

2016
FINANCIAL STATEMENTS



**Banca Popolare
Volksbank**

Banca Popolare dell'Alto Adige

Joint-stock company

Registered office and head office: Via del Macello, 55 – I-39100 Bolzano

Share Capital as at 31 December 2016: Euro 199,439,716 fully paid in

Tax code, VAT number and member of the Business Register of Bolzano no. 00129730214

The bank adheres to the inter-bank deposit protection fund and the national guarantee fund

ABI 05856.0

www.bancapopolare.it – www.volksbank.it



„Wir arbeiten 2017 konzentriert daran, unseren Strategieplan weiter umzusetzen, die Kosten zu senken, die Effizienz und Rentabilität der Bank zu erhöhen und die Digitalisierung voranzutreiben. Auch als AG halten wir an unserem Geschäftsmodell einer tief verankerten Regionalbank in Südtirol und im Nordosten Italiens fest.“

Otmar Michaeler
Volksbank-Präsident

DIE VOLKSBANK HAT EIN HERAUSFORDERNDES JAHR 2016 HINTER SICH.

Wir haben vieles umgesetzt, aber unser hoch gestecktes Renditeziel konnten wir nicht erreichen. Für 2017 haben wir uns vorgenommen, unsere Projekte und Ziele mit noch mehr Ehrgeiz zu verfolgen und die Rentabilität der Bank deutlich zu erhöhen.

Schätzte Mitglieder,

2016 wird als das Jahr der Umwandlung in eine Aktiengesellschaft in die Geschichte der Volksbank eingehen. Diese vom Gesetzgeber aufgelegte Herausforderung haben die Mitglieder im Rahmen der Mitgliederversammlung im November mit einer überwältigenden Mehrheit von 97,5 Prozent angenommen. Gleichzeitig haben wir die Weichen gestellt, um auch als AG eine erfolgreiche und tief verankerte Regionalbank zu sein.

Die Volksbank hat 2016 mit einem bescheidenen Gewinn von 7,7 Mio. Euro abgeschlossen. Zur Halbjahresbilanz hatten wir Ihnen die Gründe für die zusätzlichen Wertberichtigungen auf Kredite dargestellt, die zum Halbjahres-Verlust geführt haben und Ihnen mitgeteilt, dass wir für das zweite Halbjahr von einer positiven Geschäftsentwicklung ausgehen. Das ist so eingetroffen. Wir sind zwar froh, dass wir unser Versprechen gehalten haben, dass wir im zweiten Halbjahr deutlich aufholen konnten und für 2016 einen Gewinn ausweisen können – aber zufrieden sind wir damit nicht.

Unser Anspruch ist es, aus der Volksbank eine noch stärkere und renditekräftigere Bank zu machen. Wir haben uns vorgenommen, in den folgenden Jahren die Erträge deutlich zu steigern und gleichzeitig die Kosten zu senken. Unser Strategieplan 2017–2021 sieht vor, dass wir die Effizienz der Bank erhöhen und die Digitalisierung vorantreiben – und zwar so, dass viele digitale Produkte und Dienstleistungen für unsere Kunden noch schneller, einfacher und vor allem jederzeit verfügbar sind. Natürlich setzen wir weiterhin auf persönliche

Beziehungen und wollen auch in Zukunft Kredite für Familien und kleine sowie mittlere Unternehmen im Einzugsgebiet vergeben. Unser vorrangiges Ziel ist es, beste Lösungen für unsere gegenwärtig fast 60.000 Mitglieder und über 260.000 Kunden zu finden.

All dies wird uns in die Lage versetzen, in Zukunft wieder Dividenden auszuschütten. Angesichts des bescheidenen Gewinns des abgelaufenen Geschäftsjahres schlägt der Verwaltungsrat der Mitgliederversammlung vor, keine Dividende auszuzahlen und den Gewinn für die Stärkung des Eigenkapitals zu nutzen.

Zum heurigen 25-Jahr-Jubiläum der Fusion zwischen den Volksbanken von Bozen und Brixen kann unsere Bank auf ebenso viele Jahre Gewinn und Solidität zurückblicken. Mit 860 Mio. Euro war unsere Eigenkapitaldecke noch nie so stark wie heute. Mit fast 60.000 Mitgliedern sind wir im gesamten Einzugsgebiet von Bozen bis Venedig stark verankert.

Danke für Ihre Unterstützung und Ihr Vertrauen.

Ihr

Otmar Michaeler
Präsident des Verwaltungsrates



“In 2017, we will vigorously endeavour to achieve the business plan and contain costs in order to improve the Bank’s efficiency and profitability, focusing on digitalisation. The transformation to a joint-stock company will not result in changes to our business model. We will remain deeply rooted as the regional bank of north-eastern Italy.”

Otmar Michaeler
Chairman of the Board of Directors

FOR BANCA POPOLARE · VOLKSBANK, 2016 WAS A CHALLENGING YEAR. Numerous important projects were completed, but, unfortunately, the ambitious objective related to profitability was not achieved. In 2017, we will re-commit to implement our projects, pursue our objectives with renewed determination, and markedly improve the Bank's profitability.

Eskeped Shareholders,

Dear Shareholders, 2016 will become part of the history of Volksbank as the year of transformation into a joint-stock company. Shareholders voted favourably last November for this challenging reorganisation, decided by the Italian legislature, by an overwhelming majority of 97.5%. At the same time, we laid the groundwork for success as a joint-stock company and to remain a bank that has strong roots in the community.

Volksbank closed 2016 with a modest profit of Euro 7.7 million. In the six-month report, we explained the reasons for the increased write-downs, specifying that, for the second half of the year, forecasts indicated a positive performance for the financial statements. And this was achieved. We are very happy to have kept our promises to you in the second half, with a net recovery and profit for the 2016 financial statements. But we certainly cannot be satisfied.

Our primary goal is to make Volksbank ever stronger and more profitable. We have re-committed to pursuing a sizable increase in revenue while reducing costs in the years to come. Our 2017-2021 business plan envisages the Bank becoming more efficient, with a push toward digitalisation, so that numerous

digital products and services are available at any time, more quickly and easily. Naturally, we will continue to focus on personal relationships and in disbursing loans to families and to small and medium enterprises in the region. Our primary objective is to find the best possible solutions for our nearly 60,000 shareholders and more than 260,000 customers.

This will allow us to return to dividend distributions in the future. Given the modest profit for 2016, the Board of Directors proposes to shareholders to not distribute any dividends and to allocate the profit achieved to strengthen capital. Upon the twenty-fifth anniversary of the merger of the cooperative banks of Bolzano and Bressanone, our Bank can look back at twenty-five years of profit and stability. With Euro 860 million in net assets, the Bank has never been as strong as it is today, and thanks to our nearly 60,000 shareholders, it is well established throughout our reference market, from Bolzano to Venice.

We appreciate your support and trust



Mr. Otmar Michaeler
Chairman of the Board of Directors

2016 ANNUAL FINANCIAL REPORT

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BANCA POPOLARE · VOLKSBANK OUR NETWORK

BANCA POPOLARE DELL'ALTO ADIGE

Joint-stock company

Member of the Business Register of Bolzano, no. 00129730214

The bank adheres to the inter-bank deposit protection fund

ABI 05856.0

HEAD OFFICE AND BRANCHES

Bolzano, Via del Macello 55 – Bozen, Schlachthofstraße 55

Tel. + 39 0471 – 996111 – Telefax 0471 – 979188

www.bancapopolare.it – www.volksbank.it – gsinfo@volksbank.it

BRANCHES

BOLZANO PROVINCE	
Appiano – Eppan Via J. G. Plazer 56 - J.-G.-Plazer-Straße 56	tel. 0471-944270
Bolzano – Bozen Galleria Telsler 1 - Telsergalerie 1	tel. 0471-944190
Bolzano – Bozen Piazza Mazzini 2 - Mazziniplatz 2	tel. 0471-944020
Bolzano – Bozen Via C. Augusta 5 - C.-Augusta-Strße 5	tel. 0471-944250
Bolzano – Bozen Via del Macello 55 Schlachthofstraße 55	tel. 0471-944310
Bolzano – Bozen Via del Ronco 15 - Neubruchweg 15	tel. 0471-944260
Bolzano – Bozen Via Galvani 3/f - Galvanistraße 3/f	tel. 0471-944320
Bolzano – Bozen Via Leonardo da Vinci 2 - Leonardo-da-Vinci-Straße 2	tel. 0471-996151
Bolzano – Bozen Via Resia 132/b - Reschenstraße 132/b	tel. 0471-944290
Bolzano – Bozen Via Roma 45 - Romstraße 45	tel. 0471-944200
Bolzano – Bozen Viale Druso 64 - Drususallee 64	tel. 0471-944340
Bolzano – Bozen Vicolo Gumer 7 (administrative branch) Gumergasse 7 (Schatzamtsschalter)	tel. 0471 996123
Bressanone – Brixen Portici Maggiori 2 - Große Lauben 2	tel. 0472-811213
Bressanone – Brixen Via J. Durst 28 - J.-Durst-Straße 28	tel. 0472-811600
Bressanone – Brixen Via Plose 38/b - Plosestraße 38/b	tel. 0472-811560
Brunico – Bruneck Bastioni 24 - Graben 24	tel. 0474-544700
Brunico – Bruneck Via S.Nicolò 14 - St.-Nikolaus-Straße 14	tel. 0474-544790
Cadipietra – Steinhaus Cadipietra 105 - Steinhaus 105	tel. 0474-544800
Caldaro – Kaltern Piazza Principale 13 - Marktplatz 13	tel. 0471-944220
Caldaro – Kaltern Via Stazione 10 - Bahnhofstraße 10	tel. 0471-944230
Campo Tures - Sand in Taufers Via Municipio 4 - Rathausstraße 4	tel. 0474-544740
Chienes – Kiens Via Chienes 1 - Kiener Dorfweg 1	tel. 0474-544730
Chiusa – Klausen Piazza Tinne 5 - Tinneplatz 5	tel. 0472-811540
Dobbiaco – Toblach Viale S. Giovanni 23 - St.-Johannes-Straße 23	tel. 0474-544770
Egna – Neumarkt Largo Municipio 32 - Rathausring 32	tel. 0471-944280
Fiè allo Sciliar - Voels am Schlern Via Bolzano 3 - Bozner Straße 3	tel. 0471-944080
Fortezza – Franzensfeste Via Brennero 7/c - Brennerstraße 7/c	tel. 0472-811530
Gargazzone – Gargazon Vicolo dei Campi 2 - Feldweg 2	tel. 0473-254320
La Villa – Stern Via Colz 56 - Colz Straße 56	tel. 0471-944010
Laces – Latsch Via Stazione 1/b - Bahnhofstraße 1/b	tel. 0473-254440
Laives – Leifers Via Kennedy 123 - Kennedystraße 123	tel. 0471-944240
Lana Piazza Tribus 17 - Tribusplatz 17	tel. 0473-254350
Lasa – Laas Via Venosta 44 - Vinschgaustraße 44	tel. 0473-254310
Lazfons – Latzfons San Giacomo 3 - St. Jakob 3	tel. 0472-811620
Luson – Lüsen Vicolo Dorf 19 - Dorfgasse 19	tel. 0472-811590
Malles Venosta – Mals Via Stazione 9/b - Bahnhofstraße 9/b	tel. 0473-254400
Merano – Meran Piazza del Grano 3 - Kornplatz 3	tel. 0473-254111
Merano – Meran Via Goethe 74/a - Goethestraße 74/a	tel. 0473-254300
Merano – Meran Via Matteotti 43 - Matteottistraße 43	tel. 0473-254330
Merano – Meran Via Monte Tessa 34 - Texelstraße 34	tel. 0473-254390
Merano – Meran Via Roma 278 - Romstraße 278	tel. 0473-254420
Monguelfo – Welsberg Via Parrocchia 13 - Pfarrgasse 13	tel. 0474-544750
Naturno – Naturns Via Principale 37/b - Hauptstraße 37/b	tel. 0473-254370
Nova Levante – Welschnofen Via Roma 8 - Romstraße 8	tel. 0471-944090
Ora – Auer Via Stazione 8 - Bahnhofstraße 8	tel. 0471-944040
Ortisei – St. Ulrich Piazza S. Durich 3 - S.-Durich-Platz 3	tel. 0471-944330
Racines – Ratschings Stanghe 18 - Stange 18	tel. 0472-811610
Renon – Ritten Via del Paese 14, Frazione Collalbo - Dorfstraße 14, Fraktion Klobenstein	tel. 0471-944370
Rio di Pusteria – Muehlbach Via Konrad von Hobe 1 - Konrad-von-Hobe-Straße 1	tel. 0472-811660
S. Leonardo in Passiria - St. Leonhard in Passeier Via Passiria 14 - Passeierer Straße 14	tel. 0473-254380
S. Lorenzo di Sebato - St. Lorenzen Via Josef Renzler 17 - Josef-Renzler-Straße 17	tel. 0474-544780
Scena – Schenna Piazza Arciduca Giovanni 7 - Erz.-Johann-Platz 7	tel. 0473-254430
Selva Gardena – Wolkenstein Via Meisules 155/a - Meisulesstraße 155/a	tel. 0471-944000
Silandro – Schlanders Via Covelano 10 - Göflaner Straße 10	tel. 0473-254410

BOLZANO PROVINCE		
Siusi – Seis	Via Sciliar 16 - Schlernstraße 16	tel. 0471-944300
Vandoes – Vintl	Via J. A. Zoller 8 - J.-A.-Zoller-Straße 8	tel. 0472-811640
Varna – Vahrn	Via Brennero 101 - Brennerstraße 101	tel. 0472-811650
Velturmo – Feldthurns	Paese 12 - Dorf 12	tel. 0472-811580
Vipiteno – Sterzing	Via Città Nuova 22/a - Neustadt 22/a	tel. 0472-811500

BELLUNO PROVINCE		
Auronzo di Cadore	Via Corte 33	tel. 0435-505650
Belluno	Via Caffi 15	tel. 0437-356700
Belluno	Via Vittorio Veneto 278	tel. 0437-356600
Cencenighe Agordino	Via XX Settembre 107	tel. 0437-356640
Cortina d' Ampezzo	Largo delle Poste 49	tel. 0436-863500
Domegge di Cadore	Via Roma 48	tel. 0435-505620
Dosoleto	Piazza Tiziano 2	tel. 0435-505670
Feltre	Via Monte Grappa 28	tel. 0439-842600
Forno di Zoldo	Via Roma 70/b	tel. 0437-356620
Limana	Via Roma 116/118	tel. 0437-356690
Longarone	Via Roma 89	tel. 0437-356720
Mel	Via Tempietto 33/a	tel. 0437-356660
Padola	Piazza San Luca 22	tel. 0435-505690
Ponte nelle Alpi	Viale Roma 87	tel. 0437-356630
S. Pietro di Cadore	Via P.F. Calvi 16	tel. 0435-505680
S. Stefano di Cadore	Via Venezia 30	tel. 0435-505630
Santa Giustina	Via Feltre 17	tel. 0437-356680
Sedico	Via Cordevole 2/b	tel. 0437-356650
Tai di Cadore	Via Ferdinando Coletti 15	tel. 0435-505600
Valle di Cadore	Via XX Settembre 76	tel. 0435-505660
Ponte nelle Alpi	Viale Roma 87	tel. 0437-356630

PADUA PROVINCE		
Carmignano di Brenta	Via Marconi 36	tel. 049-6950010
Cittadella	Via Riva Pasubio 5	tel. 049-6950040
Padua	Corso Milano 99	tel. 049-6950020
Piazzola sul Brenta	Via dei Contarini 36	tel. 049-6950050
Sarmeola di Rubano	Via della Provvidenza 7/a	tel. 049-6950060
Tombolo	Via Vittorio Veneto 1	tel. 049-6950000

PORDENONE PROVINCE		
Cordenons	Via Sclavons 77	tel. 0434-786540
Pordenone	Via Galvani 8	tel. 0434-786520
Sacile	Via Martiri Sfriso 9	tel. 0434-786500

TRENTO PROVINCE		
Ala	Via della Roggia 10	tel. 0464-912520
Arco	Via S. Caterina 20	tel. 0464-912510
Borgo Valsugana	Via Hippoliti 11/13	tel. 0461-211060
Cavalese	Viale Libertà 7	tel. 0462-248500
Cles	Piazza Navarrino 16/17	tel. 0463-840510
Fondo	Via Cesare Battisti 39	tel. 0463-840500
Lavis	Via Rosmini 65	tel. 0461-211070
Mezzolombardo	Via A. Degasperi 4	tel. 0461-211030
Moena	Plaz de Ramon 24	tel. 0462-248510
Mori	Via della Terra Nera 48/d	tel. 0464-912500
Pergine	Viale Venezia 44	tel. 0461-211050
Riva del Garda	Viale Damiano Chiesa 4/g-h	tel. 0464-912560
Rovereto	Via G. M. Della Croce 2	tel. 0464-912530
Tione	Via Circonvallazione 56	tel. 0465-338500

Trento	Piazza Lodron 31	tel. 0461-211000
Trento	Via Brennero 302/a	tel. 0461-211080
Trento	Via Enrico Fermi 11	tel. 0461-211090
Villa Lagarina	Via degli Alpini 8	tel. 0464-912540

