**Restructured loans**	**Past due / overdrawn loans**	**Unsecured loans to at-risk countries**	**Non performing loans**	**Sub-standard 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										
Collections										
Sales revenues										
Other decreases										
Closing gross exposure as of 31 Dec 2017	-	-	-	-	-	-	-	-	-	-
- of which for accrued interest										

Table 3.4 – Dynamics of total value adjustments of Loans to Banks

D. Dynamics of total value adjustments of “Loans to banks” (3.4)	31/12/2017						31/12/2016					
Reason codes / Categories	**Non-performing loans**	**Substandard loans**	**Restructured loans**	**Past due / overdrawn loans**	**Unsecured loans to at-risk countries**	**Performing loans**	**Non-performing loans**	**Substandard loans**	**Restructured loans**	**Past due / overdrawn loans**	**Unsecured loans to at-risk countries**	**Performing loans**
Opening value adjustments												
Increases	-	-	-	-	-	-	-	-	-	-	-	-
Value adjustments												
- of which for accrued interest												
Utilizations of risk provisions for loans												
Transfers from other credit categories												
Other increases												
Decreases	-	-	-	-	-		-	-	-	-	-	-
Writebacks from valuation												
- of which for accrued interest												
Writebacks from collection												
- of which for accrued interest												
Cancellations												
Transfers to other credit categories												
Other decreases												
Closing value adjustments as of 31 Dec 2017	-	-	-	-	-	-	-	-	-	-	-	-
- of which for accrued interest												

Table 3.5 – Breakdown of Loans to Banks based on residual life

Breakdown of "Loans to banks" based on residual life (3.5)		
Maturity	**31/12/2017**	**31/12/2016**
At sight	67.301.684	88.912.764
From 1 day to 3 months	23.502.331	36.897.392
From 3 to 6 months		115.572
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	30.396.538	27.222.438
TOTAL	**121.200.553**	**153.148.166**

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 € 24,943,906.

Asset item no. 40

Table 4.1 – Breakdown of item no. 40 Loans to Customers

A. Breakdown of item 40 in asset postings "Loans to customers" (4.1)				
Categories / Currencies	**31/12/2017**		**31/12/2016**	
	In EUR	**In foreign currency**	**In EUR**	**In foreign currency**
At sight / non-revolving	184.882.397	1.852.563	167.815.152	2.118.173
Current accounts	50.041.185	451	59.378.531	18.821
Other	134.841.212	1.852.112	108.436.621	2.099.352
Other Loans	259.633.429	-	285.547.015	556.138
Current accounts	5.033.022		15.539.303	
Discounted and s.t.c. portfolio	4.828.743		6.924.725	
Repurchasing agreements				
Other loans	249.771.664		263.082.987	556.138
TOTAL	444.515.826	1.852.563	453.362.167	2.674.311
GENERAL TOTAL	**446.368.389**		**456.036.478**	

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 4.2 – Secured loans to customers
The following table shows all types of secured loans

B. Guaranteed loans to customers (4.2)				
Categories / Currencies	**31/12/2017**		**31/12/2016**	
	In EUR	**In foreign currency**	**In EUR**	**In foreign currency**
From mortages	108.109.800		122.242.285	
From lien on:	20.518.448	-	15.248.687	-
Cash deposits	6.724.738		7.680.081	
Securities	5.894.181		5.006.363	
Other	7.899.529		2.562.243	
From guarantees:	283.004.092	-	309.020.937	-
Public administrations	46.068.910		47.892.614	
Monetary financial institutions	3.858.620		3.897.177	
Investment funds other than money market funds				
Other financial institutions			6.235.813	
Insurance companies				
Pension funds		-		-
Non-financial companies	197.283.293		200.188.193	
Households and non-profit institutions serving households	34.476.239		49.723.067	
Households and family businesses	34.476.239		49.723.067	
Non-profit institutions serving households				
Other	1.317.030		1.084.073	
Total	**411.632.340**		**446.511.909**	

Table 4.4 –Situation of cash loans to customers

C. Situation of cash loans to customers (4.4)	**31/12/2017**			**31/12/2016**		
Categories / Values	**Gross exposure**	**Total value adjustments**	**Net exposure**	**Gross exposure**	**Total value adjustments**	**Net exposure**
Doubtful loans	157.518.110	38.412.427	119.105.683	158.136.008	35.780.005	122.356.002
- of which from financial leasing transactions	24.371.160	4.389.216	19.981.944	25.795.165	4.090.339	21.704.825
Non-performing loans	78.260.197	25.919.964	52.340.233	67.919.851	21.724.584	46.195.267
- of which from financial leasing transactions	9.205.239	2.546.222	6.659.017	12.005.078	2.327.787	9.677.291
Bad loans	56.128.963	7.192.920	48.936.043	72.755.065	8.765.016	63.990.049
- of which from financial leasing transactions	15.165.921	1.842.994	13.322.927	13.790.087	1.762.553	12.027.534
Restructured loans	22.798.067	5.296.220	17.501.847	17.334.779	5.289.181	12.045.598
- of which from financial leasing transactions			-			-
Past due / overdrawn loans	319.106	3.309	315.797	122.058	1.221	120.838
- of which from financial leasing transactions			-			-
Unsecured loans to at-risk countries	11.777	14	11.763	4.256	5	4.250
Performing loans	426.217.627	2.524.989	423.692.638	456.741.119	2.238.202	454.502.917
- of which from financial leasing transactions	83.544.463	2.081.785	81.462.678	106.167.830	1.803.127	104.364.703
TOTAL	**583.735.737**	**40.937.416**	**542.798.321**	**614.877.127**	**38.018.207**	**576.858.919**
- of which from financial leasing transactions	107.915.623	6.471.001	101.444.622	131.962.994	5.893.466	126.069.528

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 by the bank as prudentially not recoverable, for € 76,261 and € 449,751 on impaired loans which were analytically written down as illustrated above.

Table 4.4 – Dynamics of doubtful loans to customers

D. Dynamics of doubtful loans to customers (4.4)	**31/12/2017**				
Reason codes / Categories	**Non-performing loans**	**Substandard loans**	**Restructured loans**	**Past due / overdrawn loans**	**Unsecured loans to at-risk countries**
Opening gross exposure	67.919.851	72.755.065	17.334.779	122.058	4.256
- of which for accrued interest	1.695.710	840.686			
Increases	22.578.780	33.676.139	5.626.888	425.740	1.432.842
Inflows from performing loans	1.130.532	14.981.756	5.626.844	337.487	
Inflows from other categories of doubtful loans	19.554.948	11.115		473	
Accrued interest	77.133	449.751		1.093	8
Other increases	1.816.167	18.233.517	44	86.687	1.432.834
Decreases	12.238.434	50.302.241	163.600	228.692	1.425.321
Outflows to performing loans		856.186		6.227	
Outflows to other categories of doubtful loans		19.374.180		26.341	473
Cancellations	943.354	413.857			
Collection	6.478.548	20.216.393	163.600	192.405	1.424.848
Sales revenues					
Other decreases	4.816.532	9.441.625		3.719	
Closing gross exposure as of 31 Dec 2017	**78.260.197**	**56.128.963**	**22.798.067**	**319.106**	**11.777**
- of which for accrued interest	1.675.227	1.044.292			

As for non-performing loans:

- the other decreases amounting to € 4,816,532 include € 4,716,465 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.

As for bad loans:

- the other decreases amounting to € 9,441,625 include € 8,654,288 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.

D. Dynamics of doubtful loans to customers (4.4)	31/12/2016				
Reason codes / Categories	**Non-performing loans**	**Substandard loans**	**Restructured loans**	**Past due / overdrawn loans**	**Unsecured loans to at-risk countries**
Opening gross exposure	76.125.128	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	
Inflows from other categories of doubtful loans	11.570.958	2.069.417			
Accrued interest	207.675	397.081	-	1.458	
Other increases	917.665	9.827.024	315	2.562.864	406.862
Decreases	20.996.823	39.490.220	664.096	14.931.453	936.190
Outflows to performing loans	-	2.238.243	-	501.134	-
Outflows to other categories of doubtful loans		11.380.539			
Cancellations	4.563.115	819.430	-	-	-
Collection	1.692.786	12.080.017	664.096	3.566.866	932.239
Sales revenues	-		-	-	-
Other decreases	14.740.922	12.971.991	-	10.863.453	3.951
Closing gross exposure as of 31 Dec 2017	**67.919.851**	**72.755.065**	**17.334.779**	**122.058**	**4.256**
- of which for accrued interest	1.695.710	840.686			

After a number of periods that mark an increase of impaired loans, due to the worsened economic situation and the year 2016 in which a downsizing and an effective reduction of impaired loans were made, 2017 saw a stabilization of the latter, sign of the virtuous effects triggered by the management of the quality of their jobs through a rigorous evaluation and reclassification policy undertaken in recent years. We also point out that following the amendment of CBSM Regulation 2007/07 implementing CBSM 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 assets is equal to € 2,620,786 and their changes are explained in the relevant table below. Impaired loans decreasing by € 617,899 show a level of coverage equal to 24.39% against 23.63% in the previous year, thus confirming that the write-downs made prudentially cover all classes of loans as detailed in table 4.5 here below. During 2017, write-offs were made for loans considered unrecoverable amounting to € 1,357,211, as well as important recoveries on impaired and non-performing loans amounting to € 26,694,941. 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 € 163,600.

Table 4.5 – Dynamics of total value adjustments of loans to customers

E. Dynamics of total value adjustments of loans to customers (4.5)	**31/12/2017**					
Reason codes / Categories	**Non-performing loans**	**Substandard loans**	**Restructured loans**	**Past due / overdrawn loans**	**Unsecured loans to at-risk countries**	**Performing loans**
Opening total adjustment balance	21.724.584	8.765.016	5.289.181	1.221	5	2.238.202
Increases	7.118.392	3.160.804	56.268	3.206	13	615.057
Value adjustments	3.529.936	3.153.299	50.184	2.808	13	492.431
- of which for accrued interest	77.133					
Utilizations of risk provision on credits						
Transfers from other credit categories	3.541.444	7.322	6.084	398	-	122.626
Other increases	47.012	183				
Decreases	2.923.012	4.732.899	49.229	1.118	4	328.271
Writebacks from valuation	1.061.575	923.690		784	4	266.843
- of which for accrued interest						
Writebacks from collection	917.313	-	49.229	-	-	47.013
- of which for accrued interest						
Cancellations	943.354	413.857				
Transfers to other credit categories	770	3.395.352		334	-	14.415
Other decreases						
Closing total adjustment value as of 31 Dec 2017	**25.919.964**	**7.192.921**	**5.296.220**	**3.309**	**14**	**2.524.988**
- of which for accrued interest	1.695.710					

E. Dynamics of total value adjustments of Loans to customers (4.5)	31/12/2016					
Reason codes / Categories	**Non-performing loans**	**Substandard 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					

The dynamics of value adjustments also underline the Bank's commitment to continue with the disposal of impaired loans, raising the adjustment fund to € 40,937,416 in 2017, compared to € 38,018,219 in 2016 which, net of uses for write-offs, was provisioned, during the year, with € 4,691,353. Therefore, the total coverage is equal to 7.01% of which: at 0.59% on performing loans, at 1% past due loans, at 23.23% on restructured loans, at 12.81% on substandard loans and at 33.12% on non-performing loans.

Table 4.6 – Breakdown of Loans to customers based on residual life

F. Breakdown of "Loans to customers" based on residual life (4.6)		
Maturity	**31/12/2017**	**31/12/2016**
At sight	118.156.642	122.820.889
From 1 day to 3 months	36.759.111	45.950.418
From 3 to 6 months	22.265.759	24.331.049
From 6 months to 1 year	24.813.464	28.722.340
From 1 year to 18 months	22.901.729	22.222.277
From 18 months to 2 years	19.980.712	21.750.820
From 2 to 5 years	94.478.787	107.949.683
Over 5 years	143.133.921	148.887.337
Maturity not posted	60.308.197	54.224.105
TOTAL	**542.798.321**	**576.858.919**

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 4.7 – Distribution of Loans to customers by business sector

G. Breakdown of "Loans to customers" (net values) by business sector (4.7)		
Items / Values	**31/12/2017**	**31/12/2016**
Public administrations	16.763.234	17.153.304
Financial companies other than credit institutions	19.385.546	13.385.319
Monetary financial institutions (excluding credit institutions)		24.263
Investement funds other than mutual investement funds	3.483.594	-
Other financial institutions	15.811.070	13.253.140
Insurance companies	90.882	107.916
Pension funds		
Non-financial companies	**350.010.885**	**367.373.965**
of which entities cancelled from Resoaut		339.714
Industry	151.132.584	142.754.255
Constructions	25.387.255	26.597.361
Services	165.849.056	182.244.932
Other non-financial companies	7.641.990	15.437.703
Households and non-profit institutions serving households	**156.638.656**	**178.346.972**
Households and family businesses	156.451.774	177.674.815
Non-profit institutions serving households	186.882	672.157
Other		**599.360**
TOTAL	**542.798.321**	**576.858.919**

Asset item 50-60

Table 5.1 – Breakdown of investment and trading financial instruments

A. Breakdown of investment and trading financial instruments - items 50-60 in asset postings (5.1)	31/12/2017		31/12/2016	
Items / values as of 31 Dec 2017	Investment	Trading	Investment	Trading
Bonds and other debt financial instruments:	25.489.532	7.235.564	25.521.429	33.068.251
Public issuers	25.489.532	7.235.564	25.521.429	33.068.251
Credit institutions				
Financial companies other than credit institutions				
Other issuers				
Shares, stocks and other capital financial instruments:	2.654.357	4.154.650	-	4.520.231
Loan Management shield		4.154.650		4.520.231
Tower Credit Opportunities LT	2.654.357			
TOTAL	**28.143.889**	**11.390.214**	**25.521.429**	**37.588.482**

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 2017, under item "Bonds and other debt 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 31/12/2017, the provision market counter-value was € 4,154,650, so BAC recorded a further capital loss amounting to € 365,581, 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 € 6,743,350.