TREVISO PROVINCE		
Casale Sul Sile	Via G. Marconi 3	tel. 0422-508170
Castelfranco Veneto	Corso XXIX Aprile 17	tel. 0423-974640
Castelfranco Veneto	Borgo Treviso 62	tel. 0423-974610
Conegliano	Via Cavour 11	tel. 0438-907770
Conegliano	Via Cesare Battisti 5	tel. 0438-907740
Crocetta del Montello	Via Andrea Erizzo 64	tel. 0423-974620
Loria - Ramon di Loria	Via Poggiana 4	tel. 0423-974670
Mogliano Veneto	Via degli Alpini 16/g/f/e	tel. 041-5446660
Montebelluna	Via Montegrappa 24/c	tel. 0423-974660
Motta Di Livenza	- Via P. L. Bello/Ang. Via Cigana 1	tel. 0422-508180
Oderzo	Via degli Alpini 24/26	tel. 0422-508100
Paese	Via Cesare Battisti 3	tel. 0422-508140
Preganziol	Piazza Gabbin 16	tel. 0422-508120
Quinto Di Treviso	Via Vittorio Emanuele 11	tel. 0422-508190
S. Zenone Ca' Rainati	Via Montegrappa 32	tel. 0423-974630
Spresiano	Piazza Luciano Rigo 49	tel. 0422-508130
Treviso	Viale Brigata Treviso 1	tel. 0422-508210
Treviso	Via San Vito 12	tel. 0422-508150
Treviso	Viale IV Novembre 13/a	tel. 0422-508110
Treviso	Viale Montegrappa 46	tel. 0422-508201
Valdobbiadene	Foro Boario 21-23-13	tel. 0423-974600
Vittorio Veneto	Galleria Tintoretto 3	tel. 0438-907710

VENICE PROVINCE		
Venezia Campo SS Apostoli	Sestriere Cannaregio 4547/4552	tel. 041-5446810
Fossò	Via Roncaglia 1	tel. 041-5446690
Marcon	Viale della Repubblica 2	tel. 041-5446680
Martellago	Via Friuli 28	tel. 041-5446780
Mira	Via Alfieri 9/c	tel. 041-5446790
Mira	Via Venezia, 120	tel. 041-5446730
Mirano	Via Cavin di Sala 39	tel. 041-5446710
Noale	Via Tempesta 31	tel. 041-5446630
Portogruaro	Via S. Agnese 28	tel. 0421-480810
San Donà di Piave	Via Vizzotto 98/100	tel. 0421-480800
Spinea	Piazza Marconi 17	tel. 041-5446670
Venice Mestre	Piazza Mercato 51 - Fraz. Marghera	tel. 041-5446800
Venice Mestre	Via Miranese 256/h - Fraz. Chirignago	tel. 041-5446600
Venice Mestre	Via Torre Belfredo 23 - Villa Toesca	tel. 041-5446750
Venice-Jesolo Lido	- Via Firenze 6	tel. 0421-480820

VICENZA PROVINCE		
Asiago	Piazza Carli 42	tel. 0424-596090
Bassano Del Grappa	Piazza Garibaldi 8	tel. 0424-596100
Bassano Del Grappa	Piazzale Firenze 2	tel. 0424-596060
Bassano Del Grappa	Villaggio S. Eusebio 94/a	tel. 0424-596080
Belvedere di Tezze sul Brenta	Via Nazionale 47	tel. 0424-596020
Breganze	Via S. Felice 21 - Loc. Maragnole	tel. 0445-617020
Bressanvido	Via Roma 94	tel. 0444-577000
Calvene	Via Roma 22	tel. 0445-617030
Camisano	Vicentino Piazza Pio X 2	tel. 0444-577010
Cassola	Via Martiri del Grappa 3	tel. 0424-596040
Cassola	Via Pio X/Angolo G. D'Arezzo - Loc. S. Giuseppe	tel. 0424-596240

VICENZA PROVINCE		
Cogollo del Cengio	Via Dal Zotto 74	tel. 0445-617060
Conco	Piazza San Marco 20	tel. 0424-596170
Dueville	Piazza Monza 30/31	tel. 0444-577020
Fara Vicentino	Via Mezzavilla 9	tel. 0445-617040
Malo	Via Vicenza 97 – Loc. San Tomio	tel. 0445-617070
Marostica	Via Mazzini 84	tel. 0424-596200
Mason Vicentino	Via Marconi 85	tel. 0424-596000
Monticello Vigardolo	Via Spine 3B	tel. 0444-577090
Mussolente	Via Vittoria 47	tel. 0424-596050
Nove	Via Molini 2	tel. 0424-596110
Pianezze San Lorenzo	Piazza degli Alpini 1	tel. 0424-596130
Romano D'Ezzelino	Via Roma 62	tel. 0424-596140
Rosa'	Via Dei Tigli 7	tel. 0424-596150
Salcedo	Piazza Cesare Battisti 30	tel. 0445-617000
Sandrigo	Via Roma 34	tel. 0444-577040
Sarcedo	Via Schio 34	tel. 0445-617010
Schiavon	Via Roma 120	tel. 0444-577050
Schiavon	Via Chiesa 67/1 – Loc. Longa	tel. 0444-577030
Schio	Via Cementi 8	tel. 0445-617090
Schio	Via Muratori 1/a	tel. 0445-617100
Tezze sul Brenta	Via Risorgimento 23	tel. 0424-596180
Thiene	Viale Bassani 26/28	tel. 0445-617110
Vicenza Laghetto	Via dei Laghi 135	tel. 0444-577060
Vicenza Porta Castello	Viale Roma 10	tel. 0444-577070
Villaverla	Via S. Antonio, 43	tel. 0445-617130
Zane'	Via Trieste 110	tel. 0445-617140
Asiago	Piazza Carli 42	tel. 0424-596090

CORPORATE OFFICERS AND INDEPENDENT AUDITORS

BOARD OF DIRECTORS

Chairman

Otmar MICHAELER

Deputy Chairmen

Lorenzo SALVÀ (**)

Maria Giovanna CABION

Directors

Marcello ALBERTI (**)

Lorenzo BERTACCO (*) (***)

David COVI (*) (***)

Philip FROSCHMAYR

Lukas LADURNER (**)

Alessandro MARZOLA (***)

Giuseppe PADOVAN (**)

Margit TAUBER (*) (***)

Gregor WIERER (***)

BOARD OF ARBITRATORS (*)

Chairman

Federica ISOTTI

Standing Arbitrators

Christine MAYR

Richard STAMPFL

Substitute Arbitrators

Karin RUNGGALDIER

Stefano STIVANELLO

BOARD OF STATUTORY AUDITORS

Chairman

Heinz Peter HAGER

Standing Auditors

Joachim KNOLL

Georg HESSE

Substitute Auditors

Emilio LORENZON

Markus WISTHALER

GENERAL MANAGEMENT

General Manager

Johannes SCHNEEBACHER

Deputy General Manager

Stefan SCHMIDHAMMER

MANAGER RESPONSIBLE FOR THE PREPARATION OF CORPORATE ACCOUNTING DOCUMENTS

Alberto CALTRONI

INDEPENDENT AUDITORS

BDO Italia S.p.A.

(*) Members of the Independent Directors Committee

(**) Members of the Credit Committee

(***) Members of the Risk Committee

(*) The Board of Arbitrators has been dissolved as a result of the transformation into a joint-stock company, legally effective from 12 December 2016.

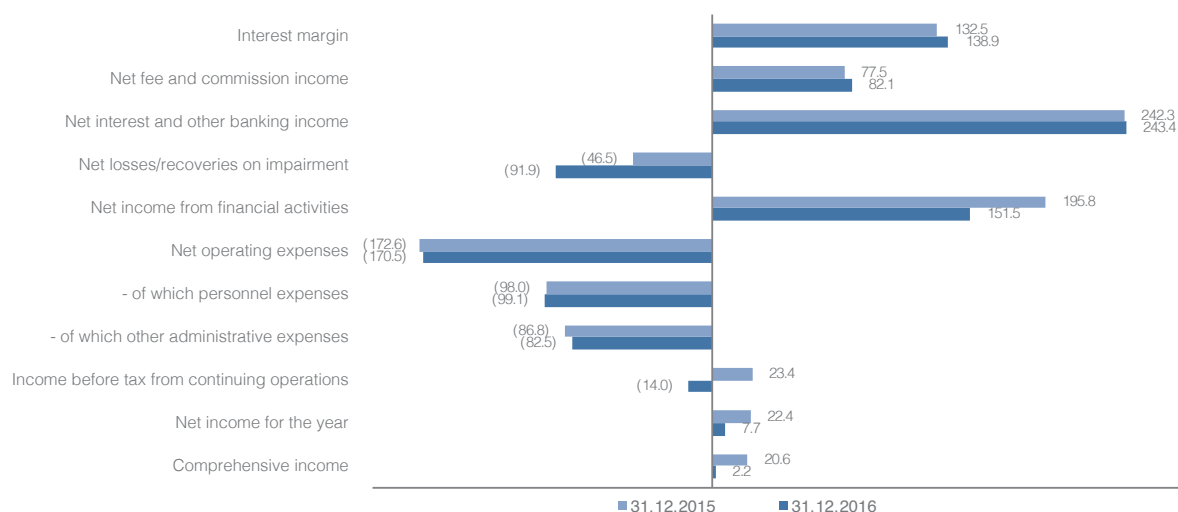
COMPANY REPORTS AND FINANCIAL STATEMENTS

SUMMARY DATA AND ALTERNATIVE PERFORMANCE INDICATORS

SUMMARY DATA AND ALTERNATIVE PERFORMANCE INDICATORS

Below is an outline of bank data and ratios calculated on the basis of accounting records.

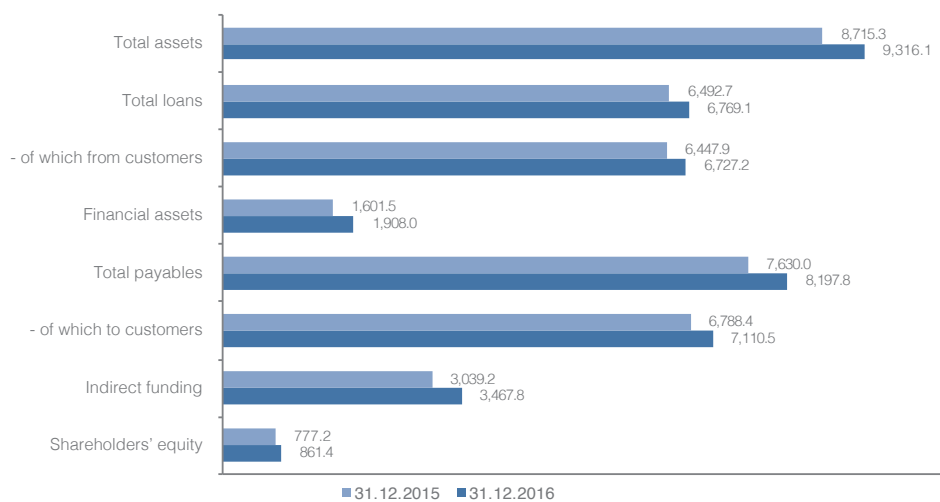
Main Income Statement Figures



Income Statement Figures (millions of Euro)	31.12.2016	31.12.2015 (*)	Changes	
			Abs.	%
Interest margin	138.9	132.5	6.4	4.8%
Net fee and commission income	82.1	77.5	4.6	5.9%
Net interest and other banking income	243.4	242.3	1.1	0.4%
Net losses/recoveries on impairment	(91.9)	(46.5)	(45.4)	97.7%
Net income from financial activities	151.5	195.8	(44.3)	-22.6%
Net operating expenses	(170.5)	(172.6)	2.1	-1.2%
- of which personnel expenses	(99.1)	(98.0)	(1.1)	1.2%
- of which other administrative expenses	(82.5)	(86.8)	4.3	-5.0%
Income before tax	(14.0)	23.4	(37.5)	-160.0%
Net income for the year	7.7	22.4	(14.6)	-65.5%
Comprehensive income	2.2	20.6	(18.4)	-89.4%

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Main Balance Sheet Figures



Balance Sheet Figures (millions of Euro)	31.12.2016	31.12.2015	Changes	
			Abs.	%
Total assets	9,316.1	8,715.3	600.8	6.9%
Total loans	6,769.1	6,492.7	276.5	4.3%
- of which from customers	6,727.2	6,447.9	279.4	4.3%
Financial assets	1,908.0	1,601.5	306.5	19.1%
Total payables	8,197.8	7,630.0	567.9	7.4%
- of which to customers	7,110.5	6,788.4	322.2	4.7%
Indirect funding	3,467.8	3,039.2	428.5	14.1%
Shareholders' equity	861.4	777.2	84.3	10.8%

Main Ratios

Economic and financial ratios and other information	31.12.2016	31.12.2015 (*)
Financial Indicators		
Structural ratios		
Loans to customers / direct funding from customers (retail)	103.74%	101.83%
Fixed assets / total assets	2.90%	3.12%
Total risk-weighted assets (RWA) / total assets	66.30%	66.04%
Goodwill / total assets	1.07%	1.14%
Direct funding / total assets	76.33%	77.89%
Managed funding / indirect funding	56.03%	52.73%
Leverage (**)	14.25	16.43
Inter-bank balance (thousands of Euro)	(1,043,090)	(793,659)
Number of employees	1,372	1,418
Number of bank branches	184	188
Profitability ratios		
ROTE and its components (***)		
1. ROA (net profit / total assets)	0.09%	0.26%
- interest margin/total assets	1.54%	1.54%
- non-interest income/total assets	1.39%	1.59%
- operating expenses/total assets	2.12%	2.32%
Net adjustments to loans / net loans to customers	1.33%	0.68%
- net other income/total assets	0.27%	-0.04%
- loans to customers/total assets	74.62%	74.98%
- ROA (before adjustments to loans)	1.08%	0.77%
2. Leverage (total assets/tangible equity)	12.8	12.7
- tangible equity/total assets	7.80%	7.86%
3. ROTE = ROA x Leverage	1.10%	3.31%
Cost to income ratio	72.18%	71.81%
Cost of risk (Net adjustments to loans / gross loans to customers)	123 BP	63 BP
Basic EPS (earnings per share - earnings per share basis)	0.16	0.45
Diluted EPS (earnings per share - earnings per diluted share)	0.15	0.45
Risk ratios		
Net non-performing loans / net loans to customers	9.94%	9.73%
Texas ratio (net non-performing loans / tangible equity)	90.27%	95.79%
Degree of doubtful loan hedging	53.77%	50.89%
Degree of non-performing loan hedging	42.50%	40.13%
Degree of performing loan hedging	0.77%	0.65%
Regulatory capital (thousands of Euro) and capital ratios		
Common Equity Tier 1 (CET 1)	724,068	641,949
Total own funds	724,068	641,949
Total risk-weighted assets (RWA)	6,176,347	5,755,747
CET 1 Ratio - Tier 1 capital	11.72%	11.15%
Total capital ratio - Total own funds	11.72%	11.15%
Non-Financial Indicators		
Productivity ratios (in Euro)		
Direct funding per employee	5,182,614	4,787,284
Loans to customers per employee	4,903,223	4,547,159
Assets under management per employee	1,416,168	1,130,101
Administered assets per employee	1,111,370	1,013,234
Net interest and other banking income per employee	177,376	170,861

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

(**) Leverage = total tangible assets (total assets net of intangible fixed assets) / tangible equity (total equity net of intangible fixed assets).

(***) ROTE - Expresses net profit as a ratio of average tangible equity. Tangible equity is calculated by deducting intangible assets from shareholders' equity.

DIRECTORS' REPORT

DIRECTORS' REPORT

1.1 FINANCIAL ENVIRONMENT AND MARKETS ⁽¹⁾

1.1.1 THE INTERNATIONAL AND NATIONAL ECONOMIC ENVIRONMENT

International Economy

In 2016, the global economy grew by +2.2%, the lowest growth rate recorded since the recession of 2009. Underlying this result is the reduced global growth rate in investments, weak expansion in international trade, lower growth rates in productivity, and high debt levels.

In October 2016, international trade posted a change of -0.7% on an annual basis. In the preceding 12 months, the growth rate was +0.8%, down from +2% for 2015. At the same date, industrial production posted an increase of +1.5% on an annual basis. In the preceding 12 months, the growth rate was +1.3%, down from +1.7% for 2015. Global inflation in November 2016 was 2.4%, a decrease from the average of the preceding 12 months, equivalent to 2.7% and essentially unchanged from 2.8% in 2015. In December 2016, global stock exchanges showed increases of +7.5% on an annual basis. Growth was 7.5% in 2016, compared to -2.2% in 2015. In the month of December 2016, the price of petroleum was 51 dollars per barrel, a change of +30% from 12 months earlier.

In the third quarter of 2016, Chinese GDP grew +6.7% on an annual basis. Price dynamics in December were contained, with an increase of +2.1% annually. Growth in Indian GDP in the third quarter of 2016 was +7.3%. In the third quarter of 2016, Brazil's GDP posted a contraction of -2.8%. Despite the slowdown, consumer prices in November showed an annual variation of +7.4%. In Russia, GDP decreased 0.4% in the third quarter of 2016. Consumer prices stalled, with an annual change of +5.4% posted in October.

In the third quarter of 2016, GDP in the United States recorded an annualised quarterly change of +3.5%, an increase over the figure of +1.4% in the previous quarter. The unemployment rate in December rose one-tenth of a percentage to 4.7%, while the employment rate remained stable at 59.7%. Consumer prices in November 2016 posted a change of +1.7%, down by one-tenth of a point from the previous month. The core component declined 2.1% in the same month. Five-year inflation forecasts increased to 1.8% in the month of December.

Eurozone and Italy

In the third quarter of 2016, GDP in the Eurozone recorded growth of +1.4% annually, an improvement over the figure of +1.2% in the previous quarter. Specifically, Germany posted GDP growth of +0.76% on an annual basis, while France showed an increase of +1%.

Industrial production provided contrasting information. In the Eurozone, the overall data showed an increase of 1.5% in November 2016. Compared to November of the prior year, production in Germany increased +1.6%, while decreasing in France by 1.8%. In October, new manufacturing orders showed an increase in the Eurozone of 2.6% and 6.4% in Germany (1.7% and 2.9% in the prior month).

⁽¹⁾ Formulated by Banca Popolare - Volksbank from ABI, International Monetary Fund, World Economic Forum, European Central Bank, Bank of Italy, ISTAT and chambers of commerce data sources, and from financial news reports and newspapers.

Retail sales in the Eurozone in November posted a growth trend of +2.2%. In Germany, the trend rate showed an improvement of 2.8%, while in France the trend rate in sales was +3.7%.

Business and consumer confidence indices recorded a negative trend, but with some improvements. In November 2016, the index fell to -1.1 from -0.6 in the previous month. The consumer confidence index provided data showing a slight trend in the opposite direction, with an improvement to -6.1 compared to -8 in the previous month. In October 2016, the unemployment rate in the Eurozone dropped to 9.8%.

Inflation in the Eurozone remained at historic lows. In November 2016, consumer prices showed a change of +0.51%, against a value of 0.15% twelve months earlier.

The core component (excluding the most volatile elements) for the same month was +0.76%, a slight increase over the +0.7% of the previous month (+0.84% in the same month in 2015).

In the third quarter of 2016, Italy's GDP grew 0.3% from the previous quarter and was up 1% over the third quarter of 2015. Domestic demand net of inventories contributed 0.3% to growth, principally due to consumption by families and private institutions, expenditures of public administrations, and gross fixed investments. Net foreign demand resulted in a negative contribution of -0.15% which was offset by an equal positive effect from changes in inventories.

In October 2016, the industrial production index showed a trend growth rate of +1.2%. New manufacturing orders recorded a decline, in trend terms, of -3.2% in October 2016. In the same month, the trend rate of retail sales improved.

In November 2016, the consumer confidence index stood at -12.1, down from -10.9, the figure from twelve months prior. Business confidence showed a slight improvement at -2.1, compared to -2.2 twelve months earlier.

The unemployment rate in October 2016 was 11.8%, a slight increase from October of the previous year (11.5%). Unemployment among young people (15-24 years old) in the same month increased to 39.4% compared to 37.8% from one year before. The employment rate grew slightly to 57.3%, compared to 56.7% twelve months prior.

The harmonised index of consumer prices remained at particularly low levels, with a value of -0.2% in October 2016. Core inflation fell to +0.3%.

Monetary Policy

In its meeting of 19 January 2017, the Governing Council of the ECB decided that interest rates on primary refinancing transactions, marginal refinancing transactions, and deposits with the central bank would remain unchanged at 0.00%, 0.25%, and -0.40%, respectively.

The Governing Council continues to expect that the ECB's reference interest rates will remain at levels equal to or lower than the current rates for a prolonged period of time and well beyond the time horizon of net purchases of assets.

With regard to the unconventional monetary policy measures, the ECB's Governing Council confirms that it will continue to carry out purchases as part of the asset purchase programme (APP), at the monthly rate of Euro 80 billion until the end of March 2017. Beginning in April, it intends to make net purchases at a monthly rate of Euro 60 billion until the end of December 2017 or longer, if necessary, and in any case, until there is a stable adjustment in price trends, consistent with its inflation objective.

Along with the net purchases, the capital repaid on securities reaching maturity that were purchased as part of the programme will be reinvested. If the forecasts become less favourable or if financial conditions are not consistent with additional progress toward a stable adjustment in the inflationary outlook, the Governing Council is ready to increase the programme in terms of amount and/or duration.

In its meeting of 14 December 2016, the Federal Open Market Committee, the body of the Fed that manages U.S. monetary policy, raised its interest rate by 0.25 points, announcing an additional three increases for the same amount during 2017. The increase translates to a shift from the 0.25-0.50% range to the 0.50%-0.75% range. During 2017, the central bank expects to act again, arriving at 1.4% within twelve months.

The 3-month Euribor is at historic lows (-0.32% at the beginning of December 2016), and remained unchanged at the beginning of January 2017. The 10-year interest rate swap rate was 0.73% in December 2016, (compared to 0.63% in November), showing a slight decline in the initial days of January 2017.

The index of monetary conditions, which combines the trend in inter-bank rates and exchange rates (both expressed in real terms), demonstrates that there was a tightening in monetary conditions (equivalent to -0.10 points) in the Eurozone in November, due mainly to the decline in the interest rate. In the United States for the same month, overall monetary conditions eased by 0.21 points as a result of the increase in the exchange rate component. As a result of these trends, monetary conditions in the Eurozone were less restrictive than in the United States, based on the most recent available data.

1.1.2 FINANCIAL MARKETS

At the end of 2016, the spread between the 10-year benchmark rates in Italy and Germany posted an increase of 0.20% in Germany and 1.89% in Italy. The same value was equivalent to 2.49% in the U.S. The spread in returns on 10-year Italian and German bonds was 169 basis points (bps) in December.

There was a slight increase in yields on financial bonds in December, with yields of 1.11% in the Eurozone and 3.23% in the United States.

In Italy, net issues of bank bonds showed a sharp contraction, with a net balance of Euro -59.1 billion in November compared to the beginning of the year. In the first eleven months of 2016, gross government bond issues amounted to Euro 396.6 billion, while net issues were Euro +70.8 billion. Also in the first eleven months of 2016, gross corporate bond issues amounted to Euro 72 billion, while net issues for the same period were Euro +1 billion. Bank bonds, again in the first eleven months of 2016, recorded gross issues of Euro 85.5 billion, while net issues were negative for Euro -59.1 billion, as noted above.

In the last part of the year, equity markets indicated a recovery. The Dow Jones Euro Stoxx (index of the 100 largest securities in the Eurozone in terms of capitalisation) dropped -3% on an annual basis, against average monthly growth of +5.2% in December. The Nikkei 225 decreased -0.5% annually, but in December grew +7.9%, and, finally, the Standard & Poor's 500 showed growth of +9.4% in 2016 (compared to +3.7% in December). The price/earnings ratio for the Dow Jones Euro Stoxx in December stood, on average, at 27.

The principal European stock exchanges posted the following changes: the CAC 40 (French index) grew +2.25% (+5.9% in December); the FTSE 100 for the London Stock Exchange was at +13% (+2.5% in December); the DAX 30 (German index) grew +5.1% (+6% in December); while the FTSE MIB (Milan stock exchange index) fell -13.4% (+12.4% in December). On an annual basis, the primary markets of the New Economy posted a decline in Europe, with the TecDAX (German technology index) down over the 12 months by -3.2% (up +2.5% in December); the CAC Tech (French technology index) was down -1.9% year-over-year, but showed a recovery of +6.2% in December, and the NASDAQ increased +7.4% annually and +2.8% in December.

The leading international banking indices showed an increase in the U.S., while the performance in Europe was negative overall, with recovery in the latter part of the year. In detail, the S&P 500 Banks grew +20.1% annually (+12.6% in December), the Dow Jones Euro Stoxx Banks was down -10.3% year-over-year, with a recovery of +11.2% in December, while the FTSE Banks fell -38.5% annually, increasing +15.9% in December.

The capitalisation of the Italian stock market was up 1.3% annually, with an increase of 5.2% in the month of December. In absolute values, capitalisation was Euro 5,931 billion at the end of 2016. Within the Eurozone, the capitalisation of the Italian stock market was 8.4% of the total, while France made up 30.9% and Germany 27.2% (compared to the values at the end of 2007 of 12%, 22.4% and 28.9%, respectively).

In December, the capitalisation of the Italian stock market was Euro 500 billion, recording a drop of Euro -56 billion from twelve months earlier (up Euro 48.1 billion from the previous month). The capitalisation of the banking sector in December 2016 fell Euro -43.3 billion from December of the previous year, to Euro 80.6 billion (with a recovery of Euro 23.2 billion compared to Euro 66.8 billion at the end of November). In October 2016, the banking sector as a percentage of total capitalisation was 16% (28.3% in September 2008).

1.2 THE BANKING SYSTEM ^(?)

1.2.1 BANK DEPOSITS

At the end of 2016, the banking system in Italy saw a strengthening of the annual trend in customer deposits. This trend in deposits remained positive, while bonds continued to post significant declines.

In December 2016, Euro funding from customers in the entire Italian banking system, represented by resident customer deposits, fell by Euro 22 billion on an annual basis, or -1.3%. Specifically, resident customer deposits total Euro 1,667.1 billion, compared to Euro 1,513 billion at the end of 2007 (Euro +163.4 billion from the end of 2007 to the current figure).

The trend of a gradual divergence between the short-term deposits and medium/long-term deposits continues. Resident customer deposits in December 2016 reached a +4.2% trend rate, with an increase of Euro 54.5 billion on an annual basis. Deposits amount to Euro 1,367.1 billion at the end of 2016.

The annual trend in bonds was -19.9%, with a decrease in absolute value of nearly Euro 77 billion. The amount of outstanding bonds at the end of 2016 totals Euro 309 billion.

In November 2016, the trend in foreign deposits showed a contraction. Italian banks posted a balance of Euro 304 billion, a decrease of -4.4% compared to twelve months earlier. Foreign deposits represent around 12% of total funding (compared to 12.4% in twelve months earlier). The net flow of foreign funding in the period between November 2015 and November 2016 was negative for Euro 14 billion.

In November 2016, net foreign deposits (deposits from abroad less foreign loans) posted a trend rate of -9.4%, with a balance of Euro 111.2 billion. The percentage with respect to total loans was 5.9%, compared to 6.4% in twelve months earlier. Foreign loans were Euro 193 billion in November. The ratio of foreign loans to foreign deposits was equivalent to 63.4%, from 61.4% one year prior.

Interest rates on bank deposits continue to decline. The average interest rate of bank funding from customers (including the return from deposits, bonds and repurchase agreements in Euros, applied to families and non-financial companies) amounted to 0.97% in December 2016 (2.89% at the end of 2007). The deposit rate in Euros applied to families and non-financial companies stood at 0.40%, the rate on bonds was 2.75%, and the rate on repurchase agreements was 1.18%.

Yields on government securities are on a downward trend. The Rendistato, for securities with a residual life beyond the current year traded on the Italian MOT exchange, was 1.17% in December 2016, compared to 0.66% in August 2016, which represented its historical low, and was 15 bps higher than the value for December 2015.

At the end of the year, the gross yield on Treasury credit certificates (CCTs) was 0.33%, compared to a return of 0.32% in December 2015. Long-term Treasury bonds (BTPs) posted an average yield of 1.73% in December 2016, up from 1.51% in December 2015. Average gross yield on Treasury bills (BOTs) was -0.29%.

1.2.2 LOANS

Trends in bank loans showed a recovery at the end of the year. Based on available information, total loans to residents in Italy (private sector plus the public administration not including repurchase agreements with central governments) stood at Euro 1,807.7 billion, up +0.79% on an annual basis. At the end of 2007, the amount was Euro 1,673 billion, more than Euro 134.5 billion lower than the figure at the end of 2016.

Loans to the private sector show an increase of +1.3%, totalling Euro 1,544.4 billion at the end of 2016 (Euro +94.3 billion compared to the figure at the end of 2007 of Euro 1,450 billion). Loans to families and non-financial companies stood at Euro 1,406.5 billion at the end of 2016. Loans to families and businesses grew 1.4% annually at the end of 2016, according to available information. The balance was Euro 1,279 billion at the end of 2007, with an increase in the period of nearly Euro 128 billion.

^(?) Source: ABI Monthly Outlook

In November 2016, loans to businesses were essentially unchanged from the beginning of the year. Loans to families are up by +1.8%. In particular, loans to non-financial companies were essentially unchanged from the beginning of the year. Loans to families increased by +1.8% on a trend basis. In November 2016, the total amount of mortgage loans to families showed a positive change of +1.7% over twelve months earlier, thus confirming the recovery in the mortgage loan market, which began at the end of 2015.

The distribution of credit by economic sector shows that manufacturing, mineral extraction, and services accounted for 55% of the total in November 2016, with manufacturing alone representing 23.8% of total credit. Trade financing and loans to hospitality businesses represent 20.6% of the total, while construction and agriculture account for 15.6% and 5%, respectively, of the total.

However, lending dynamics continue to be influenced by the trend in investments and the economic cycle. In the third quarter of 2016, gross fixed investments recorded an annualised variation of +3.1%. The machinery sector showed an increase of +6.9%, while construction decreased for -0.8%. The real value of gross fixed investments in the third quarter of 2016 was 72.3% compared to the first quarter of 2008, with a total loss of nearly 28 points.

The number of business bankruptcies decreased. Based on available data, during the first six months of 2016, 7,400 businesses declared bankruptcy, a decrease of 2.8% compared to 2015, bringing the bankruptcy rate to 2013 levels. The reduction in bankruptcy proceedings involved only joint-stock companies (down -4.1% compared to the first half of 2015), while bankruptcies for partnerships showed an increase of 1.8%. In particular, during the same period, bankruptcies declined in the construction and services sectors, while there was an increase in the industrial sector.

Specifically, construction companies, which suffered a greater impact from the crisis, showed a more significant improvement, with a drop of 6.3% from the previous year. The services sector declined by 3.6%, although it remains the sector with the highest number of proceedings. Bankruptcy proceedings fell -9.8% in financial services, -9.7% in distribution, and -3.7% in logistics. Proceedings for real estate companies were up +7.9% and +5.4% for non-financial services. After the drop of -16.6% in the first half of 2015, bankruptcies for manufacturing businesses grew +3.1%.

Geographically, bankruptcies fell in businesses located in the Northwest, with a reduction of -3.8% as at 30 June 2016 compared to one year prior. In the South, the number of bankruptcies declined -3.7%, where the figure returned to 2013 levels, while there was a decrease of -2.6% in Central Italy, and the Northeast posted a drop of -0.3%, consistent with the figure for 2015.

According to the latest quarterly survey on bank credit in October 2016 (Bank Lending Survey), there was an acceleration in demand for loans from businesses linked to investments during the third quarter of 2016.

In December 2016, the interest rate on loans was at historic lows in Italy. Available data show that the average weighted interest rate on total loans to families and non-financial companies developed by the Italian Banking Association (ABI) amounted to 2.85% as at December 2016, compared to 6.18% at the end of 2007. The interest on loans to families to buy homes in Euro - which summarises the trend in fixed and floating rates and is also influenced by the change in the composition of disbursements based on type of mortgage loan - stood at 2.02%, an historic low, compared to a value of 5.72% at the end of 2007.

Nearly two-thirds of total new disbursements of mortgage loans were at a fixed rate. In December, fixed-rate loans represented 74.8% of the total. The interest rate on new loans in Euro to non-financial companies stood at 1.54% in December 2016, an historic low, compared to 5.48% at the end of 2007.

1.2.3 INTEREST RATE TREND

In December 2016, the spread between loan rates and deposit rates in Italy continued at historically low levels. In particular, the spread for families and non-financial companies was 188 bps in December 2016. Before the financial crisis began, the spread was more than 300 points. On average in 2016, the differential was 198 bps, compared to an average of 212 bps in 2015.

In November 2016, the margins on loans to businesses and families, calculated as the difference between the banks' interest rates on new loans and the weighted average rate on new deposits for families and non-financial companies was 52 bps. The component related solely to families showed a margin of 101 bps.

In December 2016, the differential between the average rate on interest-bearing assets denominated in Euro related to families and non-financial companies and the average rate on customer deposits from families and non-financial companies in Euro was 1.58 percentage points.

1.2.4 DOUBTFUL LOANS IN THE BANKING SYSTEM

At the end of November 2016, doubtful loans in the banking system, net of write-downs, were Euro 85.2 billion, down by more than 4% from Euro 89 billion in November 2015. This represents a reduction of Euro 3.6 billion. The annual change of -4.1% was in marked contrast to the rate of +4.8% at the end of 2015. The ratio of net doubtful loans to total loans was 4.80%, against a value of 4.89% in November 2015.

Based on published ABI-Cerved data, the rate of new doubtful loans to businesses showed a reduction in all economic sectors for the first time since the crisis began, a trend which is expected to accelerate in the 2017-2018 period. The only negative figure for 2016 was posted by companies in the South, which did not show significant improvement over 2015.

Data from Bank of Italy indicate that there was a marked decline in new impaired loans in 2016, which posted values close to pre-crisis levels. In particular, there was a reduction in positions classified as "unlikely to pay" or "past-due loans". There were also reductions, although to a lesser extent, in the number of new classifications to doubtful loans, which reflects the greater lag in the economy and is still posting values that are considerably higher than before the financial crisis.

The impairment rate, or ratio of the total of new doubtful loans, unlikely to pay, and past-due loans to the total outstanding stock of loans, reached a level of 2.6% in September 2016, down by nearly one point from the previous year (3.5%) and less than half the maximum figure reached at the end of 2013 (6%). As previously mentioned, the rate of new doubtful loans also declined, although at a slower pace. In September 2016, the ratio of new doubtful loans to total loan stock was 2.3%, two-tenths of a percent less than the same period in 2015 (2.5%) and seven-tenths less than the highest level reached in 2013 (3%).

Specifically, the rate of new doubtful loans for non-financial companies, calculated based on amount, was 3.9% in June 2016, a substantial drop from 4.4% in the previous year and 4.8% at the end of 2013. The same figure calculated based on number of positions gives a value of 3.8%, down -0.1% from 2015. Over a longer period, however, the flow of defaults remains at levels that are significantly higher than pre-crisis levels.

In term of volumes, between January and June 2016, banks classified nearly Euro 12 billion in loans to non-financial companies as doubtful, down from Euro 15 billion in the same period of 2015, a drop of 18%. This represents a decline of 38% from 2013.

Estimates and forecasts developed indicate that this improvement will accelerate in the second half of 2016, aided by the net decline in unlikely to pay and past-due loans. In terms of numbers, the rate of new doubtful loans was 3.6 percentage points at the end of 2016 (down from 3.8% at the end of 2015).

1.2.5 ADMINISTERED AND MANAGED ASSETS

In November 2016, the amount of managed and administered funding with Italian banks was approximately Euro 1,275.5 billion, a reduction of -5.6% compared to one year prior (Euro -76 billion). Of this amount, 30% is held by families (down -18.1% on an annual basis), 23.7% by financial institutions (down -19.1%), 36.9% by insurance companies (up +21.3%), and 5.4% by non-financial companies (up +3.7% annually). Securities held by non-residents represent about 2% of the total.