Tabella 5.2 – Breakdown of "investment financial instruments"

B. Breakdown of "investment financial instruments" (5.2)	31/12/2017			31/12/2016		
Items /Values	**Purchase price**	**Book value**	**Fair value**	**Purchase price**	**Book value**	**Fair value**
Debt financial instruments	-	25.489.532	25.052.035	-	25.521.429	24.876.050
Bonds	-	25.489.532	25.052.035	-	25.521.429	24.876.050
Listed		25.489.532	25.052.035		25.521.429	24.876.050
Unlisted						
Other debt financial instruments	-	-	**-**	-	-	**-**
Listed						
Unlisted						
Capital financial instruments	-	2.654.357	**-**	-	-	**-**
Listed						
Unlisted		2.654.357				
TOTAL	**-**	**28.143.889**	**25.052.035**	**-**	**25.521.429**	**24.876.050**

During 2017, the establishment of the English Fund for small and medium-sized Italian companies was finalized, of which BAC subscribed shares up to an amount of 10,000,000. The subscription partner is Quadrivio Spa, a leader in the Italian SME finance sector, which represents a strategic development opportunity for BAC in this business.
The Tower Credit Opportunities PLC fund will be dedicated to supporting the growth of Italian SMEs by funding investment programs, extraordinary finance operations and interventions to support the financial structure. The expected duration will be 12 years from the final date of the last closing. During the year, BAC signed four tranches for the counter-value shown in the financial statements, in accordance with the agreement signed.

Table 5.3 – Annual changes in investment financial instruments

C. Annual changes in investment financial instruments (5.3)		
Items / Values	**31/12/2017**	**31/12/2016**
Opening balance	25.521.429	0
Increases	2.658.221	25.549.470
Purchases	2.654.357	25.408.949
- of which debt financial instruments		25.408.949
Revaluations		
Transfers from trading portfolio		
Other changes	3.864	140.521
Decreases	35.761	28.040
Sales		-
- of which debt financial instruments		
Redemptions		
Value adjustments		
- of which permanent writedowns		
Transfers to trading portfolio		
Other changes	35.761	28.040
Closing balance	**28.143.889**	**25.521.429**

We note that in 2017 the same breakdown of the investment portfolio was maintained as in the previous year, composed of five state-issued securities that incorporate a higher risk appetite and a progressively higher profit target with duration compatible with the VAR limits imposed by our internal regulations.

We point out that the increases in purchases are represented by the subscription of the first four tranches of the Tower Credit Opportunities Fund, as explained above, while in the decreasing variations the immobilization deviations are noted. It is specified that pursuant to CBSM Reg. 2016/02 art. IV.V.1, the Board of Directors approved the new framework for the allocation of proprietary portfolios in the meeting held on 27/04/2017, to identify the fundamental characteristics of the two segments (investment/trading) and once again establish the absolute and relative size parameters of the investment portfolio.

Table 5.4 – Breakdown of trading financial instruments

D. Breakdown of trading financial instruments (5.4)		
Items / Values	**31/12/2017**	**31/12/2016**
	fair value	**fair value**
Debt financial instruments	7.235.564	33.068.251
Bonds	7.235.564	33.068.251
Listed	7.235.564	33.068.251
Unlisted		
Other debt financial instruments	-	-
Listed		
Unlisted		
Capital financial instruments	4.154.650	4.520.231
Listed		
Unlisted	4.154.650	4.520.231
TOTAL	**11.390.214**	**37.588.482**

Even the free portfolio was involved in the restructuring process launched by decision-making bodies by gradually selling securities existing as at 31/12/2016, aimed at maintaining short term liquidity on interbank deposits with the Regulator. The portfolio consists of the participation in the alternative close investment fund subscribed at the end of December 2012, an Italian public issuance security and the San Marino security issued with Delegated Decree no. 17 of 23/02/16.

Table 5.5 – Annual changes in trading financial instruments

E. Annual changes in trading financial instruments (5.5)		
Items / Values	**31/12/2017**	**31/12/2016**
Opening balance	37.588.482	162.457.110
Increases	6.166.058	51.353.976
Purchases	6.034.381	51.258.324
- of which debt financial instruments	4.312.153	6.729.040
- of which capital financial instruments	1.722.227	1.586.033
Writebacks and revaluations		
Transfers from investment portfolio		
Other changes	131.677	95.652
Decreases	32.364.326	176.222.603
Sales and redemptions	32.112.779	172.940.063
- of which debt financial instruments	30.183.003	4.392.564
- of which capital financial instruments	1.974.776	2.062.770
Value adjustments and writedowns	113.776	852.778
Transfers to investment portfolio		
Other changes	137.771	2.429.761
Closing balance	**11.390.214**	**37.588.483**

Asset item 70-80

Table 6.1 – Shareholdings

Name	Legal form (abbre-viation)	Member with unlimited liability (yes/no)	Headquarters	Activity carried out	Share capital	Net equity	Profit / Loss	% capital share	Book value (b)	Fair value	Net equity share (a)	Comparison (a-b)
Group companies									**7.453.232**			
Bac Fiduciaria	S.p.a.	NO	Via Tre Settembre n° 316 - 47891 Dogana (R.S.M.)	Financial company	500.000	681.516	64.993	100,00%	681.516		681.516	-
SAN MARINO LIFE	S.p.a	NO	Via Tre Settembre n° 316 - 47891 Dogana (R.S.M.)	Insurance	6.000.000	6.429.012	528.238	100,00%	6.429.012		6.429.012	-
IBS IMMOBILIARE	S.r.L	NO	Via Tre Settembre n° 316 - 47891 Dogana (R.S.M.)	Real estate	75.000	320.015	5.015	100,00%	320.015		320.015	-
IBS RENT in liquidazione volontaria	S.r.l.	NO	Via Tre Settembre n° 316 - 47891 Dogana (R.S.M.)	Rental	77.000	22.689	-	87,00%	22.689		22.689	-
Related businesses									**696.779**			
Società Servizi Informatici Sammarinese S.S.I.S	S.p.a.	NO	Strada Cardio, 22 47899 Serravalle (R.S.M.)	Automatic data processing	490.637	893.556	53.204	50,00%	446.779		446.779	-
Centro Servizi	S.r.l.	NO	Via XXV Marzo, 58 - 47895 Domagnano (R.S.M.)	Automatic data processing	74.886	421.065	-13.350	25,00%	250.000		105.266	-144.734
Other investee companies									**4.071.273**			
Banca Centrale della Repubblica di San Marino	S.p.a.	NO	Via del Voltone n° 120 - 47890 SAN MARINO (R.S.M.)	Banking	12.911.425	75.638.636	-2.173.521	5,00%	4.059.241		3.781.932	-277.309
Camera di Commercio	S.p.a.	NO	Strada di Paderna, 2 47895 Fiorina Domagnano (R.S.M.)	Services	77.469	542.275	9.607	1,33%	1.032		7.212	6.180
Tecno Science Park San Marino-Italia	S.p.a.	NO	Strada Rovereta, 6 Falcia-no-47891 Dogana (R.S.M.)	Services	110.000	169.902	45.360	10,00%	11.000		16.990	5.990

It should be noted that the net equity valuations in the following table refer to the company data as of 31.12.2017 if already available for all the companies and with a holding percentage higher than 50%.
In 2017, a 10% interest was acquired in Techno Science Park San Marino Italia SpA, issued by the state and other San Marino credit institutions.
The company promotes, implements, manages and develops a scientific and technological park that facilitates the priority cooperation between San Marino's business, research and service systems and the Italian ones, but also has a strong propensity to extend this cooperation with international systems and carries out activities aimed at developing economic growth, long-term employment, and new entrepreneurial culture, stimulating the creation and development of a new high-tech

enterprise through service tools and processes that can largely be configured as incubation and acceleration.

The shareholding in San Marino Central Bank (previously San Marino Credit Institution) remained unchanged. It accounts for 5% of the share capital of the associate bank and is represented by 125 shares of € 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. The credit balance of the revaluation was 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, 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 2017 net equity. This implied a revaluation of € 26,602 since the 2017 profit will be fully capitalized among reserves, according to the draft budget approved at the session of the general meeting on 20/03/2018.
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 € 1,000 each. On 31/12/2017, the shareholder's equity of our affiliated bank amounted to € 681,516 inclusive of € 64,993 year profit; therefore, we made a revaluation of € 64,993 and increased the revaluation reserve by the same amount, as per 2017 financial statements approved on 27/04/2018, which provide for the total capitalization of profit as ordinary reserve.
For IBS Immobiliare, BAC made an adjustment to the revaluation fund of € 5,015, in order to align it to the net equity values as at 31/12/2017, since the 2017 year profit will be capitalized in accordance with the 2017 draft budget approved on 23/04/2018.
Even for San Marino Life, BAC made an adjustment to the net equity of the subsidiary based on the results of 2017. 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 2018, following the official cancellation at the Court registry on 26/02/2018.
Banca Agricola Commerciale also holds a 25% stake in Centro Servizi srl, acquired in 2016, subject to authorization by the Central Bank, whose main activity consists in IT operations, with particular reference to production, development, maintenance and commercialization of application software, management of services related to the use of electronic payment instruments, and the sale and rental of hardware, since it is also the technological manager, in an exclusive form, of the SMaC platform; the investment was recorded at the 2016 acquisition value, corresponding to the estimated market value of the company at the time of acquisition.

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.

Table 6.2 – Breakdown of item 70 Shareholdings

B. Breakdown of item 70 in asset postings "Shareholdings" (6.2)			
Items / Values	**Purchase price**	**Book value**	**Fair value**
In credit institutions			
Listed			
Unlisted		4.059.241	
In Other financial companies	-	-	
Listed			
Unlisted			
Other		708.811	
Listed			
Unlisted		708.811	
TOTAL		4.768.052	

Table 6.4 – Annual changes in item 70 Shareholdings

D. Annual changes in item 70 "Shareholdings" (6.4)	
Items / Values	**31/12/2017**
Opening balance	4.730.450
Increases	37.602
Purchases	11.000
Writebacks	
Revaluations	26.602
Other changes	
Decreases	-
Sales	
Value adjustments	
- of which permanent writedowns	
Other changes	
Closing balance as of 31 Dec 2017	**4.768.052**
Total revaluations as of 31 Dec 2017	
Total adjustments as of 31 Dec 2017	

Table 6.3 – Breakdown of and changes in item 80 Shareholdings

C. Breakdown of item 80 in asset postings "Shareholdings in bank group companies" (6.3)			
Items / Values	**Purchase price**	**Book value**	**Fair value**
In credit institutions			
Listed			
Unlisted			
In Other financial companies	-	7.110.528	
Listed			
Unlisted		7.110.528	
Other		342.704	
Listed			
Unlisted		342.704	
TOTAL		7.453.232	

Table 6.5 – Annual changes in item 80 Shareholdings

E. Annual changes in item 80 "Shareholdings in bank group companies" (6.5)	
Items / Values	**31/12/2017**
Opening balance	7.330.401
Increases	122.831
Purchases	
Writebacks	
Revaluations	122.831
Other changes	
Decreases	-
Sales	
Value adjustments	
- of which permanent writedowns	
Other changes	
Closing balance as of 31 Dec 2017	**7.453.232**
Total revaluations as of 31 Dec 2017	**122.832**
Total adjustments as of 31 Dec 2017	

As previously said, item Writebacks includes the revaluation of the investee companies San Marino Life Spa, Bac Fiduciaria S.p.A. and IBS Immobiliare srl.

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

BACFiduciaria Spa	**31/12/2017**	**Allocation of Profit**	**Net equity 31/12/2017**
Share capital	500.000		500.000
Legal reserve	116.523	64.993	181.516
Other reserves			
To partner			
Profit for the year	64.993	-64.993	
	681.516	-	681.516

SM Life Spa	31/12/2017	Allocation of 2017 Profit	Dividend proposal	Net equity 31/12/2017
Share capital	6.000.000			6.000.000
Legal reserve	289.393	52.824		342.217
Other reserves	86.796			86.796
Retained earnings / losses				
Profit for the year	528.238	-52.824	-475.414	0
	6.904.427	-	-475.414	6.429.013

IBS IMMOBILIARE Srl	31/12/2017	Distribution of 2017 Profit	Net equity 31/12/2017
Share capital	75.000,00		75.000,00
Legal reserve			-
Other reserves	240.000	5.015	245.015,00
To partner			-
Profit for the year	5.015	-5.015	-
	320.015	-	320.015

Table 6.6 – Assets and liabilities with investee companies

F. Assets and liabilities with investee companies - item 70 (6.6)	
Items / Values	**31/12/2017**
Assets	**99.803.525**
Loans to credit institutions	98.944.294
- of which subordinate	
- of which to related businesses	
- of which subordinate	
Loans to other financial companies	
- of which subordinate	
- of which to related businesses	
- of which subordinate	
Loans to other companies	859.231
- of which subordinate	
- of which to related businesses	
- of which subordinate	
Bonds and other debt financial instruments	
- of which subordinate	
- of which to related businesses	
- of which subordinate	
Liabilities	**538.651**
Amounts due to credit institutions	
- of which to related businesses	
Amounts due to other companies	538.651
- of which to related businesses	
Payables represented by financial instruments	
- of which to related businesses	
Subordinate liabilities	
- of which to related businesses	
Guarantees and commitments	-
Guarantees given	
Commitments	

Loans to banks amounting to € 98,944,294 include reciprocal transaction accounts with Central Bank for € 48,556,143, € 28,125,985 of ROB time deposit still at Central Bank and € 22,262,166 of other deposits still at the Supervisory Authority, while € 859,231 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 € 235,126 and the current account of Techno Science Park for € 303,525.