At the end of the third quarter of 2016, assets managed by banks had increased by Euro 117.7 billion, a change of +4.7% and Euro +5.2 billion from the same period in 2015. Again, for the end of the third quarter of 2016, total individual assets under management of banks, stock brokerage companies, and UCITs in Italy stood at Euro 837.7 billion, an increase of +11% over twelve months earlier (Euro +80.9 billion from the same period in 2015).

Specifically, assets managed by stock brokerage companies showed an annual change of -1.9% to Euro 9.5 billion, (Euro -180 million from the same period in 2015), while UCITs posted an increase of +11.9% to Euro 710.4 billion (Euro +75.8 billion over the same period in 2015).

In November 2016, the open-end fund assets governed by Italian and foreign law were around Euro 887.5 billion (Euro +1.4 billion from the previous month). This is made up of 26.9% Italian governed funds and the remaining 73.1% funds governed by foreign law. Compared to the same period in 2015, there was an increase of Euro +2 billion in monetary funds, +1.9 billion in equity funds and +523 million in balanced funds, against a drop of Euro -2.5 billion in bonds, -246 million in flexible funds, -241 million in unclassified funds and -59 million in hedge funds. The breakdown of assets by fund type shows that, in the last year, the percentage of balanced funds increased 8.3% in November 2016 compared to 8% twelve months earlier, and flexible funds stood at 24.2%, up from 24% in the prior year, while the share of bond funds increased to 42.1% from 41.3% in the previous year, and hedge funds fell to 0.5% from 0.6% twelve months earlier. Finally, the percentage of monetary funds declined from 4.1% to 4%, while equity funds fell to 20.9% from 22% twelve months prior.

1.2.6 FINANCIAL ASSETS OF FAMILIES

Based on the latest ABI data, financial assets of families in Italy in the second quarter of 2016 was Euro 4,005 billion, a decline of 2.9% on an annual basis.

In detail, the trend in banknotes, currency, and bank deposits (both on demand and term) are up by 3.7%, equivalent to 32.3% of total financial assets of families, and up from 30.3% in the prior year.

The proportion of mutual funds was up +1.3% on an annual basis, equivalent to 11.5% of total financial assets of families, while life insurance, pension funds, and post employment benefits are up 6.4%, representing a share of 21.2%.

As previously noted, bonds were down by -12.2%, both for the banking component (-22%) as well as government bonds (-0.7%). The percentage of bonds with respect to total financial assets of families is 10.4%, down from 11.5% in the previous year. Finally, shares and equity investments are down 17.1% at said date, to 20.5% of total financial assets.

1.3 LONG-TERM TRENDS

1.3.1 DEVELOPMENT AND EXPANSION OF PRUDENTIAL REGULATIONS

The magnitude and speed of changes in prudential regulations shows no signs of easing, with the expectation that there will be a series of regulations developed applicable to the banking system, including those that are not of a prudential nature. This expectation is supported by a political approach that seeks to avoid bankruptcies of financial institutions that are managed with public funds. Currently, the majority of prudential regulations developed to avoid a repeat of the 2008 financial crisis is applicable to financial markets of the leading Western economies. In this context, internal models for calculating regulatory models are evolving, as is the possible use of a standardised approach as a “floor” (Basel IV), which is still under discussion. The amendments proposed could have considerable implications, particularly for low-risk portfolios, such as mortgage loans and high-quality loans to businesses.

Governments are also exerting regulatory pressure in other forms. Increasingly, banks are asked to assist public administrations in identifying illegal or unethical financial transactions, money-laundering situations, fraud, the financing of terrorism, as well as supporting tax collection.

The behaviour of banks with their customers is also subject to an increasing amount of regulation and supervisory activity. Contract terms and conditions, marketing activities, branding, as well as sales and placement practices, are subject to increasing oversight, and the rules that aim to protect consumers are becoming stronger.

It is reasonable to expect that banks will be subject to growing scrutiny in relation to information asymmetries in relationships with customers, portability barriers for customers between banks, lack of transparency or needless complexity in product specifications, as well as pricing methods for these products.

The increasing reinforcement of the regulatory framework makes the traditional approach to managing regulatory changes no longer feasible. Functions that are responsible for regulations, managing issues resulting from regulatory changes, and managing stakeholders must be strengthened.

Not only must banks ensure compliance with new regulations, but there must be an evolutionary review of the entire approach to selling products and services, identifying applicable solutions that are extensive and anchored to defined rules. Additionally, the development of increasing interaction and collaboration between all functions dedicated to managing risk will become strategic, for example, working more closely with business functions, in order to integrate and automate proper sales behaviour that is compliant with provisions, and reducing manual intervention to the extent possible.

1.3.2 CUSTOMER EXPECTATIONS AND TECHNOLOGY CHANGES

Technological innovation is supporting the increase in a new type of competitor, companies in the technology sector. These companies propose a business model that is different from that of the Bank and are able to develop a direct relationship with the customer at origination and sale, which constitute the most profitable component of the value chain. This gradual movement of profitability can also be observed in Italy, particularly in market actors that are more advanced in offering these services.

Apps and online services, which are simple and intuitive, have the potential to ensure that a close relationship is maintained with the customer, particularly the more innovative customer, and thus, maintain an appropriate regional presence. The strategy for acquiring new customers could envisage the initial offer of a single type of financial services, offering more competitive conditions as a result of the technology platform, and then extending the service offer. The ability to attract more innovative customers will require traditional banks to extend and improve their offer, as the customer will continue to evolve, demanding increasingly intuitive and rapid services, which are accessible anywhere and with any tool, through personalised offers and immediate decisions.

The response of traditional banks to these rising expectations of customers must be addressed through automation, for example, an instantaneous response to decisions of credit disbursement to corporate and retail segments, and a simple process of opening relationships that are entirely online. In order for banks to be able to ensure this offer level, they must review and redesign their processes from the perspective of the customer, and then digitalise the service on a wide scale.

Technology will also allow banks and competitors to offer ever more personalised services, evolving toward increasingly specific segments, possibly arriving at the ultimate personalisation, or prices and products to be tailored to each single individual. This level of customisation poses a challenge for traditional banks, due to the burden of support processes. Regulatory limits may increase in this segment as well, in order to protect the customer from pricing and credit approval practices that are not appropriate.

The objective will be to find a way to offer these types of highly personalised solutions by managing risk, including through close collaboration among the business functions, including risk management, operations, and other customer contact functions.

1.3.3 COST REDUCTION

The Italian banking system has demonstrated a slow but constant decline in profitability over time, but which has eased significantly in recent years. The pressure on margins seems destined to continue in the foreseeable future, including as a result of the emergence of business initiatives and models with extremely efficient cost structures and based on digital platforms, in which the benefits derived from cost reductions are transferred directly to the customer through a reduction in prices.

As a result of these trends, banks' operating costs must decline considerably in the future. Once the traditional forms of cost reduction have been exhausted (zero-based budgeting, outsourcing), banks must identify additional measures, based on simplification, standardisation, and digitalisation.

Internal functions will have a leading role in cost reduction, which could also provide an opportunity to reduce risks. A more automated control framework, for example, may decrease manual interventions, thereby reducing the instances of risk at specific phases in the processes, which is more easily identifiable and manageable.

With persistent pressure to reduce costs, business functions, including those of central structures, must identify additional opportunities to cut costs through digitalisation and automation, ensuring growth in volumes and quality of services offered at ever lower costs.

1.4 COMPETITIVE POSITION OF BANCA POPOLARE - VOLKSBANK

The trends described in previous section highlight challenges in which risk management will have a strategic role. Strategic planning, operating planning, and business processes must be supported by meaningful risk management, which is able to ensure the analyses required to make decisions that are appropriately justified and scrutinised within the business structure.

The Bank's ability to manage multiple risk profiles and, at the same time, ensure compliance with existing regulations, as well as the capacity to address new regulations, will render the planning and risk management processes even more relevant and capable of offering real added value, while the ability to satisfy customer's expectations will be an essential element in appropriate risk management processes to ensure a consistent level of profitability. Most of the banking system will be involved in an adjustment of the risk planning and governance function, mainly through an enrichment process that may include:

- greater automation of decisions and support processes, with a minimisation of manual interventions, developing advanced analysis models, to ensure that decision-making is fully informed and without bias, in close collaboration with the business and other company functions, to ensure the best possible experience for the customer, facilitate decision-making processes, and strengthen regulatory compliance and adequacy, by reinforcing the business principles and values, all in support of a robust risk culture, which is clearly defined, communicated, and nurtured throughout the business structure;
- creation of a pool of competencies with strengthened analytical skills. All this should take place through the transformation and evolution of operating models. Initiatives must be implemented to realise short-term objectives and, at the same time, help to build the fundamental components of a long-term risk management strategy.

The initiatives that be may identified include:

- digitalisation of core processes, with simplification, standardisation, and automation as key factors in reducing the non-financial risk profile (most importantly, operational risks) and containing operating costs. Accelerating the process of digitalising core operating processes, strengthening risk management processes, including through models such as those for the credit and placement functions, and adopting solutions that bring the sales structure and customer closer together will be of strategic importance. Increased efficiency, improvement of the customer experience, and reinforced sales processes will constitute additional strategic benefits for expanding profitability;
- experimentation with solutions for advanced analyses and data analysis/machine learning. The development of more sophisticated predictive models could support strategic functions for financial analysis and planning, gathering and evaluating customer information, particularly in retail and SME customer segments and early warning systems;
- improvements in risk analysis and reporting systems, including as a result of increasing regulations that force banks to adapt to market developments, making rapid decision systems, based on data analysis, indispensable. Regulatory requirements have already contributed to improving the quality and timeliness of data used in risk reporting systems, while less attention has been given to the use of these analyses and to potential benefits from their introduction into decision-making processes. The replacement of paper reports with interactive systems that offer solutions in real time and enable users to develop solutions based on data analyses will allow banks to make better decisions and to make them more quickly.

Finally, the collaboration between structures will be especially important for optimising profitability. Considering the increasing regulatory limits, an adequate composition of assets and liabilities in the financial statements will take on ever greater importance in sustaining profitability in the medium term. Business structures must support asset and liability optimisation processes, working closely with the finance and strategic planning functions to include regulatory restrictions and strategic decisions as part of the possible scenarios. The way in which banks are able to adapt, for example, the decisions to expand or contract the loan portfolio, will depend increasingly on developing analysis systems that are able to integrate profitability profiles with the need to comply with regulatory requirements and limits into a single decision-making process.

Skills should also be strengthened by acquiring specific expertise in IT infrastructure and acquiring and analysing data, creating a database with standardised, uniform structures, with defined data governance. Acquiring advanced mathematical expertise and statistical skills, in order to convert complex data collected from data elements into business decisions, will provide support across all business structures. Risk analysis functions must become consulting support structures to the business, while traditional operating units will become increasingly lean.

Finally, creating a strong risk culture will be crucial. The identification, assessment, and mitigation of risks must become part of the daily operations of all Bank structures, and not only those that are directly part of the risk management structure. With automation and more sophisticated technical and analytical capabilities, human intervention will become ever more critical in ensuring adequate and ethically sustainable solutions.

1.5 THE BUSINESS PLAN

On 4 November 2016, the Board of Directors decided on the 2017 - 2021 Strategic Plan, which identifies the guidelines and actions for the next few years. The plan identified certain strategic levers, which are essential in realising the objectives established.

Growth in the Retail segment. The Bank envisages growth in the Small Business department and expansion of the base of *Affluent* customers by:

- simplification and standardisation of products and services offered;
- greater use of virtual channels and expansion of online banking;
- development of a mobile sales network and a commercial Contact Centre.

The implementation of these strategic initiatives will lead to the reduction of administrative activities as well as processes that are leaner and more robust. In the Retail segment, the plan provides for the maintenance of diversified credit risk and a rate spread that is higher than the Corporate segment.

Strengthening of the Private segment. Within the Private segment, the plan envisages an increase in the number of Upper Private customers (financial assets > Euro 500,000) through personalised financial and insurance solutions.

Activation of a Corporate structure. Management envisages a higher degree of specialisation in sectors in order to monitor target market groups through the use of specific sector strategies. Additionally, the plan provides for an increase in cross-selling and a focus on activities with low capital absorption. Moreover, the Bank seeks to focus on achieving the following strategic objectives:

- businesses with turnover > Euro 3 million belonging to various sectors (e.g., tourism);
- consultancy approach: highly skilled “sparring partner” with in-depth knowledge of the sector and business model through greater sector specialisation;
- take advantage of potential opportunities for the Private business line;
- additional consultancy: payment systems, lending, import-export, liquidity management, risk hedging/ insurance. In particular cases, consultancy in capital markets (e.g., arranger role for bonds);
- selective involvement of specialists in foreign areas and CoB@ / e-commerce.

Activation of a Workout Department. Creation of a structure that is able to implement the envisaged strategic levers, expressed in the following actions:

- credit control: efficient early warning system in loans and workout/management of impaired loans from “past-due” to “unlikely to pay”;
- credit collection: workout/collection of doubtful positions and management of legal processes and private settlements;
- portfolio management: analysis of portfolio quality and performance as well as KPI monitoring of the Design business line and realisation of extraordinary transactions (e.g., sales);
- Real Estate active workout: definition and implementation of individual management & sale strategies and active participation in real estate auctions;
- back office: administrative support and reporting;

Discretionary portfolio positioning. The plan envisages a structured strategic orientation in the following asset classes:

- liquidity reserve: regulatory obligation with high liquidity and low weighting, ECB eligibility, increase in risk rate/duration, taking advantage of the possibilities of “HTM” and “held to collect”;
- capitalisation contracts: stable but diminishing rate; Diversify: diversification of risk concentration in Italy, focus on stable dividends through equity funds, ETFs, European real estate, % share component maximum 5%, sustainability criteria to mitigate higher credit risk.

Strengthen the Head Office. The plan includes a focus on developing the skills of employees as the most important resource and determining factor, necessary for achieving the plan's objectives.

In addition, the plan includes:

- development of a real estate strategy through the sale of valuable owned property that no longer represents a strategic asset. These sales are part of a programme to provide greater flexibility to the retail network.
- implementation of a multi-channel strategy, following which, the Bank will selectively close certain branches over the planning time horizon;
- reduction of operating costs by trimming structural costs, including through the use of tools such as pensioning, natural turnover, incentives, and new hires;
- pursuit of cost curtailment through optimising the internal structure (e.g., product catalogue) and implementing guided and standardised processes.

The transformation into a joint-stock company, after exceeding the total assets limit of Euro 8 billion envisaged in Italian Law Decree 3/2015, converted to Law 33/2015, will see the Bank retain its structure as a regional bank, achieving decisive but measured growth in the new areas, with a sales strategy focused on the customers traditionally served.

Furthermore, the Bank envisages a programme to optimise RWA over the plan period through a policy of increasing the admissible guarantees and growth in loans focused on home mortgages and mortgage loans to SMEs in the Retail business line.

1.6 SIGNIFICANT EVENTS DURING THE YEAR

Share capital increase

On 27 November 2015, the Bank submitted to Consob, for purposes of the relative publication, the prospectus for a share capital increase, divisible and against payment, through the issue of a maximum of 4,987,123 ordinary shares at the price of Euro 19.20 per share, of which Euro 4.00 nominal value and Euro 15.20 share premium, for a maximum total value of Euro 95,752,761.60.

The offer closed on 22 January 2016 with all the shares subscribed. The share capital increase involved the issue of 4,987,103 shares for a total value of Euro 95,752,377.60, of which Euro 19,948,412 as share capital and Euro 75,803,965.60 as share premium.

Hence, the Bank's share capital increased from Euro 179,535,732 to Euro 199,484,144, divided into 49,871,036 shares of a nominal value of Euro 4.00 each. The effects of the share capital increase were recognised, for accounting and supervisory purposes, in the 2016 financial statements.

Shareholders' Meeting of 9 April 2016

On 9 April, the Ordinary and Extraordinary Shareholders' Meeting was held in second call. The ordinary session resolved the following, among other items:

- approval of the 2015 financial statements with the setting of the 2016 share premium, pursuant to the regulations applicable, at that time, to the Banca Popolare - Volksbank cooperative bank;
- remuneration policies, approving the 2015 implementation and changes to the plan proposed for 2016;
- the appointment, with list voting, of the Board of Statutory Auditors for the 2016-2018 three-year period, setting the fees for the role and for attendance that are due over the course of the mandate;
- the appointment, without list restrictions, by relative majority for individual candidates, of three Directors for the residual duration of the 2014-2016 Board of Directors, as a replacement of those removed from the merged Banca Popolare di Marostica, coopted on 10 April 2015, in execution of the merger agreements.

The extraordinary session resolved on the Bank's Articles of Association, regarding the amendments adopted by the Board of Directors on 11 March 2016 in execution of Italian Law no. 33/2015 as well as the amendments reserved for Shareholders' Meetings that implement the Supervisory Provisions, Circular no. 285 of Bank of Italy.

Audits

On 17 February 2016, Bank of Italy initiated a general audit of the Bank, in exercise of its assigned supervisory powers. The team members from the supervisory body completed their work in June.

The observations that emerged during the audits regarding the classification and valuation of individual credit items subject to analytical audit were fully enacted as part of the six-month financial report.

Following the receipt of the preliminary observations, the Bank sent a detailed response containing, among other items, a detailed implementation plan for the interventions required, with the relative timing for completion.

Voba Finance n. 6

On 1 September 2016, Banca Popolare - Volksbank concluded the sale of a portfolio of performing loans as part of a securitisation transaction known as Voba Finance 6 S.r.l.

The transaction envisaged the purchase, by the SPV, of a portfolio consisting of performing mortgage loans with a nominal value of Euro 528.6 million. The purchase was financed through the issue of four tranches of debt securities, with the following characteristics:

As at the issue date, Banca Popolare - Volksbank subscribed the entire junior tranche. Hence, as Banca Popolare - Volksbank maintained the majority of the risks and benefits of the transaction, the sale did not entail the

Tranche		DBRS/Moody's rating	Percentage	Amount (in Euro)
Class A1	IT0005212805	AAA/Aa2	18.47%	100,000,000
Class A2	IT0005212813	AA/Aa2	47.53%	257,400,000
Class B	IT0005212821	BBBh/A3	11.01%	59,600,000
Junior	IT0005215774	NR	23.00%	124,545,000
Total			100.00%	541,545,000

derecognition of the sold portfolio, which will continue to be included in the Bank's financial statements.

Disposal of a portfolio of doubtful loans

Effective from 3 November 2016, Banca Popolare - Volksbank finalised the disposal without recourse of a portfolio of loans classified as "doubtful" and denominated in Euro.

Sale of non-performing loan portfolio		03.11.2016
<i>(figures in Euro)</i>		
No. of loans sold		258
Gross value		5,428,958
Default Interest		487,676
Total		5,916,633

The disposal does not include any guarantee from the seller of solvency of the borrowers, nor of their guarantors, if applicable, for any reason, and hence, there is no guarantee on the total or partial collection of said loans. The loans were cancelled from the financial statements effective from the date of disposal. The price paid by the purchaser was Euro 345 thousand.

Transformation into a joint-stock company

The reform

With Italian Law Decree no. 3 of 24 January 2015, converted to Law no. 33 of 24 March 2015 (the Decree), which amended certain provisions of Italian Legislative Decree no. 385 of 1 September 1993 (the Consolidated Banking Law), the implementation provisions for the reform of cooperative banks were introduced.

The Decree envisages that cooperative banks that, as at the Decree's effective date (25 January 2015), have assets greater than the threshold of Euro 8 billion must adapt to the provisions of art. 29, paragraphs 2-bis and 2-ter of the Consolidated Banking Law no later than 18 months from the date at which the Bank of Italy's implementation instructions enter into force, or, alternatively:

- reduce the assets below the threshold,
- transform into a joint-stock company, or
- initiate voluntary liquidation (art. 29, paragraph 2-ter, Consolidated Banking Law).

Cooperative banks that exceed the Euro 8 billion threshold upon approval of the financial statements must adapt within 12 months of the reporting date for the year.

If, within one year of the asset limit being exceeded, assets have not been reduced below the threshold nor has there been a resolution to transform into a joint-stock company or initiate voluntary liquidation, Bank of Italy, in consideration of the circumstances and amount by which it exceeds the threshold, may:

- adopt a ban on undertaking new transactions, pursuant to art. 78, or the measures envisaged in title IV, chapter I, section I, or;
- propose to the European Central Bank that the authorisation to engage in banking activities be revoked and to the Ministry of Economy and Finance that compulsory administrative liquidation be enacted.

On 11 June 2015, Bank of Italy issued the secondary implementation rules on the reform of cooperative banks, (Italian Law Decree 3/2015, converted to Law 33/2015).

The secondary rules were published with the objective of completing the regulatory framework introduced by the reform, and defining the assumptions to initiate the corporate transformation process for institutions that were subject to the regulation.

The Board of Directors, from a perspective of prudent management and to ensure the stability of the Bank, decided to immediately launch the process of enacting the new regulatory provisions. Based on supervisory instructions relative to the financial statements as at 31 December 2015, in which the asset threshold was exceeded, and in accordance with the implementation rules for cooperative banks, the Board initiated a project to transform into a joint-stock company with the corresponding amendments to the Articles of Association. On 26 November 2016, the Shareholders' Meeting resolved the transformation with a favourable vote of 97.5% of the constituted voting rights.

Key effects of the reform

The Company that resulted from the transformation is owned by a broad shareholding base of nearly 60,000 shareholders, with considerably fragmented ownership and, traditionally, high levels of participation in company events.

Each share entails (1) voting right in Shareholders' Meetings. In order to vote in Shareholders' Meetings, the law allows shareholders to aggregate votes. Typically, depending on the characteristics of the relevant affiliates, voting rights may be organised through the following institutions:

- an association of shareholders, which exercises the voting proxies obtained from members;
- shareholders' (voting) agreements, with the vote agreed by the majority of parties to the agreement;
- holding association (for the vote), with the vote decided by the board of directors of the holding association.

Regardless of any forms of aggregation established, parties with voting rights, excluding Directors, Auditors, and employees of the Bank and its subsidiaries, may exercise up to 200 voting proxies, without prejudice of the right to participate through legal representation of individuals who are minors or incapacitated or in representation of legal entities.

The legal limit on the exercise of voting rights for shares that exceed 5% of share capital, set forth in art. 6, paragraph 2 of the Articles of Association, is revoked.

The Shareholders' Meeting is called with notice of at least twenty days under the terms of the law and Articles of Association, normally in a single call for both the ordinary and extraordinary session, and in single call, validly constituted regardless of the portion of share capital attending.

The Articles of Association allow multiple calls at the discretion of the Board of Directors, in which case, with the specific constitution and resolution quorums, and govern with an enhanced quorum the matters indicated in art. 16, paragraph 3.

The Shareholders' Meeting resolves openly with the majority of voting rights established, with the exception of the appointment of corporate bodies, which is carried out through list voting according to the provisions of the Articles of Association, art. 21 for the Board of Directors and art. 33 for the Board of Statutory Auditors.

Corporate bodies are renewed every three years, with the mandates in effect in 2016, for:

- the Board of Directors, with the approval of the financial statements as at 31 December 2016;
- the Board of Statutory Auditors, with the approval of the financial statements as at 31 December 2018.

The lists of candidates for the election of Directors and Auditors are validly submitted, in accordance with relevant regulatory and statutory regulations, with the authenticated signature of a notary or rendered before a Bank employee authorised to receive it, by a group of shareholders that together hold voting rights representing at least 1% of share capital. This capital threshold is equivalent to 498,599 share as at 31 December 2016.

The web site www.bancapopolare.it contains the Articles of Association as well as the documentation published in conjunction with the renewal of the corporate bodies.

For purposes of the criterion for extracting from the list of candidates to form the Board of Directors or the Board of Statutory Auditors, the "majority" list is that which receives the greatest number of votes in the Shareholders' Meeting, while the second- and third-ranked lists for the election of the Board of Directors or the second-ranked list for the election of the Board of Statutory Auditors are the "minority" lists when they have received votes equivalent to at least 1% of share capital.

The transformation into a joint-stock company does not have an impact on the size of the Bank, which is classified by supervisory authorities as a “medium-sized” bank, or banks that have total assets between Euro 3.5 and 30 billion.

The transformation did not change the corporate governance structure. The Bank adopts the “traditional” corporate governance structure that requires corporate bodies and the functions that they oversee in accordance with civil law and banking supervisory regulations, within a Board of Directors, charged with strategic direction and management, and a Board of Statutory Auditors, charged with certifying the proper administration of the Company.

Calculation of the withdrawal price

The transformation of Banca Popolare - Volksbank into a joint-stock company entails the invocation of shareholders' right of withdrawal that will not be included in the assumption of the relative shareholders' resolution, as a result of the combined provisions of art. 2437, paragraph 1, letter b), art. 2519, paragraph 1, and art. 2532 of the Italian Civil Code.

To this purpose, art. 2437-ter, paragraph 2 envisages that “the liquidation value of shares is determined by the Directors, having received the opinion of the Board of Statutory Auditors and the party assigned the accounting audit, considering the amount of the Company's assets and its profit forecasts, as well as any market value of the shares”. In order to calculate the withdrawal price, the Board of Directors was advised by two noted independent experts, who possessed the appropriate professional skills. These professionals were requested to provide an opinion on the identification of a range of values within which it would appear reasonable to set the withdrawal price of the Banca Popolare - Volksbank shares as part of the operation to transform into a joint-stock company.

The reference value adopted in the valuation for purposes of withdrawal is the intrinsic value, as it expresses that which the withdrawing shareholder relinquishes. The intrinsic value refers to the business in its current state, and does not reflect benefits expected from the decisions that triggered the withdrawal. Therefore, the estimate was developed with the objective of capturing all the value that the withdrawing shareholder contributed to create, but, at the same time, in such a way as to retain for the non-withdrawing shareholder all the future benefits that the transaction that triggered the withdrawal should generate. Thus, the intrinsic value tends to express the operating conditions of the business in its current state. On the other hand, the intrinsic value does not express the sale price at which the withdrawing shareholder could sell his/her investment.

Therefore, the withdrawal value was identified in reference to a value that aims to replicate the fundamental, long-term value of the Bank from the standpoint of carrying out the business plan, considering capital levels potentially greater than minimum regulatory level, as well as, at least partially, market dynamics in the banking sector. This methodology is based and relies on the soundness of assumptions and the business forecasts of the banking activities incorporated in the business plan.

In particular, the chosen methodology was the Dividend Discount Model with the Excess Capital variant (DDM), which represents the valuation methodology most commonly used in professional practices to estimate the values of banks and financial intermediaries in extraordinary transactions. It expresses the value of the bank as a function of its ability to generate expected future cash flows from the implementation of plans and programmes defined by management.

The adoption of DDM implies that, in estimating the withdrawal value, the creation of value in the long term is incorporated, expected from implementing the plan, whose results are not directly and immediately reflected in the prices of daily markets.

Considering the specifics of the process to estimate the withdrawal value and the perspective of the trading of the Bank's securities post-transformation without limitations that, up to now, characterised the securities' trading, the Board of Directors deemed it appropriate to compare the results of the fundamental method with market data for banks considered comparable that emerge from trades on regulated markets or that are in reference to transactions that transform cooperative banks into joint-stock companies.

In particular, the valuation analyses based on market listings of entities that were most comparable to Banca Popolare - Volksbank assumed, in the procedure adopted, a value that would verify the results of the estimate made with the DDM, as this method could not be adopted for the estimation criterion.

The withdrawal value was set at Euro 12.10 per share and differed from current market prices found in transactions involving transformations of cooperative banks into joint-stock companies due to the fact that, in these cases,

the withdrawal value, in compliance with the provisions of art. 2437-ter of the Italian Civil Code, was set based on the average price of the trend in the share price observed in the six months preceding the transaction date. Finally, it should be noted that the withdrawal value differs from the value in use by the Bank, as the withdrawal value resulted from a valuation procedure in which expected cash flows used for the calculation and the discount factor consider, among other items, a target capital coefficient greater than the minimum level established by sector regulation.

Shareholders' Meeting of 26 November 2016

The Shareholders' Meeting approval on 26 November 2016 of the transformation into joint-stock company triggered the right of withdrawal, pursuant to art. 2437 of the Italian Civil Code, for all or part of the shares of shareholders that did not vote in favour of the resolution (nay votes, abstaining votes, absent voters, and voters not represented in the Shareholders' Meeting) to be exercised at the liquidation value, as resolved by the Board of Directors on 7 November 2016, corresponding to the Euro 12.10 for each share.

In particular, the Shareholders' Meeting assumed the following decisions:

- with extraordinary constitution quorum regarding:
 - transformation of the Bank from a “cooperative bank” into a “joint-stock company”, with the resulting amendments to the Articles of Association;
 - free share capital increase, pursuant to art. 2349 of the Italian Civil Code, for a maximum of Euro 300,000, with delegation to the Board of Directors, pursuant to art. 2443 of the Italian Civil Code - having verified the assumptions in accordance with the remuneration policies approved by the Shareholders' Meeting of 9 April 2016 - to issue new ordinary shares, in service of compensation plans based on financial instruments for the years 2016, 2017, and 2018 that must be approved by the Shareholders' Meeting;
- with ordinary constitution quorum regarding:
 - establishment of a restricted profit reserve to service the free share capital increase discussed and resolved by the same Shareholders' Meeting of 26 November 2016;
 - proposal to adapt the Shareholders' Meeting Regulation to the governance of joint-stock companies as part of the transformation of the Bank's corporate structure.

Order of the Council of State of 2 December 2016

The Council of State, with its Order of 2 December 2016, in relation to the petition submitted by several shareholders of Banco Popolare, Banca Popolare di Sondrio, Banca Popolare di Milano and UBI – Unione Banche Italiane, against the measures of Bank of Italy governing the methods of implementing the reform of cooperative banks, found that the legitimacy and interests of the petition are valid as the measures challenged, and the legislative regulations at the basis of their adoption directly affect the prerogative of the status of the shareholder of the cooperative bank, thereby presenting cases of immediate damage.

The Council also raised the question of the constitutional legitimacy of art. 1 of Italian Law Decree no. 3 of 24 January 2015 (Urgent Measures for the Banking System and Investments), converted with amendments to Law no. 33 of 24 March 2015, for the following parties (without prejudice to others):

- a) for the part in which the withdrawal right for shares of withdrawing shareholders may be limited (including with the possibility, therefore, to exclude them tout court), and not, instead, only deferred within established time limits and with the expectation of interest to be paid;
- b) for the part that, in any case, attributes to Bank of Italy the power to govern the methods of this exclusion, to the extent in which said power is attributed “including in derogation by law”, with the resulting attribution to the supervisory authority of a power of blanket delegatisation, without the prior and accurate indication by the legislature of the legislative norms that may be waived and, in addition, in cases presumably reserved for law.

In addition, it determined that, in regard to the aforementioned parties not having grounds for questions of legitimate constitution, Bank of Italy Circular no. 285 of 17 December 2013 - 9th Update of 9 June 2015, appears flawed in relation to the part that governs the exclusion of the reimbursement right, proscribing statutory amendments aimed at introducing in articles of association “the clause that attributes the body responsible for strategic direction,

on proposal of the management body, with the opinion of the control body, the right to limit or postpone, all or in part, and without time limits, reimbursement to the withdrawing shareholder for shares and other equity instruments included in CET 1, including in waiver of provisions of the Civil Code and other legislative norms”.

Finally, it determined that the Bank of Italy Circular no. 285 of 17 December 2013 - 9th Update of 9 June 2015, appears flawed, at least at the level of *fumus boni iuris*, where it:

- a) attributes to the bodies of the same company involved in the withdrawal (and, essentially, the same party that owes the reimbursement due to the withdrawing shareholder) the power to decide to exclude said reimbursement, thereby creating an unreasonable situation of conflict of interest, in which the debtor is paradoxically made the arbiter of the outcome of the reimbursement right of the amount owed to the creditor shareholder, who wishes to withdraw, as a result and directly as a function of, the resolution to transform into a joint-stock company;
- b) attributes (exercising a sort of sub-delegation of the power of delegatisation) to the statutory independence of the company the power to introduce “waivers to provisions of the Civil Code and other legal norms”, thereby giving rise to an unprecedented form of delegatisation of negotiation resources;
- c) provides that “transactions that result in the ownership, by the holding company deriving from the former “cooperative bank”, of full or majority shareholding in the banking joint-stock company or, in any case, such as to render it possible to exercise significant influence, will not be considered in line with the reform”, given that this limitation has no legal basis and appears, not only unnecessary for achieving the objectives of the reform, but also indicative of an unreasonable disparity between the treatment of shareholders of former cooperative banks (deprived of the possibility of exercising control) and any other party that participates in share capital (to whom, instead, this possibility remains recognised).

Hence, pending the decision on the question of constitutional legitimacy that it raised, the Council of State provisionally upheld, in part, the interim relief and partially suspended the effective date of Bank of Italy Circular no. 285 of 17 December 2013, relative to the following aspects:

- a) paragraph 2 (First Application Regime), limited to the last two sub-paragraphs (from “Relevant Transactions” to “Under Significant Influence”);
- b) paragraph 3 (Statutory Amendments in Cooperative Banks), fifth sub-paragraph, first sentence, limited to the words: “limit or”; “and without time limits”;
- c) “including in waiver of Italian Civil Code provisions and other legislative norms and”; “and to the extent of the limit”;
- d) in Part III, Chapter 4, Section III (Reimbursement of Equity Instruments), “1. Limits to Reimbursement of Equity Instruments”, for all the relative text, but in the limits in which Section III applied to the events resulting from the transformation of cooperative banks into joint-stock companies consequent to the aforementioned norms of Italian Law Decree no. 3 of 24 January 2015, converted to Law no. 33 of 24 March 2015.

Hearings in chambers of the Council of State will be set following the judgment pronounced by the Constitutional Court on the questions of constitutional legitimacy raised with a separate order.

Exercising the withdrawal right from Banca Popolare - Volksbank

As previously stated, the transformation resolution of the Shareholders' Meeting of 26 November 2016 gave rise to the right of withdrawal, pursuant to art. 2437, paragraph 1, letter b) of the Italian Civil Code, for all or part of the shares held by entitled parties who voted against the resolution, were absent (not represented), or abstained from voting.

The transformation resolution became effective with the submission of the minutes of the Shareholders' Meeting to the Bolzano Business Register, which occurred on 12 December 2016. The date of registration in the Bolzano Business Register is the start date of the period for exercising the withdrawal right, pursuant to art. 2437-bis of the Italian Civil Code, which ended on 27 December 2016.

Arts. 2437-quater, paragraphs 2 and 3 of the Italian Civil Code envisage that, whoever exercises the option right has a pre-emptive right to purchase the remaining unopted shares, provided that the request is made at the time. Paragraph 4 of said article provides that, if the shares that are withdrawn are not purchased, all or in part, by non-withdrawing shareholders, they may be placed with third parties who requested accordingly.

If the withdrawn shares are not placed as part of the option and pre-emption offer and through third-party placement, art. 2437-quater of the Italian Civil Code envisages the reimbursement through purchase by the Bank. This provision remains subject to possible limits and restrictions envisaged by applicable regulations.

Currently, due to the uncertainty following the judgment handed down by the Council of State as well as possible changes resulting from expected decisions of the Constitutional Court and said Council, the conditions do not exist that would allow a valuation of the number and amount of any reimbursements and the consequent effects on the capital structure and regulatory situation of the Bank.