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 80 (6.7)	
Items / Values	**31/12/2017**
Activity	**12.997.687**
Loans to credit institutions	
- of which subordinate	
Loans to other companies	12.997.687
- of which subordinate	
Bonds and other debt financial instruments	
- of which subordinate	
Liabilities	**1.326.288**
Amounts due to credit institutions	
Amounts due to other companies	1.326.288
Payables represented by financial instruments	
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 SpA and IBS Rent srl.

Asset item 90

Table 7.1 – Movements of item 90 Intangible assets

A. Description and movements of item 90 "Intangible assets" (7.1)										
Annual Changes	**31/12/2017**	**Financial leasing**	**of which assets being constructed**	**Assets awaiting lease for lease termination**	**of which for breach of tenant**	**Assets from credit recovery**	**of which assets for credit discharge through settlement agreement**	**Goodwill**	**Start-up costs**	**Other intangible assets"**
Opening balance	2.122.446					-		32.498		2.089.948
Increases	216.451	-	-	-	-	-		-		216.451
Purchases	216.451					-				216.451
Writebacks	-									
- of which for credit worthiness	-									
Revaluations	-									
Other increases	-									
Decreases	739.939	-	-	-	-	-		32.498		707.441
Sales	-									
Value adjustments	739.939					-		32.498		707.441
- of which de-preciations	739.939					-		32.498		707.441
- of which permanent write-downs	-									
-of which for credit worthiness	-									
Other decreases	-									
Closing balance as of 31 Dec 2017	**1.598.958**	**-**	**-**	**-**	**-**	**-**				1.598.958

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"). 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

	2017	2016
Opening balance at purchasing cost	2.123.870	5.398.296
Depreciated layer	-730.129	-3.480.500
Expenses for new programs or implementations	94.977	206.073
Advances on Software		
Closing balance at historic cost	1.488.717	2.123.870
Other decreases		
To deduct BAC depreciation fund	-1.294.083	-1.742.177
of which year depreciation value	-282.036	-415.711
Closing balance	**194.634**	**381.693**

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

	2017	2016
Opening balance at purchasing cost	2.582.464	2.380.076
Depreciated layer	-469.440	-75.804
Expenses in the year	121.474	278.192
Closing balance at historic cost	2.234.498	2.582.464
To deduct depreciation fund	-1.716.143	-1.769.492
of which year depreciation value	-416.090	-489.746
Closing balance	**518.356**	**812.971**

c) Right of concession and underpass work

	2017	2016
Opening balance at purchasing cost	1.254.396	1.254.397
Expenses in the year		
Closing balance at historic cost	1.254.396	1.254.397
To deduct depreciation fund	-368.428	-326.614
of which year depreciation value	-41.813	-41.813
Closing balance	**885.968**	**927.782**

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.

Table 7.2 – Breakdown of item 90 Intangible assets

B. Breakdown of item 90 " Intangible assets" (7.2)			
Annual changes	**"Purchase price/ Production cost"**	**Book value**	**Fair value**
Financial leasing		-	
- of which assets being constructed			
Assets awaiting lease for lease termination			
- of which for breach of tenant			
Assets from credit recovery			
- of which assets for credit discharge through settlement agreement			
Goodwill			
Start-up costs			
Other intangible assets	4.977.611	1.598.958	
TOTAL	**4.977.611**	1.598.958	**-**

Asset item 100

Table 8.1 – Movements and description of item 100 Tangible assets

A. Movements of item 100 "Tangible assets" (8.1)									
Annual changes	**Financial leasing**	**of which assets being constructed**	**Assets awaiting lease for lease termination**	**of which for breach of tenant**	**Assets from credit recovery**	**of which assets for credit discharge through settlement agreement**	**Land and buildings**	**Other tangible assets**	**altre immobilizzazioni materiali**
Opening balance	202.803.421	115.166.013	15.797.832	5.656.428	5.656.428	50.646.404	50.646.404	30.330.395	1.004.181
Increases	32.052.820	17.252.688	591.067	1.291.857	1.291.857	13.357.761	13.357.761	70.873	79.641
Purchases	17.409.238	17.125.685	591.067			172.165	172.165	31.747	79.641
Writebacks	-								
- of which for credit worthiness	-								
Revaluations	-								
Other increases	14.643.582	127.003		1.291.857	1.291.857	13.185.596	13.185.596	39.126	
Decreases	44.660.950	38.609.555	2.135.324	4.327.499	4.327.499	467.786	467.786	893.667	362.443
Sales	3.162.392	718.024	424.278	2.026.285	2.026.285	397.211	397.211		20.872
Value adjustments	35.012.234	33.706.311		685	685	70.000	70.000	893.667	341.571
- of which deprecia-tions	34.941.549	33.706.311						893.667	341.571
- of which permanent writedowns	-								
- of which for credit worthiness	685			685	685				
Other decreases	6.486.324	4.185.220	1.711.046	2.300.529	2.300.529	575	575		
Closing balance as of 31 Dec 2017	**190.195.291**	**93.809.146**	**14.253.575**	**2.620.786**	**2.620.786**	**63.536.379**	**63.536.379**	**29.507.601**	**721.379**

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").

Below are the segments of the aforementioned fixed assets except for financial leases and assets awaiting leasing for lease termination, which are detailed in the tables of loans to customers (asset item 40) and explained previously. In General Accounting, fixed assets are managed separately in specific accounts and underwent the following changes during the 2017 financial year:

a) own assets

	2017	**2016**
Opening balance (on which depreciation was calculated)	90.573.815	58.522.183
Closing balance at historic cost (on which depreciation was calculated)	-105.059	-1.204.925
Depreciations	-70.000	-93.444
Acquisitions	13.428.634	33.350.001
sales	-75.000	0
Total historic cost	**103.752.390**	**90.573.815**
To deduct depreciation fund	-10.805.756	-10.017.148
of which year depreciacion value	**-893.667**	**-918.494**
Closing balance	**92.946.634**	**80.556.667**

b) furniture safes plants

	2017	**2016**
Opening balance	2.225.655	6.148.180
Depreciated layer	-518.781	-4.191.791
Purchases made in the year	54.644	269.266
Closing balance historic cost	1.761.518	2.225.655
To deduct depreciation fund	-1.166.853	-1.414.312
- of which year depreciacion value	-271.323	-316.990
Closing balance	**594.665**	**811.344**

c) boats under terminated contracts

	2017	2016
Opening balance	**420.133**	**689.953**
Acquisitions for leasing asset terminations		108.331
Sales	-322.211	-378.151
Write-offs	-576	
Closing balance	**97.345**	**420.133**

d) vehicles

	2017	2016
Opening balance	**99.920**	**326.324**
Depreciated layer	-	-226.404
Divestments historic cost	-34.787	
Purchases made in the year		
Closing balance historic cost	**65.133**	**99.920**
Depreciation fund	-65.133	-66.021
of which year depreciacion value	-13.027	-19.984
Closing balance	**0**	**33.899**

e) safety systems

	2017	2016
Opening balance	215.827	175.363
Depreciated layer		
Divestments	-	-13.850
Purchases made in the year	10.929	54.314
Closing balance historic cost	226.755	215.827
Depreciation fund	-144.833	-110.820
of which year depreciacion value	-34.013	-32.374
Closing balance	**81.922**	**105.007**

f) office machines

	2017	2016
Opening balance	118.156	229.921
Depreciated layer	-12.454	-127.525
Purchases made in the year	14.069	15.760
Closing balance historic cost	119.771	118.156
Depreciation fund	-84.980	-74.225
of which year depreciacion value	-23.209	-22.169
Closing balance	**34.792**	**43.931**

g) furniture and art objects

	2017	2016
Opening balance	10.000	10.000
Depreciated layer		
Acquisitions for IBS demerger		
Purchases made in the year		
Closing balance historic cost	10.000	10.000
Depreciation fund		
of which year depreciacion 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 CBSM Reg. 2008/02. It should also be noted that item Own assets shows an increase of € 13,185,597 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.

Table 8.2 – Breakdown of item 100 Tangible assets

B. Breakdown of item 100 “Tangible assets” (8.2)			
Annual changes	**"Purchase price/ Production cost"**	**Book value**	**Fair value**
Financial leasing	178.994.387	93.809.146	
- of which assets being constructed	16.830.839	14.253.575	
Assets awaiting lease for lease termination	6.793.076	2.620.786	
- of which for breach of tenant	6.793.076	2.620.786	
Assets from credit recovery		63.536.379	63.536.379
- of which assets for credit discharge through settlement agreement		63.536.379	63.536.379
Land and buildings	41.953.353	29.507.601	
Other tangible assets	3.089.691	721.379	
Total	**230.830.507**	**190.195.291**	**63.536.379**

Table 8.3 – Breakdown of item 100 Tangible assets – Assets acquired from credit recovery

C. Assets from credit recovery (8.3)		
Items / Values	**Book value**	**Fair Value**
Assets from recovery of credit deriving from financial lease contracts	**63.143.879**	**63.143.879**
- immovable assets	63.046.533	63.046.533
- of which for residential use	14.816.773	14.816.773
- of which for non-residential use	48.229.760	48.229.760
- movable assets:	97.346	97.346
- of which vehicles		
- of which aircraft		
- of which other	97.346	97.346
Assets from recovery of credit deriving from other financing contracts	**392.500**	**392.500**
- immovable assets	392.500	392.500
- of which for residential use		
- of which for non-residential use	392.500	392.500
- movable assets:	-	-
- of which vehicles		
- of which aircraft		
- of which other		
Total	**63.536.379**	**63.536.379**

Assets acquired from credit recovery are booked in the balance sheet assets, following a settlement agreement with the customer, at the estimated appraisal value at the time of the agreement.

Table 8.4 – Breakdown of item 100 Tangible – intangible assets: Capital residual credit Leasing – Rents Overdue Leasing

Descriptions	total	of which leasing to credit institutions	of which leasing to customers
Credit for leasing - Total	101.444.623	-	101.444.623
Credit for leasing - Rentals overdue	5.014.960		5.014.960
Credit for leasing - Capital residual credit		-	96.429.933
Intangible assets			
Financial leasing			
Assets awaiting lease for lease termination			
Tangible assets			
Financial leasing			93.809.146
Assets awaiting lease for lease termination			2.620.786

Asset item 120

Table 10.1 – Breakdown of company shares

A. Breakdown of company shares - item 110 in asset postings (10.1)	Number of shares	% on capital	Nominal value	Trading amount
Values as of 31 Dec 2016	553	0,07%	14.378	
Purchases				
Sales				
Values as of 31 Dec 017		**0,07%**	14.378	

	Profit / Loss
Profit / Loss during trading of own shares (+/-)	

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

Asset item 130

Table 11.1 – Breakdown of item 130 Other assets

A. Breakdown of item 130 Other assets (11.1)		
Technical type	**31/12/2017**	**31/12/2016**
Guarantee margins		
Premiums paid for options		
Other	109.498.986	89.809.676
- of which Other debtors	9.731.388	6.643.145
- of which Other:	99.767.598	83.166.531
3.1 Advances to Tax Authorities for IGR of which redemption was requested	182.121	196.106
3.2. Ecofin withholding tax/Interest on transitional tax regime		-
3.3. Management of commercial collection RID	755.888	368.548
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	6.743.350	6.377.769
3.7. Technical accounts	695.092	340.140
3.8. Bills from correspondent banks	10.607.857	9.989.646
3.9. Bills from customers collection	61.004.906	45.023.210
3.10. Bills from customer cheques collection	14.017.027	12.556.209
3.11. Bills from customers after collection	2.406.099	3.346.354
3.12. Suspense accounts - items in transit	12.636	215.926
3.13. Loans from Credito Sammarinese	220.423	220.423
3.14. Receivables for tax advances	183.141	280.177
3.15. Tax receivables from Credito Sammarinese	2.531.176	3.792.300
3.16. Receivables from Chamber state interest rate	402.589	454.430
3.17. Deposits	5.293	5.293
TOTAL	**109.498.986**	**89.809.676**

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 € 365,581 compared to 31/12/2016 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 € 6,743,350.