Contribution to the Deposit Guarantee System (Mandatory Programme of the Inter-Bank Deposit Protection Fund)

Consistent with the provisions of the DGS Directive regarding the protection of deposits, art. 24, paragraph 1 of the Articles of Association of the Inter-Bank Deposit Protection Fund envisages that the fund constitutes available financial resources until it has reached the objective level of 0.8% of total deposits protected by 3 July 2024, through ordinary contributions from member banks.

With its letter of 21 November 2016, the Fund's Board established that the total contribution from member banks for 2016 would be Euro 449.2 million, broken down as follows:

- an ordinary contribution of Euro 348.8 million;
- allocation to the Solidarity Fund of Euro 100 million.

In particular, pursuant to art. 10 of the appendix to the Articles of Association, the Fund's member banks must pay the ordinary annual contribution as at 30 September of each year. The contribution amounts are calculated in reference to the contributing base recognised as at 30 September of the year underway and are adjusted for risk based on the operating indicators for the most recent six-month report available.

The amount due from Banca Popolare - Volksbank for 2016 was Euro 2.4 million, broken down as follows:

- ordinary contribution of Euro 1.9 million;
- contribution to the Solidarity Fund of Euro 551 thousand.

The amount was fully recognised in the income statement for 2016.

Contribution to Single Resolution Mechanism

The regulation establishing the Single Resolution Mechanism (Directive 2014/806/EU) became effective on 1 January 2016, which manages banking crises in EU member countries at a centralised level, by instituting and overseeing the Single Resolution Fund (SRF). In fact, beginning on said date, the national funds of all states belonging to the monetary union, established in 2015 in accordance with the BRRD, were combined in the Single Resolution Fund. This Fund is managed centrally by the new Single Resolution Board (SRB) headquartered in Brussels.

The Single Resolution Fund (SRF) will reach, beginning from 1 January 2016 and no later than 31 December 2023, a period of 8 years, an objective level of resources equivalent to at least 1% of the amount of protected deposits at all authorised entities in the European Union. The objective level of the SRF is currently estimated at Euro 55 billion. Hence, the banks of the member states of the banking union, which in 2015 paid their contributions to National Resolution Funds, will contribute to the Single Resolution Fund from 2016 until 2023. The banks that do not belong to the banking union will continue to make contributions to the National Resolution Funds of their respective countries.

The rules for calculating the contributions due are contained in the Commission Delegated Regulation no. 63 of 2015, supplemented by the Council Implementing Regulation no. 81 of 2015 for the period 2016-2023.

Following the receipt of the letters with the contribution amounts, Euro 2.1 million was charged to the income statement, recognised in full in 2016.

Contribution to the National Resolution Fund

With Regulation EU/2014/806, effective from January 2016, the Single Resolution Mechanism for bank and stock brokerage companies offering services that involve the assumption of risk by the party (Single Resolution Mechanism, SRM) was introduced, which supplements the Single Supervisory Mechanism (SSM), with the objective of preserving the financial stability of a Eurozone through centralised management of resolution procedures. It is also envisaged that the Single Resolution Fund for financing resolution programmes is funded by contributions from the intermediaries in Eurozone countries with a contribution plan distributed over 8 years, without the use of public funds.

The system is formed by the National Resolution Authorities (NRA) and the Single Resolution Board (SRB), a European agency to perform the function of resolution and whose board includes representatives from the national authorities.

Specifically, National Resolution Authorities are responsible for managing crises of smaller intermediaries. In performing these activities, NRAs act within the scope and guidelines established by the Single Resolution Board that, in exceptional cases, may exercise replacement powers, ensuring the effective coherence for the mechanism. Both the SRB and the NRAs use crisis management tools introduced in Directive 2014/59/EU (Banking Recovery and Resolution Directive - BRRD).

Italian Legislative Decree no. 72 of 12 May 2015 and the 2014 European Delegation Law, approved on 2 July 2015, appointed Bank of Italy to perform the role of National Resolution Authority (NRA). Hence, the Resolution Board and crisis management was instituted. It performs the audit and operational duties of the Single Resolution Mechanism, collaborates with the offices of the SRB, and manages liquidation procedures for banks and financial intermediaries. A resolution fund was established by Bank of Italy, pursuant to art. 78 of Italian Legislative Decree no. 180 of 16 November 2015, known as the National Resolution Fund.

This fund, governed under Title V of Italian Legislative Decree no. 180/2015, allows Bank of Italy, as the Resolution Authority, to carry out its resolution objectives in accordance with art. 21 of Italian Legislative Decree no. 180/2015, consistent with the principles established in art. 22 of said decree. The fund creates an independent asset, which is distinct in all effects from the assets of Bank of Italy and any other assets it manages, as well as those of each party that provided the resources collected in said fund.

Italian Law no. 208 of 28 December 2015 (2016 Stability Law) envisages that, in the event in which the financial resources of the National Resolution Fund (NRF) are not sufficient to support the interventions carried out at any given time, the banks must pay:

- a) additional contributions to the NRF, the amount of which is calculated by Bank of Italy, and within an overall limit provided for in arts. 70 and 71 of Regulation EU/2014/806, including contributions to the SRF;
- b) for 2016 only, two additional annual contributions. To this purpose, refer to the amount of the 2016 annual contribution, calculated in compliance with art. 70 of Regulation 806/2014/EU, Delegated Regulation 63/2015/EU, and Execution Regulation 81/2015/EU.

In the Bank of Italy measures of 21 November 2015, approved by the Ministry of Economy and Finance on 22 November 2015, the Bank established the beginning of a resolution programme for Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Ferrara, and Cassa di Risparmio della Provincia di Chieti, all of which were in extraordinary administration. Considering the impending financial requirements of the NRF, with a letter sent 29 December 2016, Bank of Italy required double the amount of the annual contribution discussed in point b), which for Banca Popolare - Volksbank amounted to Euro 4.1 million.

The additional contributions were calculated based on the amounts paid by intermediaries for 2016. Moreover, Bank of Italy communicated that, in relation to changes in the regulatory framework and, specifically, to Italian Law Decree no. 237 of 23 December 2016, not yet converted, which envisages the possibility of requiring contributions as per the aforementioned Stability Law in years following 2016, and reserves the right to indicate in a subsequent measure the terms and conditions for paying these contributions and, in any case, to reconsider the decision made.

The relative charge was fully recognised in the income statement for 2016.

Contribution to the Inter-Bank Deposit Protection Fund

With the amendments to the Articles of Association resolved on 26 November 2015 by the Extraordinary Shareholders' Meeting of the Inter-Bank Deposit Protection Fund, in implementation of the resolution adopted by the Board of the Fund in its meeting of 11 November 2015, a Voluntary Intervention Programme was introduced that provides the Fund with the necessary resources to carry out interventions to support banks in crisis and Fund members.

The programme was developed to respond to the observations put forth by the European Commission regarding the nature of the Inter-Bank Deposit Protection Fund. In particular, in December 2015, after the audit launched in February 2015, the European Commission declared that the support intervention carried out in 2014 by the Inter-Bank Deposit Protection Fund for Banca Tercas, as the mandatory system of deposit guarantee, constitutes state aid that is incompatible with European regulations, and ordered its recovery.

In light of this decision by the Commission and in order to protect Banca Tercas from its negative effects, and in particular, in order to avoid the risk of recourse to the Single Resolution Mechanism, the banking system decided to establish a Voluntary Intervention Programme, in which Banca Popolare - Volksbank participated.

The Voluntary Programme is an additional tool to the Mandatory Programme, and is not subject to the restrictions of European community and European Commission regulations.

The Voluntary Programme is governed by a specific Title (Title II) of the Articles of Association of the Inter-Bank Deposit Protection Fund (Mandatory Programme) and consists of the participation of almost all member banks, representing 99.6% of protected deposits (against the minimum envisaged by the Articles of Association of 95%).

The initial intervention of the Voluntary Programme, in reference to Banca Tercas, essentially involved matching the amount Banca Tercas had to return to the Inter-Bank Deposit Protection Fund, in execution of the Ministerial Decree that activated the Commission's decision, hence without additional expenses for the participating banks.

In the second phase, the Voluntary Fund was replenished to have resources up to a maximum amount of Euro 300 million, to be used for support interventions of smaller banks in crisis that are subject to extraordinary administration procedures, if there are concrete prospects for recovery and in order to avoid higher expenditures for the banking system as a result of liquidation or resolution proceedings.

These resources are not immediately paid by the member banks, which simply assume the commitment to pay them if required for specific interventions, up to the maximum amount established. The decisions on individual interventions assumed by the Fund are binding for member banks.

On 15 June, the Management Board of the Voluntary Programme approved a recapitalisation transaction for Cassa di Risparmio di Cesena, which envisages:

- an increase in reserved share capital for the Voluntary Programme of Euro 280 million;
- recognition to shareholders existing before the reserved share capital increase noted in the previous point of free warrants against each share owned, exercisable to subscribe a future share capital increase up to a maximum of Euro 55 million.

Finally, the Extraordinary Shareholders' Meeting of the Inter-Bank Deposit Protection Fund of 17 June 2016 approved additional amendments to the Articles of Association aimed at broadening the assumptions for intervention, simplifying decision-making processes, and strengthening financial resources from Euro 300 to 700 million.

In its measure of 15 September 2016, the ECB authorised the equity investment of the Voluntary Programme and on 20 September 2016, the member banks paid their portions of the total amount of the requested Euro 281 million, of which Euro 280 million for the share capital increase (of which Euro 1.5 million represents the portion due from Banca Popolare - Volksbank) and Euro 1 million for expenses associated with the intervention and the operations of the Voluntary Programme).

For accounting purposes, a financial instrument was recognised in financial assets available for sale (AFS) that expresses the recoverable value, as at 31 December 2016, of the payment made as an investment of the Voluntary Programme in Cassa di Risparmio di Cesena, calculated based on an appraisal conducted by an expert appointed by the Management Board of the Voluntary Scheme. The amount recognised was Euro 1.2 million, with Euro 0.4 million recognised in the income statement for the year.

In addition, an allocation was made to the provision for risks and charges for Euro 2.3 million, corresponding to Banca Popolare - Volksbank's share of the residual amount of the financial resources of the Voluntary Programme, equivalent to Euro 420 million.

New regulations for converting DTAs into tax credits

With Italian Law Decree no. 59 of 3 May 2016, converted to Law no. 119 of 30 June 2016, special regulations for DTAs were introduced, aimed at avoiding the possibility that national legislation establishing the ability to automatically convert "qualified" DTAs - for adjustments on loans or goodwill and other intangible assets - into tax credits could be considered, including in the presence of statutory and/or tax losses, as "state aid".

Art. 11 of this regulation establishes that the ability to convert these DTAs into tax credits continues to apply automatically, under certain conditions envisaged by the law, only for "qualified" DTAs covered by taxes already paid, while for "qualified" DTAs that exceed the taxes already paid, the conversion into tax credits can be maintained only on the irrevocable option of the Bank and provided that an annual fee is paid.

The fee is equivalent to 1.5% of any positive difference between: (a) the amount of "qualified" DTAs recognised from 2008, including those already converted into tax credits and (b) the amount of taxes paid from 2008. If the company participates in a tax consolidation, the DTAs and taxes are calculated at the level of the tax consolidation. The fee, which is deductible for IRES and IRAP purposes, must be calculated and, if due, paid for each year from 2015 to 2029.

In the financial statements as at 31 December 2016, the "qualified" DTAs recognised were significantly lower than taxes paid. In the 2008-2016 period, taxes paid by the Bank were much higher than these DTAs. Hence, these DTAs are eligible to be converted without the Bank being required to pay any fee.

1.7 RESULTS OF OPERATIONS

The year 2016 is the first year in which the synergies following the merger with the Banca Popolare di Marostica Group began to be realised, which were initially evident as a reduction in structural costs, and will result in benefits to the customer, for which the Bank's larger size allows a different relationship with the banking system, ensuring greater regional coverage to support current operations.

In particular, synergies began to be realised deriving from the optimisation of the workforce in various business structures (central office, IT, back office, etc), reduction actions for administrative costs, better control over purchasing (including the benefits of greater negotiating power), sharing of internal best practices (both in terms of cost and revenue), and enhancement of the specialisation areas.

1.7.1 ECONOMIC RESULT

For a better interpretation of the economic results in comparison to 2015, note that the transactions of Banca Popolare di Marostica Soc. coop. p.a. were recognised in the Banca Popolare - Volksbank financial statements from 1 April 2015, the effective date of the merger.

The legal effective date of the merger of Banca di Treviso S.p.A. was established as 5 October 2015. The accounting and tax effects of the Banca di Treviso S.p.A. merger were backdated to 1 April 2015. The merger of Banca di Treviso S.p.A., as a subsidiary of Banca Popolare - Volksbank as at the date of the merger, is a business combination between entities under common control, and therefore excluded from the scope of application of IFRS 3.

Specifically, the 2015 income statement does not include the Banca Popolare di Marostica Group's result for the first quarter of 2015. Moreover, the purchase price allocation (PPA), envisaged in IFRS 3, including the effects from the realignment of any differences that emerge in reference to the figures from 1 April 2015 between the value at which the acquired assets and liabilities were recognised in the financial statements of Banca Popolare di Marostica Group and their fair value, determined upon allocation of the merger cost, was applied to the merger transaction only from the effective merger date in 2015.

Presentation of economic results

Below is an outline of the reclassified income statement for a better understanding of the economic results. As envisaged in Consob communication no. DEM/6064293 of 28 July 2006, a description follows of the restatements and aggregations carried out:

- the item “Dividends and profits (losses) on investments carried at equity” includes the income statement item “Dividends and similar income” and the item “Profits (losses) on investments in associates and companies subject to joint control”;
- the “Profits (losses) on hedging activities”, indicated only among the restated data, has been included under net interest;
- the item “Net financial result” includes “Profits (losses) on trading”, “Profits (losses) on disposal or repurchase of financial assets available for sale”, “Profits (losses) on disposal or repurchase of financial liabilities” and “Profits (losses) on financial assets and liabilities designated at fair value through profit or loss”;
- the item “Net adjustments to property and equipment and intangible assets” includes the income statement items “Net adjustments to/recoveries on property and equipment” and “Net adjustments to/recoveries on intangible assets”;
- the item “Net losses/recoveries on impairment of loans and other financial activities” includes the item “Profits (losses) on disposal or repurchase of loans”, the item “Net losses/recoveries on impairment of loans” and the item “Net losses/recoveries on impairment of other financial activities”;
- the item “Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments” includes the items “Profits (losses) on disposal or repurchase of investments held to maturity”, “Net losses/recoveries on impairment of investments held to maturity”, and the item “Profits (losses) on disposal of investments”.

Overall development of the economic result

Banca Popolare - Volksbank closed 2016 with a net profit of Euro 7.7 million. This result was achieved in a

Income Statement Figures	31.12.2016	31.12.2015 (*)	Changes	
<i>(thousands of Euro)</i>			Abs.	%
Net interest	138,898	132,478	6,420	4.8%
Dividends and profits (losses) on investments carried at equity	8,893	8,140	752	9.2%
Financial margin	147,791	140,618	7,173	5.1%
Net fee and commission income	82,094	77,542	4,552	5.9%
Net financial result	16,171	26,454	(10,283)	-38.9%
Other operating income/expenses	20,951	26,821	(5,870)	-21.9%
Other operating income	119,216	130,817	(11,601)	-8.9%
Net operating income	267,007	271,436	(4,429)	-1.6%
Personnel expenses	(99,090)	(97,954)	(1,136)	1.2%
Administrative expenses	(82,474)	(86,811)	4,336	-5.0%
Net adjustments to property and equipment and intangible assets	(9,217)	(8,466)	(750)	8.9%
Operating expenses	(190,781)	(193,231)	2,450	-1.3%
Operating profit (loss)	76,226	78,205	(1,979)	-2.5%
Net adjustments to loans, guarantees and commitments	(89,889)	(46,273)	(43,616)	94.3%
Net adjustments to other assets	(2,260)	(2,404)	143	-6.0%
Net provisions for risks and charges	(672)	(6,187)	5,515	-89.1%
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	2,554	72	2,482	3440.3%
Profit (loss) on continuing operations	(14,041)	23,414	(37,455)	-160.0%
Taxes on income from continuing operations	21,763	(1,046)	22,809	-2180.3%
Net income (loss) for the year	7,722	22,368	(14,646)	-65.5%

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

scenario that, for all of 2016 as well as the previous year, was characterised by particular uncertainty, marked by persistent volatility in financial markets, interest rates that continue at historically low levels, and notably high cost of risk. The decline in profit from the prior year is mainly due to impairments on loans, which increased significantly, including due to the implementation of the findings that emerged from the audit conducted by the supervisory authority in the first half.

Net operating income is largely unchanged at Euro 267.0 million. Operating profit (loss) amounts to Euro 76.2 million. Note that during the previous year, the net financial result benefitted from sizable non-recurring components associated with the sale of equity investments in ICBPI and Arca S.g.r.

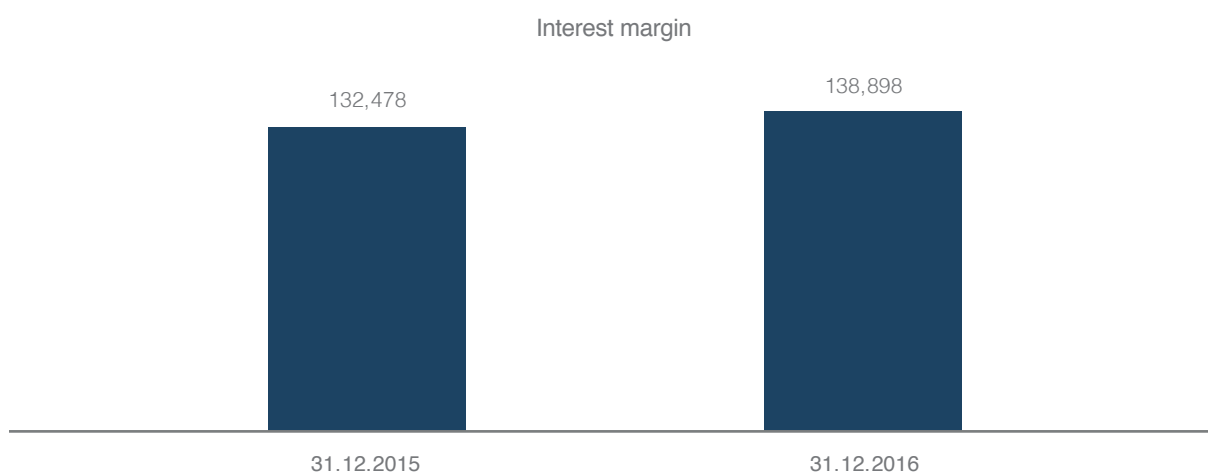
In 2016, the non-recurring components, or those not directly related to the core business, once again had a considerable impact. In particular, the positive component associated with tax relief on goodwill and the client relationship (Euro +13.3 million), tax benefits from the ability to recover certain favourable components by submitting supplementary declarations, (Euro +5.4 million), the sale of certain properties, and the liquidation process for the subsidiary Voba Invest S.r.l. in liquidation (Euro +4.7 million).

As more fully described in the section on significant events for the year, there was also a notable impact from charges connected with ordinary contributions to the deposit guarantee system, ordinary and extraordinary contributions to the National Resolution Fund, as well as charges for the commitment to the Voluntary Programme of the Inter-Bank Deposit Protection Fund, totalling Euro -11.3 million ⁽³⁾.

Despite the persistence of the deeply rooted crisis and the lack of economic growth that has continued for a particularly long period, day-to-day operations continued to make a significant contribution towards overall profitability.

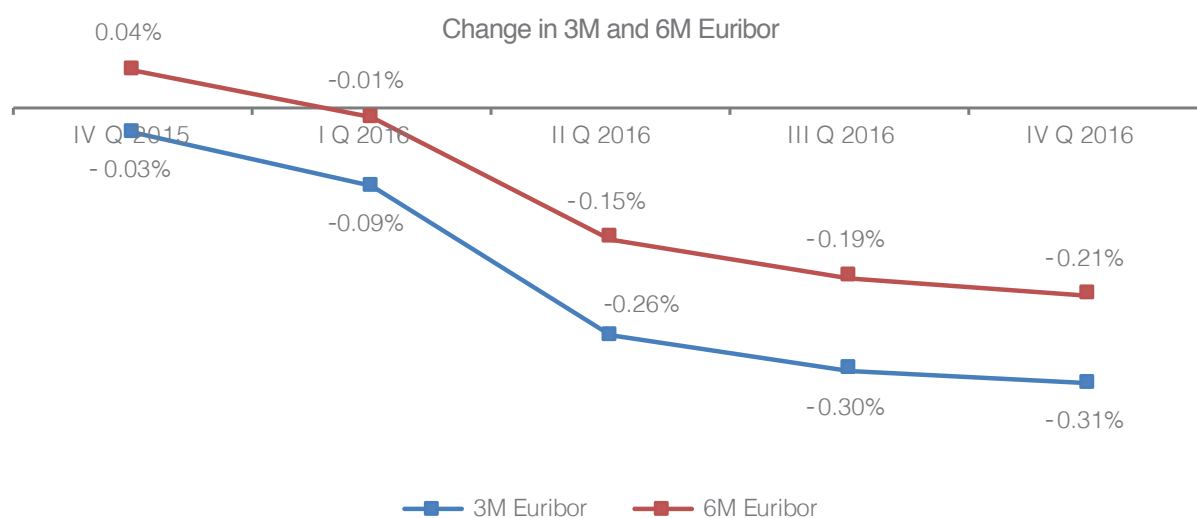
In 2016, net operating income includes net interest of Euro 138.9 million and net fee and commission income of 82.1 million. Dividends and profits from investments carried at equity total Euro 8.9 million, the net financial result is Euro 16.2 million, and other operating expenses/income is Euro 20.1 million. As noted, these components for 2015 do not include the profit of Banca Popolare di Marostica Group relative to the first quarter.

Interest in 2016 was again characterised by historically low interest rates, also associated with the particularly acute recession. In this context, lending volumes increased, even though it was necessary to keep strict control over the assumption of risk. Interest income from customers is Euro 176.9 million, while interest expense on amounts due to customers and debt securities issued is Euro 35.5 million. Interest expense on fair value financial liabilities amounts to Euro 319 thousand.



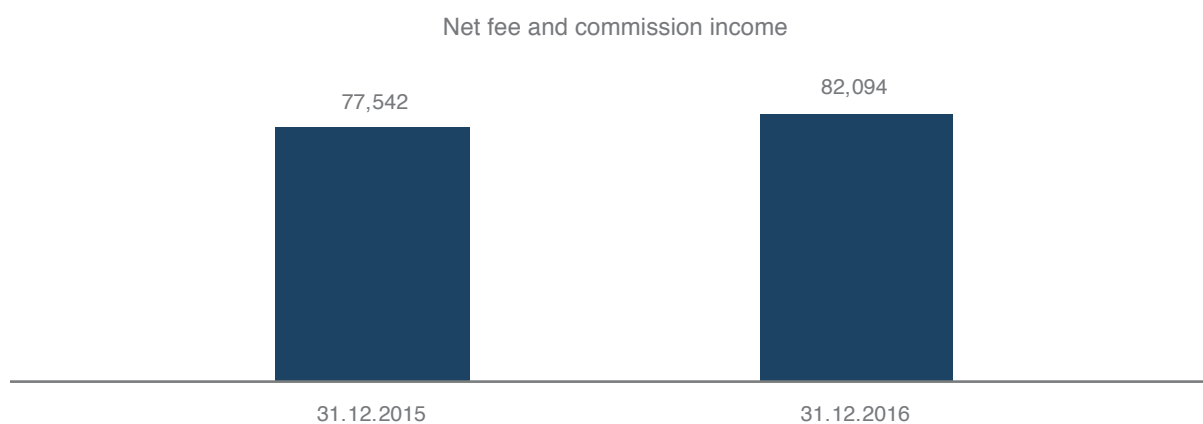
(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

⁽³⁾ This amount includes the contribution to the deposit guarantee system, the Single Resolution Mechanisms, the National Resolution Fund, and the effects of recognising impairment on the Bank's portion of the equity investment in Cassa di Risparmio di Cesena through the Voluntary Programme of the Inter-Bank Deposit Protection Fund.



Dividends and profits (losses) on investments carried at equity include the dividends approved in the year and the reversal on the subsidiary Voba Invest S.r.l. in liquidation, following the adjustment of the carrying amount at equity of the subsidiary on 31 December 2016, which recorded a positive change as part of the liquidation process for its assets. In 2016, dividends collected on equity investments, unconsolidated investments, and profits from investments carried at equity total Euro 6.5 million.

Net fees and commissions, equivalent to Euro 82.1 million, represent 30.7% of net operating income. The most important elements include management, brokerage and consulting services, which stand at Euro 23.9 million, income from collection and payment services at Euro 4.3 million, net income from current account holding and management of Euro 40.6 million, and, lastly, commissions from other services of Euro 13.6 million.



(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

The net financial result is significantly positive at Euro +16.2 million. In particular, against a profit in trading of Euro 2.2 million in a particularly complex and highly volatile market, there is a highly positive result from instruments classified as AFS, with a net profit of Euro +13.6 million, as well as residual positive components for trading of financial liabilities. The net financial result was also influenced by the charge for the intervention for Cassa di Risparmio di Cesena, envisaged as part of the Voluntary Programme of the Inter-Bank Deposit Protection Fund, amounting to Euro 0.4 million.

Maintenance of interest rates at historically low levels in 2016 made it necessary to identify the sectors that could ensure a positive, or at least satisfactory, result. In addition to the previously mentioned capital gains on disposal of the subsidiary Voba Invest S.r.l., the best performances were achieved with stock and bond portfolios of issuers from outside the Eurozone. Adequate portfolio diversification in line with the past, albeit with a prevalence of Italian securities, meant that the performance was positive.

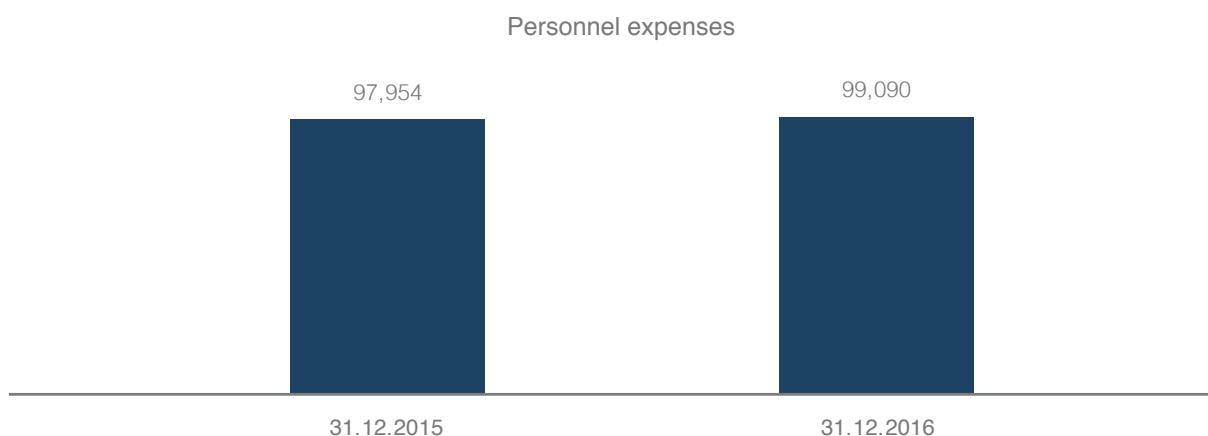
The diversification of the bond portfolio and investment funds with a share component was further balanced with alternative investment products in order to optimise the risk/return profile.

The profit on financial assets and liabilities designated at fair value are minor and related to the net result from trading and measurement of the financial instruments (derivatives and emissions with natural hedging) for which the Company adopted the fair value option, involving the measurement of these liabilities and related hedging derivatives at fair value instead of the alternative possibility of using hedge accounting.

Other operating expenses/income amounting to Euro 20.9 million benefitted from fees for rapid processing and amounts recovered from third parties for costs incurred. Negative components include, in particular, contingent liabilities connected with the settlement of outstanding disputes with customers.

Overall, other operating income stands at Euro 119.2 million. Net operating income is Euro 267.0 million.

Operating expenses are Euro 190.8 million and include personnel expenses of Euro 99.1 million. Staff-related expenses are Euro 98.0 million,

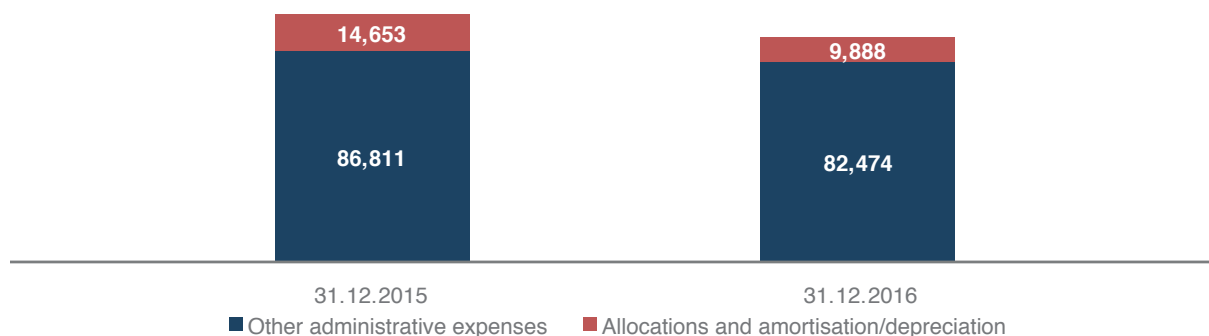


(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Other administrative expenses amount to Euro 82.5 million, primarily consisting of charges for IT services to the SEC consortium of Euro 12.1 million, amounts paid to professionals for Euro 7.6 million, rental expense for Euro 5.5 million, and maintenance of Euro 4.8 million. The expenses associated with Directive 2014/59/EU - Recovery and Resolution of Credit Institutions and Investment Firms and Directive 2014/49/EU - Deposit Guarantee Schemes (DGS) total Euro 4.5 million. Expenses related to the extraordinary contribution to the crisis recovery of Banca delle Marche S.p.A., Banca Popolare dell'Etruria e del Lazio S.c.p.a., Cassa di Risparmio della Provincia di Chieti S.p.A. and Cassa di Risparmio di Ferrara S.p.A. amount to Euro 4.1 million.

Net adjustments to/recoveries on property and equipment and intangible assets are Euro 9.2 million. This includes, among other items, Euro 4.1 million for depreciation on property, Euro 3.2 million for depreciation of

Operating expenses - other costs



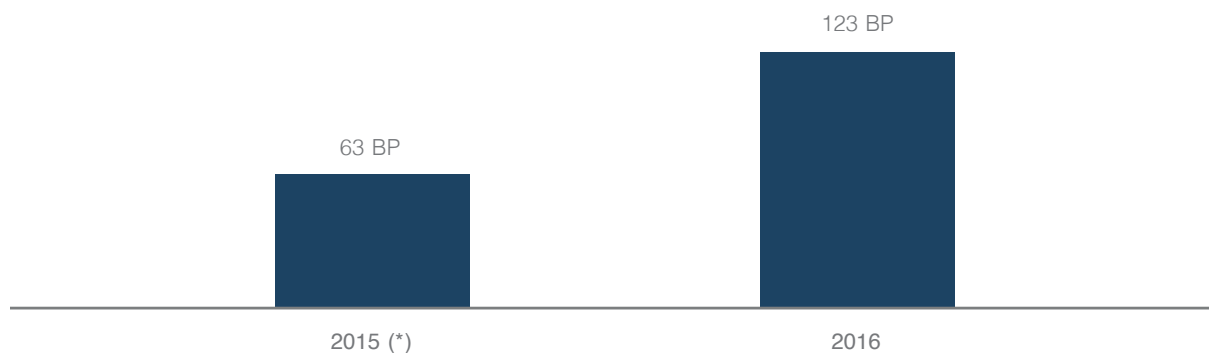
(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

movable assets and plants, as well as Euro 1.0 million for depreciation of the client relationship recognised during the merger with Banca Popolare di Marostica.

Net losses on impairment of loans and other financial assets stands at Euro 91.9 million. The amount for the prior year is mainly attributable to impairments on non-performing loans. In particular, impairments were a result of the constant monitoring of credit risk measurement, in a context of persisting economic stagnation experienced also in 2016, in which the Bank continued to strengthen its valuation controls, confirmed by the degree of hedging of non-performing loans reached for the year, as better described below.

The cost of credit (net adjustments to loans/gross loans to customers) is 123 bps. During the year, the monitoring

Cost of credit (annualised BPS)



(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

of credit risk resulted in an increase in hedging percentages in all areas.

Total adjustment provisions amount to 7.4% of gross loans (6.6% as at 31 December 2015). The hedging of doubtful loans is 53.8%, compared to 50.9% as at 31 December 2015, increasing mainly as a result of the aforementioned monitoring, also considering the effects of the sale in the second half of a portfolio of 258 positions for a gross value of Euro 5.9 million, already greatly written down. The hedging of unlikely to pay loans is up to 23.3%, compared to 23.0% in the previous year, for past-due loans the hedging percentage is 9.0% against 7.7% twelve months earlier, whilst for performing loans the write-down percentage is 0.77%, up from 0.65% at the end of 2015.

Hedging of doubtful loans	31.12.2016	31.12.2015
Hedging of doubtful loans	53.77%	50.89%
Hedging of unlikely to pay loans	23.28%	22.97%
Hedging of past-due loans	8.98%	7.74%
Hedging of performing loans	0.77%	0.65%
Hedging of performing loans	0.65%	0.61%

With reference to the other components of this item, the result includes Euro 0.3 million in losses related to the aforementioned factoring of a portfolio of loans classified as doubtful. The loans were cancelled from the financial statements after their transfer. Finally, this item includes impairments on other financial assets of Euro 0.4 million, mainly in reference to impairments on guarantees issued and commitments.

Impairments on other assets, equivalent to Euro -2.3 million, are for securities classified as available for sale, for which the recoverable value at the end of the year is lower than the carrying amount. This includes the loss of Euro 0.4 million for the equity investment in share capital of Cassa di Risparmio di Cesena held as a result of participation in the Voluntary Programme of the Inter-Bank Deposit Protection Fund.

Net provisions for risks and charges amount to Euro 0.6 million. Profits on equity investments refer to the recognition in equity of the subsidiary VOBA Invest S.r.l. in liquidation, which increased due to the favourable evolution associated with the status of the liquidation process for the residual assets held.

The item "Taxes" shows a positive balance of Euro 21.7 million, for the aforementioned positive components related to the tax relief for goodwill and the client relationship, recoveries on taxes, as well as the effect of the recognition of prepaid taxes for the tax loss for the year.

Net profit for the year amounts to Euro 7.7 million compared to Euro 22.3 million in 2015.

1.7.2 FINANCIAL POSITION

Presentation of the financial position

A restated balance sheet is presented below to facilitate understanding of the data. The restatement exclusively involved aggregate items of the balance sheet. More specifically, note the following:

- “Financial assets and investments” includes the balance sheet asset items “Financial assets held for trading”, “Financial assets available for sale”, “Investments held to maturity” and “Investments in associates and companies subject to joint control”;
- the item “Property and equipment and intangible assets” includes the corresponding balance sheet asset items;
- the item “Other assets” includes the asset items “Tax assets” and “Other assets”;
- the restated liabilities and shareholders' equity item “Due to customers, debt securities issued and liabilities designated at fair value through profit or loss” includes the balance sheet liability items “Due to customers”, “Debt securities issued” and “Financial liabilities designated at fair value through profit or loss”, and they essentially represent direct funding;
- the item “Other liabilities” includes the balance sheet liability items “Tax liabilities”, “Other liabilities”, “Employee termination indemnities” and “Provisions for risks and charges”;
- lastly, the liabilities and shareholders' equity item “Share capital and reserves” includes the following: “Valuation reserves”, “Reserves”, “Share premium reserve” and “Share capital”.