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

A. Breakdown of item 130 "Ohter assets" (11.1)		
Technical type	**31/12/2017**	**31/12/2016**
1.1. Administrative expenses - Adjustment entries	1.106.819	1.260.458
1.2. Interest, commission income and dividens, accrued and not collected	507.126	538.806
1.3. Deposits	1.394.191	94.254
1.5. IBSImmobiliare Share Capital Increase Advance		-
1.6. Encoded customers	4.652.677	4.148.083
1.7. Suspense account ATM drawings	174.112	142.706
1.8. Supplier advances	486	404.766
1.9. Suspense customer positions	55.941	54.072
1.10 Credit card transitional account	1.840.036	
TOTAL	**9.731.388**	**6.643.145**

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 140

Item Accrued income consists of the following sub-items:
Table 12.1 – Breakdown of item 140 Accrued Income and Prepaid Expenses

	31/12/2017	**31/12/2016**
On loans to customers	2.783	4.487
On loans to Banks	5.486	10.161
Other accrued income	24.045	32.667
Total accrued income	**32.314**	**47.315**
Prepaid expenses		
On rental expenses	39.160	71.032
On administrative expenses	398.387	153.484
Total prepaid expenses	**437.547**	**224.516**
Total accrued income and prepaid expenses	**469.861**	**271.831**

It should be noted that following the integration of article IV.I.13 of CBSM 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 "Amounts due to banks" (13.1)						
Details by technical form	**31/12/2017**			**31/12/2016**		
	In EUR	**In foreign currency**	**Total**	**In EUR**	**In foreign currency**	**Total**
At sight		-	784.447	387.792	-	387.792
Reciprocal accounts opened for services rendered			784.447	387.792		387.792
Free deposits						
Other loans						
Trem or with notice		-		-	-	
Current accounts						
Trem deposits						
Repurchasing agreements						
Other loans						
TOTAL	784.447	-		387.792	-	
GENERAL TOTAL		**784.447**			**387.792**	

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

B. Breakdown of "Loans to banks" based on residual life (13.2)		
Maturity	**31/12/2017**	**31/12/2016**
At sight	784.447	387.792
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	**784.447**	**387.792**

Liability item 20 - 30

Table 14.1 – Breakdown of Amounts due to customers

A. Breakdown of item 20 "Amounts due to customers" (14.1)						
Category / Currencies	**31/12/2017**			**31/12/2016**		
	In EUR	**In foreign currency**	**Total**	**In EUR**	**In foreign currency**	**Total**
At sight	385.187.430	9.298.041	394.485.471	400.003.501	12.455.136	412.458.637
Current accounts	381.356.897	9.298.041	390.654.938	395.555.555	12.455.136	408.010.691
Savings deposits	3.830.533		3.830.533	4.447.946		4.447.946
Other						
Term or with notice	18.672.493	-	18.672.493	11.523.461	-	11.523.461
Time current accounts						
Time savings accounts						
Repurchasing agreements	18.672.493		18.672.493	11.523.461		11.523.461
Other funds						
TOTAL	403.859.923	9.298.041		411.526.962	12.455.136	
GENERAL TOTAL	**413.157.964**			**423.982.098**		

This table has been completed with liability item 20. In reclassifying the amounts due to customers, internal checks merged with other liabilities for € 845,016 in 2017, while in 2016 they amounted to € 3,606,831. Moreover, deposits were broken down in favor of repurchasing agreements, which increased by € 7,149,032; on the contrary, certificates of deposit showed a sharp decrease for € 57,690,878, as explained numerically in the table below.

Table 15.1 – Breakdown of payables represented by financial instruments

A. Breakdown of item 30 "Payables represented by financial instruments" (15.1)						
Items / Values	**31/12/2017**			**31/12/2016**		
	In EUR	**In foreign currency**	**Total**	**In EUR**	**In foreign currency**	**Total**
Bonds						
- of which held by credit institutions						
Certificates of deposit	293.871.718		293.871.718	351.562.596		351.562.596
- of which held by credit institutions						
Other financial instruments						
- of which traded acceptances						
- of which outstanding cheques						
- of which atypical securities						
TOTAL	293.871.718	-		**351.562.596**	**-**	
GENERAL TOTAL	**293.871.718**			**351.562.596**		

Table 14.2 – Breakdown of Amounts due to customers based on residual life

B. Breakdown of Amounts due to customers based on residual life (14.2)		
Maturity	**31/12/2017**	**31/12/2016**
At sight	394.485.471	412.458.637
From 1 day to 3 months	2.743.023	5.863.803
From 3 to 6 months	762.084	2.149.000
From 6 months to 1 year	15.167.386	3.510.658
From 1 year to 18 months		
From 18 months to 2 years		
From 2 to 5 years		
Over 5 years		
Maturity not posted		
TOTAL	**413.157.964**	**423.982.098**

This table shows the scope of items 20 "Amounts due to customers", as shown in 14.1.

Liability item 40

Table 16.1 – Breakdown of item 40 Other liabilities

A. Breakdown of item 40 "Other liabilities" (13.1)		
Technical type	**31/12/2017**	**31/12/2016**
Guarantee margins		
Premiums received for options		
Cheques in circulation	845.016	3.606.831
Other	113.233.923	95.224.432
- of which Other creditors	2.147.339	2.686.486
- of which Other:	111.086.584	92.537.946
4.1 Transferors of bills after collection	4.273.501	4.655.868
4.2 Transferors of bills for collection	95.720.354	76.674.567
4.3 Account adjustments	1.394.440	1.203.137
4.4 Debts to Tax Authorities for withholding tax	692.551	1.227.231
4.5 Debts to Tax Authorities for various taxes	13.993	45.213
4.6 Suppliers to be paid	2.489.987	2.585.660
4.7 Funds under pledge	94.323	136.447
4.8 Cash surplus / ATM	7.754	7.536
4.9 Incoming/outgoing transfers	313.658	
4.10 Italy/R.S.M. utilities	665.018	544.071
4.11 Operation of ATM/pos/cards	105.987	66.613
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	395.806	833.326
4.17 CS sold customers	261.641	405.300
4.18 Leasing fee invoices issued	4.653.111	4.148.517
TOTAL	**114.078.940**	**98.831.262**

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

B. Breakdown of sub-item "Other creditors"		
Technical type	**31/12/2017**	**31/12/2016**
Other creditors		
1.1. Wages/Remuneration	1.606.609	2.144.946
1.2. Leasing advances		-
1.7. Suspense items	10.730	11.540
1.4. Security deposits	530.000	530.000
TOTAL	**2.147.339**	**2.686.486**

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

Table 17.1 – Breakdown of item 50 Accrued Expenses and Deferred Income

A. Breakdown of item 50 "Accrued Expenses and Deferred Income" (17.1)		
Description	**31/12/2017**	**31/12/2016**
Accrued expenses		
Accrued expenses on derivative contracts	12.511	19.677
Total accrued expenses	12.511	19.677
Deferred income		
Foreign portfolio deferred income	7.345	10.307
Unsecured loans commission deferred income	22.261	28.676
Other deferred income	36.400	13.412
Total deferred income	**66.006**	**52.395**
Total accrued expenses and deferred income	**78.517**	**72.072**

As explained above, based on the new formulation of article IV.I.13 of CBSM 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 includes residual amounts that cannot be attributed to specific asset and liability items.

Liability items 60-70-80

Table 12.1 – Movements of item 60: Severance

Severance	31/12/2017	31/12/2016
Opening balance	1.008.210	1.164.600
Increases	625.208	744.647
allocations	625.208	744.647
other changes		
Decreases	1.024.023	901.037
utilizations	1.024.023	901.037
other changes		
Closing balance	**609.394**	**1.008.210**

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 18.2 – Breakdown of item 70 Reserves for risks and charges

B. Breakdown of item 70 "Reserves for risks and charges" - c. Other funds (18.2)		
Items / Values	**31/12/2017**	**31/12/2016**
Other funds:		
1.2. Complaint and revocation fund	1.077.300	1.170.398
1.3. Provision for contractual increase	168.298	168.298
1.4. Fund for charity	25.919	10.819
1.6. Provision for unused holydays	177.756	226.964
1.7. Guarantees and commitments depreciation fund		76.133
Total	**1.449.273**	**1.652.611**

For the year 2017, 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	**31/12/2017**	**31/12/2016**
Opening balance	1.044.172	1.044.475
Increases	213.072	560.000
allocations	213.072	560.000
other changes		
Decreases	340.314	560.303
utilizations	340.314	560.303
other changes		
Closing balance	**916.930**	**1.044.172**

Table 18.3: Movements in sub-item c) "other funds".
Complaint and revocation fund 1.2

Compliant and revocation fund	**31/12/2017**	**31/12/2016**
Opening balance	1.170.398	1.457.000
Increases	69.062	348.000
allocations	69.062	348.000
other changes		
Decreases	162.160	634.602
utilizations	162.160	398.602
other changes	-	236.000
Closing balance	**1.077.300**	**1.170.398**

For the current year the provision previously described was endowed with € 69,062 due to increasing loss forecasts regarding outstanding cases. However, this provision was used because four cases definitely ended. Facing a temporary difference between the statutory income and taxable income, € 183,141, was recorded among deferred tax assets, posted in item 120 of 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 2017.

Table 18.3 – Movements of sub-item c) "other funds". Provision for contractual increase 1.3

Provision for contractual increase	31/12/2017	31/12/2016
Opening balance	168.298	168.298
Increases	-	-
allocations		
other changes		
Decreases	-	-
utilizations		
other changes	-	-
Closing balance	**168.298**	**168.298**

Despite the macro and microeconomic downturn, it was not considered necessary to account a provision for the year 2017 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 13.3: Movements of sub-item c) "other funds". Provision for unused holidays 1.5

Provision for unused holidays	31/12/2017	31/12/2016
Opening balance	226.964	174.746
Increases	-	226.964
allocations		226.964
other changes		
Decreases	49.208	174.746
utilizations	49.208	174.746
other changes	-	-
Closing balance	**177.756**	**226.964**

Table 18.3 – Movements of sub-item c) "other funds". Fund for charity 1.4

Fund for charity	31/12/2017	31/12/2016
Opening balance	10.819	33.110
Increases		
allocations	22.000	60.000
other changes		
Decreases	6.900	82.291
utilizations	6.900	82.291
other changes	-	-
Closing balance	**25.919**	**10.819**

Table 18.5 – Movements of item 80 "Provisions for risks on credits"

Items / Values	31/12/2017	31/12/2016
Opening balance		
Increase		
Allocations		
Other changes		
Decreases		
Utilizations		
Other changes		
Closing balance		

Liability items 90 - 100

Table 19.1 Breakdown of item 90 "Reserves for general banking risks"

A. Breakdown of item 90 "Reserves for general banking risks" (19.1)		
Items/Value	**31/12/2017**	**31/12/2016**
Opening balance		
Allocations during the year		
Utilization during the year		
Closing balance	**-**	**-**

Table 19.2 – Breakdown of item 100 "Subordinate liabilities"

	31/12/2017	31/12/2016
Subordinate liabilities	12.016.144	16.021.731
- of which held by credit institutions		
- of which hybrid capitalization instruments		

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 19.3 – Breakdown of item 110 Subscribed capital

A. Breakdown of item 110 "Subscribed capital" (19.3 - 52)			
Type of shares	**Number of shares**	**Unit value**	**Total value**
Ordinary	803.080	26	20.880.080
		total	**20.880.080**

Table 19.4 – Breakdown of item 120 "Share premium reserves"

	31/12/2017	31/12/2016	Absolute and % changes	
Share premiums	-	-	-	

Table 19.5 – Breakdown of item 130 "Reserves"

	31/12/2017	31/12/2016	Absolute and % changes	
a) ordinary reserve	58.395.668	58.395.668	0	0%
of which tax-suspended r eserve	1.227.968	1.227.968	-	0%
b) extraordinary reserve			-	
c) own share reserve	14.378	14.378	0	0%
d) other reserves				
Total	**58.410.046**	**58.410.046**	0	0%

It should 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 article 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 € 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.

Table 19.6 – Breakdown of item 140 "Revaluation reserves"

	31/12/2017	31/12/2016	Absolute and % changes	
Revaluation reserves	14.789.392	14.651.105	138.287	0,94%

The revaluation reserves underwent a positive change at the end of 2017 due to the combined effect of the 2017 revaluation of the net equity of the investee companies San Marino Life Spa, SSIS Spa, Bac Fiduciaria Spa and IBS Immobiliare srl.

Table 19.7 – Breakdown of item 150 "Retained earnings (losses)"

	31/12/2017	31/12/2016	Absolute and % changes	
Retained earnings (losses)	3.793.060	-	3.793.060	-100%

Table 19.8 – Breakdown of item 160 "Net income (loss) for the period"

	31/12/2017	31/12/2016	Absolute and % changes	
Profit (losses) for the year	-7.585	-3.793.060	3.785.475	-99,80%

Table 19.9 – Changes in the net equity over the last 4 years

A. Changes in the net equity over the last 4 years (19.9)

Balance as of:	Subscribed capital	Subscribed capital not paid in	Share premiums	Ordinary or legal reserve	Other reserves	"Operating result (+/-)"	Retained earnings (losses) (+/-)	Reserves for general financial risks	Revaluation reserve	Total
31/12/2014	20.880.080			56.044.306	11.518	3.133.779	-1.678.963		3.645.851	82.036.571
31/12/2015	20.880.080			57.499.203	11.518	2.251.798			14.597.800	95.240.399
31/12/2016	20.880.080			58.395.668	14.378		-3.793.060		14.651.105	90.148.171
31/12/2017	**20.880.080**			**58.395.668**	**14.378**	**-7.585**	**-3.793.060**		**14.789.392**	**90.278.873**

Table 19.10 – Breakdown of Public Savings Collection by business sector

Table 19.10 - Breakdown of Public Savings Collection by business sector	**31/12/2017**	**31/12/2016**
Public administrations	53.177.954	54.933.873
Financial companies other than credit institutions and central banks	98.299.184	136.330.124
Monetary financial companies (excluding credit institutions and central banks)		-
Investment funds other than money market funds	152.278	291.155
Other financial institutions	50.300.038	71.677.800
Insurance companies	47.846.868	64.361.168
Pension funds		
Non-financial companies	94.282.492	94.915.161
of which entities cancelled from the Register of Authorized Entities		
Industry	38.935.537	43.010.872
Constructions	2.532.097	2.945.086
Services	48.756.883	45.040.750
Other non-financial companies	4.057.975	3.918.453
Households and non-profit institutions serving households	473.855.423	508.993.633
Households and family businesses	469.919.042	508.527.736
Non-profit institutions serving households	3.936.381	465.897
Other	275.789	465
TOTAL	719.890.842	795.173.256

As can be seen from the table above, the concentration of deposits is in the retail segment.

Guarantees and Commitments

Table 20.1 – Breakdown of "Guarantees given"

A. Breakdown of item 10 "Guarantees given" (20.1)		
Items / Values	**31/12/2017**	**31/12/2016**
Trading unsecured loans	14.542.237	11.612.022
Financial unsecured loans	1.829.460	13.247.617
Collateral assets:	1.333.281	1.333.281
- for third-party bonds	1.333.281	1.333.281
- for own bonds		
TOTAL	**17.704.978**	**26.192.920**

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.

Table 20.2 – Breakdown of unsecured loans

B. Breakdown of "Unsecured loans" (20.2)		
Items / Values	**31/12/2017**	**31/12/2016**
Trading unsecured loans	**14.542.237**	**11.612.022**
Acceptances	2.340.201	1.496.369
Performance bonds and guarantees	12.202.036	10.115.652
Secured patronage		
Other		
Financial unsecured loans	**1.829.460**	**13.247.617**
Acceptances		
Performance bonds and guarantees	1.829.460	13.247.617
Secured patronage		
Other		
TOTAL	**16.371.697**	**24.859.639**

Table 20.3 – Situation of unsecured loans to credit institutions

C. Situation of unsecured loans to credit institutions (20.3)						
	31/12/2017			**31/12/2016**		
Categories / Values	**Gross exposure**	**Total value adjustments**	**Net exposure**	**Gross exposure**	**Total value adjustments**	**Net exposure**
Doubtful loans						
- of which Non-performing loans						
- of which Substandard loans						
- of which Restructured loans						
- of which Past due/Overdrawn loans						
- of which Unsecured loans to at-risk countries						
Performing loans						
TOTAL						

Table 20.4 – Situation of unsecured loans to customers

D. Situation of unsecured loans to customers (20.4)						
	31/12/2017			**31/12/2016**		
Categories / Values	**Gross exposure**	**Total value adjustments**	**Net exposure**	**Gross exposure**	**Total value adjustments**	**Net exposure**
Doubtful loans	162.568		162.568			-
- of which Non-performing loans			-			-
- of which Substandard loans	162.568		162.568	7.686		7.686
- of which Restructured loans			-			-
- of which Past due/Overdrawn loans			-			-
- of which Unsecured loans to at-risk countries			-			-
Performing loans	16.209.129		16.209.129			-
TOTAL	**16.371.697**	**-**	**16.371.697**	**7.686**	**-**	**7.686**

Table 20.5 – Assets used as collaterals to own debts

Liabilities	Amounts of collaterals
-	-

The bank does not hold assets used as collaterals to its own debts.

Table 20.6 – Margins available on lines of credit

	31/12/2017	31/12/2016
A) Central Banks	-	-
b) Other Banks	-	-
c) Other Banks	-	-
Total	**0**	**0**

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

Table 20.7 – Breakdown of "Spot commitments"

A. Breakdown of "Spot commitments" (20.7)		
Items / Values	**31/12/2017**	**31/12/2016**
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	**2.163.767**	**1.968.852**
-of which liability margins to be used on lines of credits	2.163.767	1.968.852
-of which put options issued		
Commitments to swap financial instruments for specific use		
Other commitments	1.255.052	11.435.796
TOTAL	**3.418.819**	**13.404.648**

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 dis-

burse 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 CBSM 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 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 should be noted that the decrease from 2016 to 2017 is due to the contraction of the operations to be settled on exchanges.

Tables 20.8 – Term commitments

B. Breakdown of "Term commitments" (20.8)						
	31/12/2017			31/12/2016		
Items / Values	**Hedging**	**Trading**	**Other operations**	**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 agaist EUR						
-- sales against EUR						
- Other values						
-- purchases						
-- Sales						
Without capital swaps						
- currencies						
-- currencies against currencies						
-- purchases agaist EUR						
-- sales against EUR						
- other values						
-- purchases	1.255.051			1.731.035		
-- sales						

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 ICCREA on a disbursed loan, upon which we exchange the fixed rate gaining the floating one.

Tables 20.9 – Financial derivatives

A. Financial derivatives (20.9)						
Items / Values	**Hedging**	**Trading**	**Other operations**	**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 agaist EUR						
- sales against EUR						
- other values						
- purchases	95.443			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 derivate not quoted, the fair value was calculated by the counterpart on the basis of the method mentioned in article III.II.5, paragraph 7 of CBSM Regulation no. 2016/02.

Table 20.10 – Derivative contracts on loans

A. Derivative contracts on loans (20.10)			
Items / Values as of 31/12/2017	**Hedging**	**Trading**	**Other operations**
Hedge purchases	-	-	-
With capital swaps			
Without capital swaps			
Hedge sales	-	-	-
With capital swaps			
Without capital swaps			

Memorandum Accounts

Tab 21.1 – Memorandum accounts

Items / Values	31/12/2017	31/12/2016
Asset management	**57.024.023**	**65.304.655**
Customer asset management	57.024.023	65.304.655
- of which cash	15.700.264	25.626.741
-- of which cash deposited at the reporting institution	15.700.263	25.626.741
- of which debt securities	720.000	2.358.814
-- of which debt securities issued by the reporting institution	720.000	1.120.000
- of which capital securities and CIUs	40.603.759	37.319.100
-- of which capital securities issued by the reporting institution		
Own portfolio under third party management		
Custody and admionistration of financial instruments	**577.372.601**	**605.107.048**
Third party financial instruments in deposit	537.724.722	541.144.213
- of which debt securities issued by the reporting institution	11.280.000	14.880.000
- of which capital securities and other values issued by the reporting institution	90.060.532	94.152.369
- of which third party financial instruments deposited at third parties	436.384.190	432.111.844
Own financial instruments deposited at third parties	39.647.879	63.962.835
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 related to the pertinent items, alternative to each other, on the basis of contracts signed with customers, respectively for asset management, custody and administration, trust agreement and custodian bank agreement.
The aforementioned financial instruments are booked in the memorandum accounts at market value.

Table 21.3 – Breakdown of Indirect Deposits by business sector

Items / Values	31/12/2017	31/12/2016
Public administrations		
Financial companies	292.346.510	297.025.307
Monetary financial institutions		
Investment funds other than money market funds		
Other financial institutions	101.498.321	111.021.614
Insurance companies	190.848.189	186.003.694
Pension funds		
Non-financial companies	102.709.853	112.483.517
of which entities cancelled from the Register of Authorized Entities		
Industry	26.869.706	32.475.134
Constructions		
Services	6.554.949	6.712.975
Other non-financial companies	69.285.198	73.295.407
Households and non-profit institutions serving households	171.640.247	155.108.066
Households and family businesses	170.540.277	154.784.180
Non-profit institutions serving households	1.099.970	323.886
Other	351.872	205.237
TOTAL	567.048.482	564.822.127

Table 21.05 – Assets held in the exercise of trustee function

	31/12/2017	31/12/2016
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	-	-

PART C – Information on the Profit and Loss Account

Profit and Loss Account item 10

Table 22.1 – Breakdown of item 10 "Interest income and similar revenues"

A. Breakdown of item 10 "Interest and similar revenues" (22.1)		
Items / Values	**31/12/2017**	**31/12/2016**
On Treasury Securities and other financial instruments eligible for refinancing with central banks	-	-
Treasury securities and other similar financial instruments		
Other financial instruments eligible for refinancing with central banks		
On loans to credit institutions	82.390	217.588
Current acounts	-18.951	67.380
Deposits	101.341	150.208
Other loans		
- of which on leases		
On loans to customers	19.041.146	21.676.776
Current acounts	5.445.683	6.745.451
Deposits		-
Other loans	13.595.463	14.931.325
- of which on leases	3.497.752	4.345.848
On debt securities issued by credit institutions	-	9.586
Certificates of deposit		-
Bonds		9.586
Other financial instruments		-
On debt securities from customers (issued by other issuers)	536.543	1.878.342
Bonds	536.543	1.878.342
Other financial instruments		
Total	19.660.079	23.782.292

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 22.2 – Breakdown of item 20 "Interest expense and similar charges"

A. Breakdown of item 20 "Interest expense and similar charges" (22.2)		
Items / Values	**31/12/2017**	**31/12/2016**
On amounts due to credit institutions	1.627	1.213
Current accounts	1.627	1.213
Deposits		
Other debts		
On amounts due to customers	839.331	1.249.580
Current accounts	731.517	1.031.177
Deposits	4.640	16.852
Other debts	103.174	201.551
On payables represented by financial instruments to credit institutions		
-of which certificates of deposit		
On payables represented by financial instruments to customers	3.870.383	6.222.686
-of which certificates of deposit	3.870.383	6.222.686
On subordinate liabilities	212.212	295.199
- of which on hybrid capitalization instruments		
Total	**4.923.553**	**7.768.679**

Profit and Loss Account item 30

Table 23.1 – Breakdown of item 30 "Dividends and other revenues"

A. Breakdown of item 30 "Dividends and other revenues" (23.1)		
Items / Values	**31/12/2017**	**31/12/2016**
On stoks, shares and capital financial instruments		
On investments		155.000
On investments in bank group companies	475.415	763.907
Total	**630.415**	**918.907**

Item On investments in bank group companies includes the dividend recorded on an accrual basis by our subsidiary San Marino Life Spa for € 475,415.

Profit and Loss Account item 40

Table 24.1 – Breakdown of item 40 "Commission income"

A. Breakdown of item 40 "Commission income"		
Items / Values	**31/12/2017**	**31/12/2016**
Guarantees given	113.772	200.737
Credit derivatives		
Investment services:	**948.123**	**1.161.030**
order receipt and trasmission (lett. D1 Annex 1 LISF)	696.174	833.243
order execution (lett. D2 Annex 1 LISF)		
financial instrument portfolio management (lett. D4 Annex 1 LISF)	251.949	327.786
financial instrument placing(lett. D5 and D6 Annex 1 LISF)		
Financial instrument consulting		
Distribution of third party services and products other than placement:	**758.320**	**1.102.120**
asset management		
insurance products	215.000	237.000
other services or products	543.320	865.120
Collection and payment services	**1.182.646**	**1.029.988**
Depository banking services		
Custody and administration of financial instruments	**342.482**	**352.145**
Trust services	**47.830**	**55.094**
Collection and receipt services		
Brokerage	**298.669**	**304.723**
Commissions for collective management services (lett. E and F Annex 1 LISF)		
Electronic money		
Issuance/management of c redit cards/debit cards		
Other services	**773.379**	**779.558**
Total	**4.465.221**	**4.985.395**

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.

Profit and Loss Account item 50

Table 24.2 – Breakdown of item 50 "Commission expense"

Items / Values	31/12/2017	31/12/2016
Guarantees given	88	332
Credit derivatives		
Investment services:	436.687	471.260
order receipt and trasmission (lett. D1 Annex 1 LISF)	328.478	301.665
order execution (lett. D2 Annex 1 LISF)	35.008	86.085
financial instrument portfolio management (lett. D4 Annex 1 LISF)	10.619	16.643
- own portfolio		
- third party portfolio	10.619	16.643
financial instrument placing (lett. D5 and D6 Annex 1 LISF)	62.582	66.867
Financial instrument, product and service cold calling		
Collection and payment services	320.944	173.368
Distributors' fees		
Electronic money		
Issuance/management of c redit cards/debit cards		
Other services	83.744	103.600
Total	**841.463**	**748.561**

A decrease in commission expense is recorded together with a contraction in commission income, due to the collection and payment service segment for the new San Marino provider Tp@y Spa.

Profit and Loss Account item 60

Table 25.1 – Breakdown of item 60 "Profits (losses) on financial transactions"

A. Breakdown of item 60 "Profits (losses) on financial transactions" (25.1)				
Items / Operating segments / Values as of 31/12/2017	**Operations on financial instruments**	**Operations on currencies**	**Operations on precious metals**	**Other operations**
Revaluations	72.250			
Writedowns				
Other profits / losses (+/-)	-7.131	332.280		
Total by operating segment	65.119	332.280	-	-
General total				**397.399**

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 2016, 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 (25.1)	Items / Values as of 31/12/2017	Items / Values as of 31/12/2016
	Operations on financial instruments	Operations on financial instruments
Government securities (+/-)	55.384	-1.301.504
Other debt financial instruments (+/-)	8.992	-332.008
Capital financial instruments (+/-)	743	155
Derivative contracts on financial instruments (+/-)		
Total (+/-)	**65.119**	**-1.633.358**

Securities management showed a positive result compared to the previous year following increases in the market prices of government securities held in the free trading portfolio.

Profit and Loss Account items 70 - 80

Tabella 26.1 – Breakdown of item 70 "Other operating income" and item 80 "Other operating charges"

A. Breakdown of item 70 "Other operating income" and item 80 "Other operating charges" (26.1)		
	31/12/2017	31/12/2016
Other operating income		
Real estate rental income	835.021	547.656
Insurance expense recovery	22.244	23.147
Commission income on relationships	792.788	889.558
Other expense recoveries	39.491	54.686
Leasing Rental Capital Share	15.117.242	16.321.684
Total operating income	16.806.786	17.836.731
Other operating charges		
Total operating charges		

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 € 15,117,242 in 2017 and € 16,321,684 in 2016.

Profit and Loss Account item 90

Tabella 27.1 - Number of employees by category and personnel costs

A. Number of employees by category and personnel costs (27.1 - 84)						
Items / Values	**Average**	**Effective number as of 31/12/2017**	**2017 personnel costs**	**Average**	**Effective number as of 31/12/2016**	**2016 personnel costs**
Directors	22,00	21	2.551.661	22,00	23	2.814.053
Managers	15,00	15	1.032.643	16,50	15	1.159.403
Remaining personnel	101,50	95	5.701.052	109,50	108	6.524.775
Clerks	101,50	95	5.701.052	109,50	108	6.524.775
Other personnel	0,00			0	-	
Total	**138,50**	**131**	**9.285.356**	**148,00**	**146**	**10.498.231**

It should also be noted that personnel expenses, detailed in the table above, do not include fees to corporate executives: directors, statutory auditors and managers, as reclassified in the Profit and Loss Account statement and required by article IV.IV.6 of CBSM Regulation 2016-02. Compared to the previous year, the total personnel cost, including fees, decreased by € 1,292,623 and the number of employees decreased by 15 units. That said, 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 Operating Units.

Table 27.2 – Breakdown of sub-item b) "Other administrative expenses"

B. Breakdown of sub-item b) "Other administrative expenses" (27.2)		
Items / Values	**31/12/2017**	**31/12/2016**
Other administrative expenses:	5.328.904	5.221.166
- of which remuneration for independent auditors	62.000	
- of which remuneration for services other than financial statement review		
- of which Other:	5.266.904	5.221.166
Expenses for professional services	779.325	877.660
Expenses for purchase of non-professional goods and services	1.576.301	1.807.272
Rental expenses and instalments	1.775.017	1.784.233
Insurance	180.029	220.029
Supervision charges	617.789	450.000
Charges for charity and sponsorships	83.350	60.000
Indirect taxes and taxes	37.342	21.972
Depositors guarantee fund contribution	217.751	

Table 27.3 – Breakdown of item personnel expenses "Remuneration"

C. Remuneration (27.3)		
Items / Values	**31/12/2017**	**31/12/2016**
Directors	179.103	158.622
Auditors	75.460	81.820
Management	931.015	1.037.902
Total	**1.185.578**	**1.278.344**

Table 27.4 – Breakdown of item personnel expenses "Other personnel expenses"

D. Breakdown of sub-item "other personnel expenses"		
Items / Values	**31/12/2017**	**31/12/2016**
Other personnel expenses:	59.103	152.972
- of which Training expenses		
- of which Other:	59.103	152.972
1.1. Travel and expense reimbursement	38.661	134.910
1.2. Various expenses	20.442	18.062

Profit and Loss Account items 100 - 110

Table 28.1 – 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" (28.1)

Items / Values	31/12/2017	31/12/2016
Intangible asset adjustments:	**739.939**	**947.271**
- on leased assets		
- on other intangible assets	739.939	947.271
1.1. Software	282.036	415.712
1.2. Studies, research and training	53.462	52.403
1.3. Various long-term costs	278.712	329.245
1.5. Expenses for rented premises	51.418	85.787
1.6. Concession rights and underpass works	41.813	41.813
1.7. Goodwill intangible assets	32.498	22.311
Tangible asset adjustments:	**16.388.476**	**17.501.279**
- on leased assets	15.083.238	16.191.268
- on other intangible assets	1.305.238	1.310.011
2.1. Furniture, safes and plants	228.141	221.228
2.2. Electronic machines	82.771	128.701
2.3. Vehicles	13.027	19.984
2.4. Buildings and lands	893.667	918.494
2.5. Equipment and machines	17.632	21.604
2.6. Other assets	70.000	
TOTAL	**17.128.415**	**18.448.550**

The contributions to the various amortization funds of the assets functional to the fiscal year constitute the sum of the shares accrued in 2017, 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 and Training	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. 2016/02 of Central Bank ref. article IV.V.5.

Profit and Loss Account item 120

Table 28.2 – Breakdown of item 120 "Reserves for risks and charges"

A. Breakdown of item 120 "Provisions for risks and charges" (28.2)		
Items / Values	**31/12/2017**	**31/12/2016**
Provisions		
Provisions for legal disputes	71.000	348.000
Total	**71.000**	**348.000**

Provisions amounting to € 71,000 were made for reserves for risks and charges in accordance with the timely update on loss forecasts relating on-going disputes.

Profit and Loss Account item 130

Table 28.3 – Breakdown of item 130 "Provisions for risks on credits"

A. Breakdown of item 130 "Provisions for risks on credits" (28.3)		
Items / Values	**31/12/2017**	**31/12/2016**
Provisions for risks on Credits	-	-

Profit and Loss Account item 140

Table 28.3 – Breakdown of item 130 "Provisions for risks on credits"

A. Breakdown of item 140 "Value adjustments for loan and provisions for guarantees and commitments" (28.4)		
Items / Values	**31/12/2017**	**31/12/2016**
Value adjustments for loans	**4.691.353**	**6.069.679**
- of which flat-rate adjustments for country risk	2	1
- of which other flat-rate adjustments	289.359	357.528
Provisions for guarantees and commitments		
- of which flat-rate provisions for country risk		
- of which other flat-rate provisions		
Total	**4.691.353**	**6.069.679**

In accordance with the CBSM 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 deemed 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 7.1% coverage of cash and off-balance-sheet loans.

Table 28.4 – 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" (28.4)				
Items / Values	**31/12/2017**		**31/12/2016**	
	Analytical	**Flat-rate**	**Analytical**	**Flat-rate**
Total cash credit writedowns	**4.401.992**	**289.361**	**5.712.150**	**357.529**
Credit writedown - non-performing	2.970.381		3.468.371	
Credit writedown - substandard	824.296		1.399.351	
Credit writedown - other	607.315	289.361	844.428	357.529
Total cash credit losses		-	-	-
Non performing				
Substandard				
Other				
Total cash credit value adjustments	**4.401.992**	**289.361**	**5.712.150**	**357.529**
Total provisions for guarantees and commitments		-	-	-
Guarantees				
Commitments				
Total	**4.401.992**	**289.361**	**5.712.150**	**357.529**
General Total	**4.691.353**		**6.069.679**	

During 2017, losses from bad debts were recorded for an amount of € 1,357,211, which was covered using risk provisions for credits adjusting assets.

Profit and Loss Account item 150 – 160 – 170

Table 28.6 – 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" (28.6)		
Items / Values	**31/12/2017**	**31/12/2016**
Writebacks		-
On non-performing loans		
On substandard loans		
On other loans		

Table 28.7 – Breakdown of item 160 "Financial asset adjustments"

Items / Values	31/12/2017	31/12/2016
Value adjustments		
- of which on investments		
- of which on investments in subsidiaries		
- of which on investments in related businesses		
- of which on investments valued at net equity		
- of which on other capital financial instruments		
- of which on debt financial instruments		
- of which on derivative financial instruments		

Table 28.8 – Breakdown of item 170 "Financial asset writebacks"

Items / Values	31/12/2017	31/12/2016
Writebacks		
- of which on investments		
- of which on investments in subsidiaries		
- of which on investments in related businesses		
- of which on investments valued at net equity		
- of which on other capital financial instruments		
- of which on debt financial instruments		
- of which on derivative financial instruments		

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

Profit and Loss Account item 190 - 200

A. Breakdown of item 190 "Extraordinary income" and item 200 "Extraordinary charges" (29.1)

	31/12/2017	31/12/2016
Extraordinary income	999.650	
Windfall gains	124.307	221.884
Collections on positions turned to losses	2.771	152.876
Redemption of customer relationships		204
Redemption of Complaint and Revocation Fund	4.353	236.000
Other extraordinary income		
Total extraordinary income	**1.131.081**	**610.964**
Extraordinary charges	6.375	
Operating damage	41.601	12.359
Repayment of interest income, commissions	7.159	49.770
Redemption of customer relationships	77.758	37.683
Other extraordinary charges		346.258
Total extraordinary charges	**132.893**	**446.070**

PART D –
Other Information

Table 36.1 Payment operation volumes

A. Payment operation volumes (36.1)				
Operation type	**Amount of operations**	**Number of operations**	**Commissions received**	**Expense recoveries**
Credit cards				
Debit cards	61.530.534	692.034	27.114	27.049
Electronic money	17.888	251	167	105
Total	**61.548.422**	**692.285**	**27.281**	**27.154**

	31/12/2017	**31/12/2016**	**Absolute and % changes**	
Income tax for the year	226.961	615.563	-388.602	-63%
Total	226.961	615.563	-388.602	-63%

It should be noted that taxes were earmarked in accordance with the current tax legislation. The high volume is due to the taxation of the Provision for risks on credits over 5% of total loans, thus increasing the tax rate to 103.46%.

Table 31.1 - Prudential aggregates	**31/12/2017**
	Amount
Supervisory capital	84.167.481
A1. Core capital	73.876.145
A2. Supplementary capital	22.500.962
A3. Items to be deducted	7.110.528
A.4 Risk asstes for shareholders	5.099.098
A4. Supervisory capital	**84.167.481**
Risk assets and supervisory ratios	
B1. Weighted risk assets	**462.676.445**
C1. Supervisory capital / Weighted risk assets	**18,19%**

For the drawing up of the items, the indications of the CBSM 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 18.19% which is by far higher than the regulatory limit of 11%.

Table 32.1 – Major risks

Major Risks	31/12/2017	31/12/2016	Changes	
Amount	53.510.705	102.209.858	-48.699.153	-47,65%
Number	5	8	-3	-37,50%

This table shows the total weighted amount and the number of risk positions that constitute a "major risk" according to the current supervisory standards. To that effect, it is to be noted that the bank is subject to the required limits.

Table 32.2 – Risks to related parties

Risks to related parties	31/12/2017	31/12/2016	Changes	
Amount	20.103.375	32.296.978	-12.193.603	-37,75%
Number	8	8	0	0,00%

The table above shows the total weighted 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 33.1 – Time distribution of assets and liabilities

A. Time distribution of assets and liabilities (33.1)														
Items / Residual maturities as of 31/12/2017	**Total**	**At sight**	**Up 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**
Fixed rate (F) / Variable rare (V)						**F**	**V**	**F**	**V**	**F**	**V**	**F**	**V**	
Assets														
Treasury Securities and other financial instruments eligible for refinancing with central banks	-													
Loans to credit institutions	121.200.553	67.301.684	23.502.331											30.396.538
Loans to customers	542.798.321	118.156.641	36.759.111	22.265.759	24.813.464	1.540.453	21.361.276	855.524	19.125.188	2.036.255	92.442.532	420.281	142.713.640	60.308.197
Bonds and other debt financial instruments	32.725.096									5.206.629		27.518.467		
Off-balance operations	21.123.797	7.898.022	3.036.338	227.326	705.701	439.651		443.334		1.839.003		6.534.423		
Liabilities	720.675.289	396.630.442	109.820.273	70.823.059	53.862.176	39.322.665	18.133.479	8.832.982	5.911.915	2.708.109	14.630.189	-	-	-
Amounts due to credit institutions	784.447	784.447												
Amounts due to customers	413.157.964	394.485.471	2.743.023	762.084	15.167.386									
Payables represented by financial instruments:	293.871.718	515.508	103.071.868	70.060.975	38.694.790	39.322.665	14.128.098	8.832.982	5.911.915	2.708.109	10.624.808	-	-	-
Bonds	-													
Certificates of deposit	293.871.718	515.508	103.071.868	70.060.975	38.694.790	39.322.665	14.128.098	8.832.982	5.911.915	2.708.109	10.624.808			
Other financial instruments	-													
Other liabilities: outstanding cheques and securities	845.016	845.016												
Subordinate liabilities	12.016.144		4.005.382				4.005.381				4.005.381			
Off-balance operations	21.123.797	7.898.022	3.036.338	227.326	705.701	439.651		443.334		1.839.003		6.534.423		

A. Time distribution of assets and liabilities (33.1)														
Items / Residual maturities as of 31/12/2016	**Total**	**At sight**	**Up 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**
Fixed rate (F) / Variable rare (V)						**F**	**V**	**F**	**V**	**F**	**V**	**F**	**V**	
Assets	153.148.166	88.912.764	36.897.392	115.572		-								27.222.438
Loans to banks	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
Loans to customers	58.589.680		-	-	-	-		-		5.353.276		53.236.405		
Bonds and other debt financial instruments	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		
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												-	-	-
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									
Payables 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	-	

The following table provides an overview of the pro-forma profit and loss account and the main indicators, noting that the other operating income was net of the component relating to amortization of lease rentals received during the year, equal to the capital share, which according to CBSM Reg. 2016/02 were included in the value adjustments on fixed assets. Therefore, the intermediation margin amounts to € 20,956,645 in 2017 compared € 21,445,381 in the previous year.

PROFIT AND LOSS ACCOUNT ITEMS	31/12/2017	% Margine Intermed.	31/12/2016	% Margine Intermed.	CHANGE	
					ABSOLUTE	%
Interest income and similar revenues	19.660.080	342,23%	23.782.291	110,90%	-4.122.211	-17,33%
of which: a) Interest income to customers	19.041.146	331,46%	21.676.776	101,08%	-2.635.629	-12,16%
b) Interest income to banks	82.390	1,43%	217.588	1,01%	-135.198	-62,13%
c) Interest income on debt securities	536.543	9,34%	1.887.928	8,80%	-1.351.384	-71,58%
Interest expense and similar charges	-4.923.553	-85,71%	-7.768.679	-36,23%	2.845.126	-36,62%
of which: a) Interest expense to customers	-839.331	-14,61%	-1.249.580	-5,83%	410.248	-32,83%
b) Interest expense on payable represented by securities	-4.082.595	-71,07%	-6.517.886	-30,39%	2.435.291	-37,36%
c) Interest expense to banks	-1.627	-0,03%	-1.213	-0,01%	-413	34,05%
Interest margin	**14.736.527**	**256,52%**	**16.013.613**	**74,67%**	**-1.277.086**	**-7,98%**
Dividends and other revenues	475.415	8,28%	918.907	4,28%	-443.493	-48,26%
Financial margin	**15.211.942**	**264,80%**	**16.932.520**	**78,96%**	**-1.720.578**	**-10,16%**
Net commissions	3.623.757	63,08%	4.236.834	19,76%	-613.077	-14,47%
of which: a) commission income	4.465.221	77,73%	4.985.395	23,25%	-520.174	-10,43%
b) commission expense	-841.463	-14,65%	-748.561	-3,49%	-92.903	12,41%
Profit and loss on financial transactions	397.399	6,92%	-1.369.436	-6,39%	1.766.835	129,02%
of which: a) On securities	65.119	1,13%	-1.633.358	-7,62%	1.698.477	-103,99%
b) On exchanges	332.280	5,78%	263.922	1,23%	68.358	25,90%
Other operating income	1.723.547	30,00%	1.645.463	7,67%	78.084	4,75%
Other overhead costs	0			0,00%	0	
Service margin	**5.744.703**	**100,00%**	**4.512.862**	**21,04%**	**1.231.842**	**27,30%**
Intermediation margin	**20.956.645**	**364,80%**	**21.445.381**	**100,00%**	**-488.737**	**-2,28%**
Operating costs	-16.973.104	-295,46%	-18.370.093	-85,66%	1.396.990	-7,60%
of which: a) Peronnel expenses	-9.599.022	-167,09%	-10.891.646	-50,79%	1.292.624	-11,87%
b) Other administrative expenses	-5.328.904	-92,76%	-5.221.166	-24,35%	-107.738	2,06%
c) Tangible and intangible asset adjustments	-2.045.177	-35,60%	-2.257.281	-10,53%	212.104	-9,40%
Operating result	**3.983.541**	**69,34%**	**3.075.288**	**14,34%**	**908.253**	**29,53%**
Allocations and net adjustments on credits	-4.691.353	-81,66%	-6.069.679	-28,30%	1.378.326	-22,71%
Provisions for risks and charges	-71.000		-348.000		277.000	
Financial asset adjustments		0,00%		0,00%	0	
Profit from operations	**-778.812**	**-13,56%**	**-3.342.391**	**-15,59%**	**2.563.579**	**-76,70%**
Extraordinary profit (los)	998.188	17,38%	164.894	0,77%	833.294	505,35%
Change in reserves for general banking risks (+/-)	0	0,00%	0		0	
Income tax	-226.961	-3,95%	-615.563	-2,87%	388.602	-63,13%
Net profit for the period	**-7.585**	**-0,13%**	**-3.793.060**	**-17,69%**	**3.785.475**	**99,80%**
Tax rate	103,46%		-19,37%			
Cost/income	80,99%		85,66%			
Interest margin/Intermediation margin	70,32%		74,67%			
Servicemargin/Intermediation margin	27,41%		21,04%			
Operating result/Intermediation margin	19,01%		14,34%			
Roe	-0,01%		-4,21%			
PERSONNEL EXPENSES/INTERMEDIATION MARGIN	45,80%		50,79%			
ADMINISTRATIVE EXPENSES (total)/INTERMEDIATION MARGIN	71,23%		75,13%			
ADMINISTRATIVE EXPENSES (other expenses)/INTERMEDIATION MARGIN	25,43%		24,35%			
Roa	0,00%		-0,34%			

San Marino, 13 April 2018

The Chief Executive Officer

The President of the Board of Directors

Consolidated Balance Sheet

Financial Statement

Reports and Balance Sheet

2017

BAC

As of 31/12/2017, the group has a consolidated value of total deposits of 1,284 million, divided into direct and indirect deposits, for € 661 million and € 624 million respectively.
The aggregate still sees, albeit less marked than in previous years, a decrease in total deposits of € -68.285 million compared to 31/12/16 (-5.05%).
The causes of this contraction are essentially related to the reputational risk of the country system; the economic and financial crisis that began in 2007 hit San Marino more markedly, as it is associated with a series of exogenous shocks among which it is worth mentioning the permanence of San Marino for several years in the blacklist of the main economic and commercial partner, and the repeated foreign measures on capital repatriation.
These events contributed to weakening the economic/financial system that has so far had little access to foreign capital markets and cannot count on a "lender of last resort".
The year just ended saw the downgrade of the rating of San Marino from BBB to BBB-, to be attributed to the uncertainties of the banking sector due to the considerable losses recorded by the largest bank and the closure of a credit institution in the spring of 2017, in addition to the need for the country system to find a new effective business model.
Total balance sheet assets as at 31/12/2017 amounted to 1,157 million, compared to 1,226 million as at 31/12/16, while loans to customers, expressed at their estimated realizable value (therefore already net of the risk provision for credits of € 40.9 million), fell from 576 million to 540 million, showing a decrease of 37 million in absolute terms.
In the year 2017, the group achieved a consolidated intermediation margin of € 37.284 million, showing a decrease of -4.74% compared to 2016.
Operating costs, equal to 33.305 million, show a decrease of -7.56% compared to 31/12/16 (-36.028 million in 2016), and can basically be attributed to the amortization for the capital share of assets subject to financial leasing granted to customers, accounting for 15.083 million on 2017 and 16.191 million on 2016, while the effective adjustments on immovable fixed assets are equal to 2.143 million in 2017, compared to 2.363 million in 2016.
Personnel costs show a reduction of € -1.381 million (-12.00% compared to 31/12/16), while administrative expenses stabilized as a result of the rationalization processes undertaken in previous years, with a slight decrease of -0.23% (-0.013 million).

The Report shows an increase in the operating result equal to +0.868 million compared to 3.100 million in 2016 (+27.91%) and a consolidated profit of 0.110 million after having incurred substantial provisions for risks on loans and provisions for risks and charges for a total of - 4,762 million, as a result of a careful and strict assessment of the credits of all the companies of the group.
The Report sets out the consolidated data for 2017, compared with the data for 2016, processed on the basis of the consolidation area.
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 and Loss Account consolidated as of 31 December 2017, which were drawn up according to the following stages:

- the individual accounting situation of BAC as of 31/12/2017, 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.

Financial statements
Items in asset postings

Consolidated Financial StatementS BAC - Bac Fiduciaria - San Marino Life					
Item code	Asset items	31/12/2017	31/12/2016	absolute change	percent change
10	**Cash and cash equivalents**	**6.140.884**	**5.333.870**	**807.014**	**15,13%**
20	**Loans to banks**	**126.619.672**	**158.652.361**	**-32.032.689**	**-20,19%**
	a. at sight	72.720.803	94.416.960	-21.696.157	-22,98%
	b. other receivables	53.898.869	64.235.402	-10.336.532	-16,09%
30	**Loans to customers**	**446.359.730**	**456.218.495**	**-9.858.766**	**-2,16%**
40	**Bonds and other debt financial instruments**	**179.980.532**	**192.263.732**	**-12.283.200**	**-6,39%**
	a. public issuers	84.387.988	109.450.961	-25.062.973	-22,90%
	b. bank issuers	-		-	
	b.1. of which own financial instruments	-	-	-	
	c. investors (investment firms)	-	-	-	-
	d. other issuers	95.592.544	82.812.771	12.779.773	15,43%
50	**Shares, stocks and other capital financial instruments**	**90.246.344**	**112.945.013**	**-22.698.669**	**-20,10%**
60	**Shareholdings**	**4.768.052**	**4.730.450**	**37.602**	**0,79%**
70	**Investments in bank group companies**	**342.704**	**337.689**	**5.015**	**1,48%**
80	**Intangible fixed assets**	**1.624.994**	**2.171.224**	**-546.231**	**-25,16%**
	a. of which goodwill	-	32.498	-32.498	
90	**Tangible fixed assets**	**190.203.407**	**202.814.961**	**-12.611.555**	**-6,22%**
	a. of which financial leases	93.809.146	115.166.013	-21.356.866	-18,54%
	b. of which assets awaiting lease	2.620.786	5.656.428	-3.035.642	-53,67%
100	**Subscribed paid capital not paid-in**	**-**	**-**	**-**	
110	**Treasury shares or stocks**	**14.378**	**14.378**	**-**	**0,00%**
120	**Other assets**	**109.475.168**	**89.418.291**	**20.056.876**	**22,43%**
130	**Accrued income and prepaid expenses**	**995.728**	**723.682**	**272.046**	**37,59%**
	a. accrued income	553.430	490.156	63.274	12,91%
	b. prepaid expenses	442.298	233.526	208.772	89,40%
140	**Total assets**	**1.156.771.591**	**1.225.624.149**	**-68.852.558**	**-5,62%**

*** expressed at the fair value (total adjustment provisions for credits amounting to € 40,937,416)**

Items in liability postings and equity

Item code	Liability items	31/12/2017	31/12/2016	absolute change	percent change
10	**Amounts due to banks**	**997.651**	**621.740**	**375.911**	**60,46%**
	a. at sight	784.447	389.356	395.091	101,47%
	b. term or without notice	213.204	232.384	-19.180	-8,25%
20	**Amount due to customers**	**411.843.105**	**422.610.430**	**-10.767.325**	**-2,55%**
	a. at sight	393.165.119	411.083.068	-17.917.950	-4,36%
	b. term or without notice	18.677.986	11.527.361	7.150.625	62,03%
30	**Paybles represented by financial instruments**	**293.871.718**	**351.562.596**	**-57.690.878**	**-16,41%**
	a. bonds	-	-	-	-
	b. certificates of deposit	293.871.718	351.562.596	-57.690.878	-16,41%
	c. other financial instruments	-	-	-	
40	**Other liabilities**	**114.690.736**	**99.916.147**	**14.774.589**	**14,79%**
50	**Accrued expenses and deferred income**	**78.516**	**72.072**	**6.444**	**8,94%**
	a. accrued expenses	12.511	19.677	-7.166	-36,42%
	b. deferred income	66.006	52.395	13.611	25,98%
60	**Severance**	**641.851**	**1.063.159**	**-421.308**	**-39,63%**
70	**Reserves for risks and charges**	**2.546.290**	**3.068.930**	**-522.640**	**-17,03%**
	a. provision for pensions and similer obligations	-	-	-	
	b. tax reserves	930.242	1.047.122	-116.880	-11,16%
	c. other reserves	1.616.048	1.855.791	-239.743	-12,92%
80	**Risk provisions for credits not adjusting assets**	**50.000**	**166.017**	**-116.017**	**-69,88%**
90	**Technical reserves**	**229.756.707**	**240.539.171**	**-10.782.464**	**-4,48%**
100	**Subordinate liabilities**	**12.016.144**	**16.021.731**	**-4.005.588**	**-25,00%**
110	**Share capital**	**20.880.080**	**20.880.080**	**-**	**0,00%**
120	**Share premium reserves**	**-**	**-**	**-**	
130	**Reserves**	**58.410.046**	**58.410.046**	**-**	**0,00%**
	a. ordinary reserves	58.395.668	58.395.668	-	0,00%
	b. treasury and share reserves	14.378	14.378	-	0,00%
	c. extraordinary reserves	-	-	-	
	d. other reserves	-	-	-	
140	**Revaluation reserves**	**14.789.392**	**14.651.105**	**138.287**	**0,94%**
150	**Retained earnings (losses) (+/-)**	**-3.793.060**	**-**	**-3.793.060**	
160	**Net income (loss) for the period (+/-)**	**110.232**	**-3.750.697**	**3.860.929**	**-102,94%**
	Minority interests	-	-	-	
	Merger surplus	-117.816	-42.361	-75.455	178,12%
170	**Total liabilities**	**1.156.771.591**	**1.225.624.149**	**-68.852.557**	**-5,62%**

Profit and loss account

Item code	Profit and Loss Account Items	31/12/2017	31/12/2016	absolute change	percent change
	Insurance premiums	25.160.783	48.283.456	-23.122.673	-47,89%
10	**Interest income and similar revenues**	**21.156.255**	**25.131.811**	**-3.975.556**	**-15,82%**
	a. on loans to customers	19.029.005	21.666.553	-2.637.548	-12,17%
	b. on debt securities	2.044.841	3.247.670	-1.202.830	-37,04%
	c. on amounts due from banks	82.409	217.588	-135.178	-62,13%
20	**Interest expense and similar charges**	**-4.923.533**	**-7.768.679**	**2.845.145**	**-36,62%**
	a. on loans to customers	-838.753	-1.249.580	410.827	-32,88%
	b. on bond paybles	-4.082.595	-6.517.886	2.435.291	-37,36%
	c. on amounts due from banks	-2.186	-1.213	-973	80,14%
30	**Dividends and other revenues**	**-**	**155.000**	**-155.000**	**-100,00%**
	a. on stocks	-	-	-	
	b. on shares	-	155.000	-155.000	-100,00%
	c. on group company shares				
40	**Commission income**	**4.511.118**	**5.131.122**	**-620.004**	**-12,08%**
50	**Commission expense**	**-627.105**	**-512.190**	**-114.915**	**22,44%**
60	**Profits (losses) on financial transactions (+/-)**	**3.854.959**	**4.686.951**	**-831.992**	**-17,75%**
70	**Other operating income**	**17.945.938**	**19.136.874**	**-1.190.937**	**-6,22%**
80	**Other overhead costs**	**-29.794.349**	**-55.104.539**	**25.310.190**	**-45,93%**
90	**Administrative expenses**	**-16.078.775**	**-17.474.177**	**1.395.402**	**-7,99%**
	a. personnel expenses	-10.137.949	-11.519.850	1.381.901	-12,00%
	a.1. salaries and wages	-7.244.421	-8.167.555	923.134	-11,30%
	a.2. welfare contributions	-1.838.699	-2.092.219	253.520	-12,12%
	a.3. severance	-655.503	-781.052	125.550	-16,07%
	a.4. dormancy and similar	-	-	-	
	a.5. directors and auditors	-339.359	-326.052	-13.307	4,08%
	a.6. other personnel costs	-60.044	-153.049	93.004	-60,77%
	b. other administrative expenses	-5.940.826	-5.954.327	13.501	-0,23%
100	Intangible asset adjustment	-751.360	-967.035	215.675	-22,30%
	of which on intangible assets leased			-	
110	Tangible asset adjustments	-16.474.895	-17.587.741	1.112.846	-6,33%
	of which on tangible assets leased	-15.083.238	-16.191.268	1.108.030	-6,84%
120	**Provisions for risks and charges**	**-71.000**	**-348.000**	**277.000**	
130	**Provisions for risks on credits**			**-**	
140	**Value adjustments for loans and provisions for guarantees and commitments**	**-4.691.353**	**-6.069.679**	**1.378.326**	**-22,71%**
150	**Writebacks on loans and on provisions for guarantees and commitments**				
160	**Financial asset adjustments**				
170	**Financial asset writebacks**				
180	**Operating income (loss)**	**-783.316**	**-3.306.824**	**2.523.508**	**-76,31%**
190	**Extraordinary income**	**1.307.510**	**687.741**	**619.769**	**90,12%**
200	**Extraordinary expense**	**-134.105**	**-451.104**	**316.998**	**-70,27%**
210	**Extraordinary income (loss)**	**1.173.404**	**236.637**	**936.767**	**395,87%**
220	**Variations in general banking risk reserves (+/-)**			**-**	
230	**Taxation for the year**	**-279.857**	**-680.511**	**400.654**	**-58,88%**
240	**Income (loss) for the period**	**110.232**	**-3.750.697**	**3.860.929**	**-102,94%**

Guarantees and commitments

Item code	Items	31/12/2017	31/12/2016	absolute change	percent change
10	**Guarantees given**	**17.704.978**	**26.192.920**	**-8.487.942**	**-32,41%**
	a. acceptances	2.340.201	1.496.369	843.832	56,39%
	b. other guarantees	15.364.777	24.696.551	-9.331.773	-37,79%
20	**Commitments**	**3.418.819**	**26.101.701**	**-22.682.882**	**-86,90%**
	a. for specific use	-	-	-	
	a.1. of which financial instruments	-	-	-	
	b. for unspecific use	2.163.767	1.968.852	194.916	9,90%
	b.1. of which financial instruments	-	-	-	
	c. other commitments	1.255.051	24.132.849	-22.877.798	-94,80%
30	**Total**	**21.123.797**	**52.294.621**	**-31.170.824**	**-59,61%**

Deposits and Loans to customers

Deposits/Loans	31/12/2017	31/12/2016	absolute change	percent change
Amounts due from customers	**540.168.876**	**576.858.919**	**-36.690.043**	**-6,36%**
Coverage	**7,01%**	**6,18%**	**0,83%**	**13,42%**
Coverage on doubtful loans	**24,39%**	**22,63%**	**1,76%**	**7,78%**
Loans/direct deposits	**81,73%**	**81,92%**	**-0,19%**	**-0,23%**
Direct deposits	**660.913.159**	**704.181.008**	**-43.267.849**	**-6,14%**
of which CD	276.610.000	337.325.400	-60.715.400	-18,00%
of which Bonds	2.632.200	3.109.600	-477.400	-15,35%
of which deposits at sight	363.177.160	361.145.184	2.031.976	0,56%
			-	
Indirect deposits	**623.734.744**	**648.752.388**	**-25.017.645**	**-3,86%**
a. Administered deposits	255.470.568	279.125.916	-23.655.348	-8,47%
a.1. of which administered funds	-	-	-	
b. Managed deposits	368.264.176	369.626.472	-1.362.296	-0,37%
b.1. of which managed funds	124.188.244	102.196.694	21.991.551	21,52%
b.2. of which insurance bank	225.736.795	237.537.060	-11.800.265	-4,97%
Total Deposits	**1.284.647.903**	**1.352.933.397**	**-68.285.494**	**-5,05%**

Reclassified consolidated profit and loss account

Consolitated profit and loss account	31/12/2017	31/12/2016	CHANGE	
			ABSOLUTE	%
Interest margin	16.232.722	17.518.133	-1.285.411	-7,34%
Net commissions	3.884.013	4.618.933	-734.919	-15,91%
Profits and losses from financial transactions	3.854.959	4.686.951	-831.992	-17,75%
Other revenues	-11.848.411	-35.967.665	24.119.253	-67,06%
Brokerage income	**-4.109.439**	**-26.661.780**	**22.552.342**	**-84,59%**
Margin on insurance operacions	25.160.783	48.283.456	-23.122.673	-47,89%
Intermediation margin	37.284.066	39.139.808	-1.855.742	-4,74%
Personnel expenses	-10.137.949	-11.519.850	1.381.901	-12,00%
Administrative expenses	-5.940.826	-5.954.327	13.501	-0,23%
Tangible and intangible asser adjustments	-17.226.254	-18.554.776	1.328.522	-7,16%
-of which Value adjustments on tangible and intangible assets leased	**-15.083.238**	**-16.191.268**	**1.108.030**	**-6,84%**
Operating costs	**-33.305.029**	**-36.028.953**	**2.723.924**	**-7,56%**
Operating result	**3.979.037**	**3.110.855**	**868.182**	**27,91%**
Provisions and net adjustments on credits	-4.762.353	-6.417.679	1.655.326	-25,79%
Extraordinary profit	1.173.404	236.637	936.767	395,87%
Taxation on income for the year	-279.857	-680.511	400.654	-58,88%
Result for the year	**110.232**	**-3.750.697**	**3.860.929**	**102,94%**

Aggregate data of the banking group and San Marino banking system – market share as of 31/12/2017

(Data in thousands of euros)

Description of items	System Aggregate Data	Aggregate data of the bank group	Group market share vs
	30/09/2017	31/12/2017	30/09/2016
Main asset items			
Loans	3.062.353	583.736	19,06%
of which non-performing loans	586.336	78.260	13,35%
Bonds and debt securities	711.760	179.981	25,29%
Interests and equity securities	239.183	95.357	39,87%
Deposits			
Direct deposits	**3.829.722**	**660.913**	**17,26%**
of which deposits to customers at sight	1.829.925	363.177	19,85%
of which Certificates of Deposit	1.427.005	276.610	19,38%
of which Bonds	355.834	2.632	0,74%
Indirect deposits	**1.740.448**	**623.735**	**35,84%**
of which: administered securities	1.429.559	566.711	39,64%
of which: classical asset managements	307.554	57.024	18,54%
Total deposits	**5.570.170**	**1.284.648**	**23,06%**
Deposits and interbank loans			
Credits vs banks	279.460	126.620	45,31%
Debts vs banks	105.867	998	0,94%
Shareholders' equity and total assets			
Shareholders' Equity	315.188	94.072	
Total assets	4.543.157	1.156.772	
Operating indicators			
loans/direct deposits	79,96%	88,32%	
Gross non-performing loans/Gross loans	19,15%	13,41%	
Shareholders' equity/Total assets	6,94%	8,13%	

San Marino, 13 April 2018 The President

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Auditor report on the financial Statement

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BANCA AGRICOLA COMMERCIALE

BAC S.p.A.

Auditing firm's report pursuant to article 33 of Law no. 165/2005, article 68 of Law no. 47/2006, Regulation 2007-07 and Regulation 2016-02.

Financial statements as of 31 December 2017

Auditing firm's report
pursuant to article 33 of Law no. 165/2005, article 68 of Law no. 47/2006, Regulation 2007-07 and Regulation 2016-02

To the shareholders of BAC S.p.A.

Introduction

We audited the financial statements of BAC S.p.A. (hereinafter referred to as the Company), 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.

Scope of the legal audit

We carried out the audit in compliance with the regulations in force in the Republic of San Marino and, where applicable, with the international auditing standards. Our responsibilities under these principles are further described in the section of this report entitled Responsibilities of the auditing firm for the audit of financial statements. We are independent of the Company in compliance with the rules and principles on ethics and independence applicable in the San Marino system to the audit of financial statements. We believe that we acquired sufficient and appropriate audit evidence on which to base our judgment.

Responsibility of the directors and the board of statutory auditors 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 on their preparation, and within the terms provided for by law, for the part of internal audit deemed necessary by the directors themselves to allow the preparation of financial statements without significant errors due to fraud or unintentional behavior or events.

The directors are responsible for the assessment of the Company's ability to continue operating as an operating entity and, in preparing the financial statements, for the appropriateness of the use of the going concern assumption, as well as for adequate disclosure on the matter. The directors use the going concern assumption in preparing the financial statements unless they have considered that the conditions exist for the liquidation of the Company or the interruption of business, or have no realistic alternatives to such choices.

The statutory auditors are responsible for supervising, within the terms provided for by law, the process of preparing the Company's financial policy.

Responsibility of the auditing firm for the audit of the financial statements

Our objective is to acquire reasonable certainty that the financial statements as a whole do not contain significant errors, due to fraud or unintentional behavior or events, and to issue an audit report that includes our judgment.

Reasonable certainty means a high level of security which, however, does not provide the assurance that an audit carried out in compliance with the legislation in force in the Republic of San Marino and, where applicable, with the international auditing standards, will always identify a significant error, if existing.

Errors can result from fraud or unintentional behavior or events and are considered significant if it can reasonably be expected that they, individually or as a whole, are able to influence the economic decisions made by the users on the basis of the financial statements.

As part of the audit carried out in accordance with the legislation in force in the Republic of San Marino and, where applicable, the international auditing standards, we exercised our professional judgment and maintained professional skepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material errors in the financial statements due to fraud or unintentional behavior or events; we defined and performed audit procedures in response to these risks; we acquired sufficient and appropriate audit evidence on which to base our judgment. The risk of not identifying a significant error due to fraud is higher than the risk of not identifying a significant error arising from unintentional behavior or events, since fraud may imply the existence of collusion, forgery, intentional omissions, misleading representations or internal audit forcing;
- we acquired a relevant understanding of the internal control for auditing purposes in order to define appropriate circumstantial audit procedures and not to express an opinion on the effectiveness of the internal control of the Company;

- we assessed the appropriateness of the accounting principles used, as well as the reasonableness of accounting estimates made by the directors, including the related disclosure;
- we reached a conclusion on the appropriateness of the use of the business continuity assumption by the directors and, based on the audit evidence, on the presence of significant uncertainty regarding events or circumstances that may give rise to significant doubts about the Company's ability to continue operating as an operating entity;
- in the presence of significant uncertainty, we are required to draw the attention in the audit report to the related disclosure, or, if such disclosure is inadequate, to reflect this fact in the formulation of our judgment. Our conclusions are based on the audit evidence obtained up to the date of this report. However, subsequent events or circumstances may result in the Company ceasing to operate as an operating entity;
- we assessed the presentation, structure and content of the financial statements as a whole, including the disclosure, and whether the financial statements represent the underlying transactions and events in order to provide a correct representation.

We informed the managers of the governance activities, identified at an appropriate level, among other aspects, of the scope and timing planned for the audit and the significant results that emerged, including any significant deficiencies in the internal control found during the audit.

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 2017 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 in the explanatory notes and management report.

With regard to the inspections aimed at the Asset Quality Review, the Supervisory Authority ordered an update of the data on the evidence as at 30 June 2017. Pending the outcome of the process update, not yet available to date, in accordance with the 2017-2019 three-year plan approved in the first few months of 2017 the Company continued and will continue its process of renewing and improving the efficiency of the Banking Group through the following guidelines:

- strong focus on the most profitable business priorities absorbing less capital;

- careful management of the loan disbursement process through a prudent selection of investment opportunities;
- accurate "in-house" management of the NPL stock, whose net value is expected to be significantly reduced;
- further significant provisions for credit risk funds;
- accurate risk management through the specific "mapping" of the "BAC Risk Universe", in order to monitor the management risks of the entire Group in a precise manner;
- further reduction in management expenses, with a consequent reduction in the cost-income ratio;
- strong determination in the commercial development of subsidiaries, in particular Bac Investments SG;
- full recognition of the expected profits to increase the regulatory capital.

In light of these objectives, the Bank expects to close the future financial years with a profit and therefore to be able to absorb both the loss generated in 2016 and the more contained loss recorded in the 2017 financial year.

Report on other provisions of law and regulations

Judgment pursuant to article VIII.I.1, paragraph 2, letter a) and b) of Regulation no. 2016-02 issued by the Central Bank of the Republic of San Marino (the Regulation)

The directors of BAC S.p.A. are responsible for the preparation of the management report as at 31 December 2017, including its consistency with the related financial statements and its compliance with the Regulation.

We carried out the procedures indicated in the Regulation and in the international auditing standard (SA Italia no. 720B), in order to express an opinion on the consistency of the management report with the financial statements of the BAC S.p.A. as at 31 December 2017 and on its compliance with the Regulation, as well as to issue a declaration on any relevant incorrect statements.

In our opinion, the management report is consistent with the financial statements of BAC S.p.A. as at 31 December 2017 and drafted in compliance with the Regulation.

With reference to the declaration referred to in article VIII.I.1, paragraph 2, letter b) of the Regulation, based on the knowledge and understanding of the company and the related context acquired during the audit, we have nothing to report.

Bologna, 16 April 2018

BDO Italia S.p.A

Livio Mezzetti
Partner

DECLARATION

EX ARTICLE 6, TENTH PARAGRAPH, OF LAW NO. 47 OF 23 FEBRUARY 2006

AS AMENDED

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The undersigned Livio Mezzetti, born in Ravenna (Italy) on 15/08/1962, resident in Ravenna (Italy), Via Maggiore n. 100, of Italian citizenship, tax code MZZLVI62M15H199Z, ai sensi e per gli effetti di quanto previsto dall'art. 6, decimo comma, della Legge 23 febbraio 2006 n. 47 e successive modifiche e integrazioni,

declares

under his own responsibility, the permanence on the same of the objective and subjective conditions required by the aforementioned for the continuation of the office of Member - Statutory Auditor of the company BDO Italia S.p.A.

Bologna, 16 April 2018

Sincerely

BDO Italia S.p.A.

Livio Mezzetti
Partner

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BANCA AGRICOLA COMMERCIALE
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