Reclassified assets	31.12.2016	31.12.2015	Change	
<i>(thousands of Euro)</i>			Abs.	%
Cash and cash equivalents	62,622	64,051	(1,428)	-2.2%
Financial assets and investments	59,171	62,622	(3,451)	-5.5%
Due from banks	1,907,951	1,601,475	306,476	19.1%
Loans to customers	41,917	44,804	(2,887)	-6.4%
Property and equipment	6,727,223	6,447,871	279,352	4.3%
Intangible assets	142,476	145,591	(3,115)	-2.1%
Other assets	120,370	121,937	(1,567)	-1.3%
Total assets	9,316,086	8,715,324	600,761	6.9%

Reclassified liabilities	31.12.2016	31.12.2015	Change	
<i>(thousands of Euro)</i>			Abs.	%
Due to banks	62,622	64,051	(1,428)	-2.2%
Due to customers, debt securities issued and liabilities designated at fair value	1,085,006	838,463	246,544	29.4%
Financial liabilities held for trading	7,110,547	6,788,369	322,178	4.7%
Other liabilities	2,270	3,130	(860)	-27.5%
Shareholders' equity:	256,842	308,209	(51,367)	-16.7%
- Share capital and reserves	853,699	754,786	98,913	13.1%
- Net income (loss)	7,722	22,368	(14,646)	-65.5%
Total liabilities and shareholders' equity	9,316,086	8,715,324	600,761	6.9%

Bank payables and receivables

As regards treasury activity, the net liquidity position on the inter-bank market at the end of the year shows a negative balance of Euro 1,043.1 million, up on the Euro 793.6 million at the end of 2015.

Inter-bank relations	31.12.2016	31.12.2015	Change	
<i>(thousands of Euro)</i>			Abs.	%
Due from banks	41,917	44,804	(2,887)	-6.4%
Due to banks	1,085,006	838,463	246,544	29.4%
Net banking position	(1,043,090)	(793,659)	(249,431)	31.4%

Direct funding

Direct funding from customers amounts to Euro 7,110.5 million, a rise of 322.2 million (+4.7%) over the figure as at 31 December 2015 (6,788.2 million).

Direct funding	31.12.2016	31.12.2015	Change	
<i>(thousands of Euro)</i>			Abs.	%
Savings and current accounts, certificates of deposit	5,183,712	4,735,012	448,700	9.5%
Debt securities issued	1,108,761	1,580,379	(471,618)	-29.8%
Other payables	644,072	394,009	250,063	63.5%
Repurchase agreements on securities	174,002	78,969	95,033	120.3%
Total	7,110,547	6,788,369	322,178	4.7%

Breaking down the figure, there is an increase in demand deposits, comprising current accounts and demand deposits (Euro +448.7 million and +9.5%), which makes up 72.9% of direct funding, against a reduction (-29.8% and Euro -471.6 million) in time deposits, essentially comprising debt securities issued.

Other payables shows an increase to Euro 644.1 million (+63.5%). Repurchase agreements, which amount to Euro 174.0 million at the end of the year, are up +120.3% compared to the end of 2015 (Euro +95.0 million).

Indirect funding

As at 31 December 2016, indirect funding from private customers amounts to Euro 3,467.8 million, up +14.1% compared to Euro 3,039.2 million in the previous year (Euro +428.5 million).

Indirect funding - technical form	31.12.2016	31.12.2015	Change	
<i>(thousands of Euro)</i>			Abs.	%
Administered indirect funding	1,524,800	1,436,766	88,034	6.1%
Investment funds	1,399,983	1,261,284	138,699	11.0%
Insurance products	543,000	341,199	201,801	59.1%
Total	3,467,783	3,039,249	428,534	14.1%

Administered indirect funding amounts to Euro 1,524.8 million, an increase of +6.1% compared to the previous year.

Assets under management, at Euro 1,943.0 million, are up 21.2% compared to 1,602.5 million at the end of 2015 (+340.5 million).

Loans to customers

Customer lending amounts to Euro 6,727.2 million, up 4.3% compared to 31 December 2015, when the item stood at Euro 6,447.9 million (Euro +279.4 million).

Financing	31.12.2016	31.12.2015	Change	
<i>(thousands of Euro)</i>			Abs.	%
Current accounts	1,452,954	1,562,486	(109,532)	-7.0%
Repurchase agreements	-	3,288	(3,288)	-100.0%
Mortgages	4,446,475	4,067,604	378,871	9.3%
Credit cards, personal loans and loans on salary	115,111	110,862	4,249	3.8%
Other transactions	547,994	553,181	(5,187)	-0.9%
Debt securities	164,689	150,450	14,239	9.5%
Total	6,727,223	6,447,871	279,352	4.33%

Short-term loans (current account, repurchase agreements, other transactions) amount to Euro 2,000.9 million, down -5.6% (Euro -118.0 million) compared to the Euro 2,119.0 million at the end of the previous year. Medium- and long-term loans, mainly represented by mortgages and personal loans, show an increase of 9.2% to Euro 4,561.6 million (Euro +383.1 million) from the previous year.

In reference to loans to customers, mortgage loans comprise 66.1% of net lending, up compared to 63.1% as at 31 December 2015.

Current accounts represent 21.6% of net customer lending, down from last year's 24.2%.

Gross impaired loans as at 31 December 2016 amount to Euro 1,163.4 million, up 11.0% compared to Euro 1,048.4 million in the previous year. The percentage of gross non-performing loans on the total gross loans to customers was 16.0%, up from 15.2% in the previous year.

Loans and receivables	31.12.2016	31.12.2015	Changes	
<i>(thousands of Euro)</i>			Abs.	%
A) Doubtful loans				
gross amounts	739,987	667,320	72,667	10.89%
of which: default interest	44,052	41,082	2,970	7.23%
minus specific adjustments	(397,926)	(339,626)	(58,300)	17.17%
Net amount	342,061	327,694	14,367	4.38%
% hedging	53.8%	50.9%		
B) Unlikely to pay				
gross amounts	409,391	339,011	70,380	20.76%
minus specific adjustments	(95,321)	(77,880)	(17,441)	22.39%
Net amount	314,070	261,131	52,939	20.27%
% hedging	23.3%	23.0%		
C) Past-due exposures				
gross amounts	14,058	42,076	(28,018)	-66.59%
minus specific adjustments	(1,263)	(3,257)	1,994	-61.22%
Net amount	12,795	38,819	-26,024	-67.04%
% hedging	9.0%	7.7%		
Subtotal of non-performing exposures				
gross amounts	1,163,436	1,048,407	115,029	10.97%
minus specific adjustments	(494,510)	(420,763)	(73,747)	17.53%
Net amount	668,926	627,645	41,281	6.58%
% hedging	42.50%	40.13%		
D) Performing exposures				
gross amounts	6,105,355	5,858,096	247,259	4.22%
minus specific adjustments	-	-	-	-
minus lump-sum adjustments	(47,057)	(37,869)	(9,188)	24.26%
Net amount	6,058,298	5,820,227	238,071	4.09%
% hedging	0.77%	0.65%		
Total exposures				
gross amounts	7,268,791	6,906,503	362,288	5.25%
minus specific adjustments	(494,510)	(420,763)	(73,747)	17.53%
minus lump-sum adjustments	(47,057)	(37,869)	(9,188)	24.26%
Net amount	6,727,224	6,447,871	279,353	4.33%
% hedging	7.45%	6.64%		

Net doubtful loans rose by +4.4% to Euro 342.1 million, compared to Euro 327.7 million of the previous year. The degree of hedging is 53.8% compared to last year's 50.9%. The percentage of net doubtful loans to total net lending is 5.08%, unchanged from the previous year.

Net unlikely to pay loans amount to Euro 314.1 million, up +20.3% from 261.1 million recorded last year. The hedging percentage stands at 23.30%, up from 23.0% in the previous year. The percentage of net unlikely to pay loans over net lending is 4.7%, up from 3.9% in the previous year.

Net past-due loans amount to Euro 12.8 million, a marked decrease from Euro 38.8 million in the previous year. The percentage of write-downs stands at 9.0%, up from 7.7% in the previous year. Past-due exposures show a decrease for the third consecutive year, due in part to the constant credit risk oversight that begins in the initial phases of impairment.

Net non-performing loans total Euro 668.9 million, up 6.6% on the Euro 627.6 million recorded at the end of 2015. The percentage of write-downs is 42.5%, up from 40.1% in the previous year. The percentage of net non-performing loans over net lending stands at 9.9%, up slightly compared to 9.7% in the previous year.

Net performing loans amounts to Euro 6,058.3 million, a 4.1% increase from Euro 5,820.2 million in the previous year. The estimated collective impairment of performing loans led to a Euro 47.1 million adjustment, up from the Euro 37.9 million of 2015. The percentage of collective write-downs is 0.77%, up from 0.65% in the previous year. The main asset quality indicators are shown below:

Asset quality	31.12.2016	31.12.2015
Gross impaired loans / gross loans	16.01%	15.18%
Net impaired loans / net loans	9.94%	9.73%
Gross doubtful loans / gross loans	10.18%	9.66%
Net doubtful loans / net loans	5.08%	5.08%
Gross unlikely to pay loans / gross loans	5.63%	4.91%
Net unlikely to pay loans / net loans	4.67%	4.05%

Financial assets

Treasury securities portfolio	31.12.2016	31.12.2015	Change	
(thousands of Euro)			Abs.	%
Financial assets held for trading (HFT)	14,394	39,094	(24,699)	-63.18%
Financial assets available for sale (AFS)	1,625,719	1,387,186	238,533	17.20%
Investments held to maturity (HTM)	260,924	170,426	90,498	53.10%
Investments	6,913	4,769	2,144	44.95%
Total	1,907,951	1,601,475	306,476	19.14%

This segment showed the following trends:

- financial assets held for trading, consisting of Euro 10.0 million in debt securities and Euro 4.4 million in financial trading derivatives (of which Euro 2.9 million pertaining to the fair value option), amounts to Euro 14.4 million, down by -63.2% compared to Euro 39.1 million at the end of 2015;
- financial assets available for sale, consisting of Euro 1,294.6 million in debt securities, Euro 23.4 million in equity instruments and Euro 307.7 million in UCITs, amount to Euro 1,625.7 million, a considerable increase compared to Euro 1,387.2 million at the end of 2015 (+17.2%);
- financial assets that Bank can and intends to hold to maturity amount to Euro 260.9 million, a significant increase on the Euro 170.4 million of 2015.

Investments

The following equity investments were held as at 31 December 2016:

Company Name	Registered office	% investment	% voting rights
A. Wholly-owned subsidiaries			
1. Voba Invest S.r.l. in liquidation	Bolzano	100.00%	100.00%
2. Valpolicella Alta Società Agricola S.r.l.	Bolzano	100.00%	100.00%
B. Companies subject to joint control			
-	-	-	-
C. Companies subject to significant influence			
1. Casa di Cura Villa S. Anna S.r.l.	Merano	35.00%	35.00%
2. Quartiere Brizzi S.r.l.	Chienes	48.50%	48.50%
3. Tre S.r.l.	Trento	30.00%	30.00%

Voba Invest S.r.l. in liquidation

The company, with its registered office in Bolzano, has a share capital of Euro 30,000, fully paid in and fully held by Banca Popolare - Volksbank. On 14 June 2011, the subsidiary Voba Invest S.r.l. was placed in liquidation. During the year, the company continued with its liquidation activities, defining settlement agreements relative to an investee company, which contributed positively to 2016 results. In 2017, the company will continue the sale of assets and residual investments as part of the liquidation process.

Valpolicella Alta Società Agricola S.r.l.

The company was established on 17 March 2009 and its registered office is in Bolzano. The share capital subscribed to and paid in amounts to Euro 10,000.00 and is entirely held by Banca Popolare - Volksbank. The corporate purpose of Valpolicella Alta Società Agricola S.r.l is the exclusive exercise of agricultural activities as set out under article 2135 of the Italian Civil Code. The company currently owns two vineyards located in the municipalities of S. Ambrogio di Valpolicella (VR) and Trezzolano (VR).

Casa di Cura Villa S. Anna S.r.l.

The company manages nursing homes, and has its registered office in Merano (BZ). Its business purpose is to provide excellent health services, with the main aim of protecting health. It does this in accordance with the following:

- encouraging greater awareness and professional growth in the medical, paramedic and administrative team in order to enhance the value of interpersonal relationships;
- ensuring that the medical team have had proper training and are kept up to date;
- maximum attention when hiring highly qualified professional staff, especially the medical team and paramedics;
- maintenance of adequate levels of investment in order to ensure adequate equipment and environments.

Banca Popolare - Volksbank hold a 35.00% interest in the share capital.

Quartiere Brizzi S.r.l.

The business purpose of the company, with registered office in Chienes (BZ), is property dealings, including the purchase, sale, exchange, renovation and leasing of land, buildings, prefabricated structures, infrastructures and property in general. The company is currently developing a property initiative which involves the demolition of a dilapidated property complex and building of a new residential building in the centre of Verona.

Banca Popolare - Volksbank acquired a 48.5% interest in the share capital of the company in 2012 in addition to a shareholder loan for an original amount of Euro 1 million in order to strengthen the capital base of the company. The amount paid was fully attributed to the equity investment which is therefore recorded in the financial statements as at 31 December 2015 for a total value of Euro 0.9 million.

Tre S.r.l.

The business purpose of the company, with registered office in Trento, is property dealings, including the purchase, sale, exchange, renovation and leasing of land, buildings, prefabricated structures, infrastructures and property in general. The company is currently developing a property project in Cles (TN).

Banca Popolare - Volksbank hold a 30.00% interest in the share capital.

Property and equipment

Property and equipment amount to Euro 142.5 million, a Euro -3.1 million decrease compared to Euro 145.6 million at the end of 2015 (-2.1%). This reduction is essentially due to the sale during the year of an owned property that was no longer considered strategic. Expenditures for capitalised improvements amount to a total of Euro 1.1 million for the year. Other increases for Euro 0.3 million can be attributed to the purchase of movable assets and electronic systems. Depreciation recorded amounts to a total of Euro 7.4 million.

Intangible assets

As part of the merger of Banca Popolare di Marostica Group, intangible assets associated with customers were identified as "client relationships", linked to the valuation of AUM-related activities, including the placement of insurance contracts and funding through core deposit management. At year end, this item totals Euro 20.4 million, after amortisation of Euro 1.0 million.

The item "Goodwill" amounts to Euro 99.6 million, unchanged from the prior year. Goodwill is not subject to amortisation and impairment tests are performed when preparing the financial statements. For further information concerning impairment tests on goodwill see "Section 12 – Intangible Assets" in the notes to the accounts.

There were no significant investments in intangible assets during the year. Amortisation amounts to Euro 1.8 million.

Shareholders' equity

At the end of the year, share capital amounts to Euro 199.4 million, divided into 49,859,929 ordinary shares with no par value. A total of 4,987,103 shares were issued during the year following the completion of the share capital increase, for a total of Euro 95.8 million. Less significant changes included the expiration of certain shares assigned to employees of the former Banca Popolare di Marostica, for which the envisaged vesting period did not conclude, as well as those repurchased as part of succession planning. Hence, these shares were cancelled. Shareholders' equity as at 31 December 2016, including year-end profit of Euro 7.7 million, amounts to Euro 861.4 million. Own funds total Euro 724.1 million.

Total own funds	31.12.2016
<i>(thousands of Euro)</i>	
Common Equity Tier 1 (CET 1)	724,068
Transitory regime - Impact on T2	-
Deductible elements	-
Total own funds	724,068

The ratio between Common Equity Tier 1 capital (CET 1) and total risk-weighted assets (Common Equity Tier 1 Ratio) is 11.7%, an increase compared to 11.2% as at 31 December 2015. The ratio between regulatory capital and total weighted assets (Total Capital Ratio) is also 11.7%, up from 11.2% in the previous year.

Total own funds	31.12.2016	31.12.2015
<i>(thousands of Euro)</i>		
Common Equity Tier 1 Ratio	11.7%	11.2%
Total capital ratio	11.7%	11.2%
Risk-weighted assets (RWA)	6,176,347	5,755,746

For further information see the Notes to the accounts for the statement of changes in shareholders' equity and tables outlining regulatory capital.

1.8 RATING

Standard & Poor's

On 23 May 2016, S&P Global Rating revised the outlook for Banca Popolare - Volksbank from "stable" to "positive". At the same time, it confirmed the "BB/B" creditworthiness rating for the short and long term.

The decision to change the outlook reflects the opinion that the quality of assets, following the merger with Banca Popolare di Marostica Group, may improve over initial expectations and, therefore, more quickly than the Italian banking system average.

The new outlook is supported by expectations regarding operating conditions and a more favourable economic context for the Italian banking system in the next two years.

Furthermore, S&P believes that Banca Popolare - Volksbank may benefit from an operations environment that is gradually improving in the Northeast, in particular in Trentino Alto Adige, which traditionally has had pro-capita GDP that is higher than average and lower levels of unemployment.

S&P noted that Banca Popolare - Volksbank has successfully completed the review of the loan portfolio as part of the merger of Banca Popolare di Marostica Group. Hence, the agency expects that, in a more favourable economic scenario, the loan impairments of Banca Popolare - Volksbank will remain below the average level expected for the Italian banking system in the upcoming two years.

S&P expects a decreasing level of non-performing assets as a percentage of the loan portfolio. Additionally, the agency believes that the Bank's risk management practices, and growth in the loan portfolio that is higher than average, may contribute to an improvement in asset quality trends.

The agency feels that the Bank will be able to strengthen its market share in Veneto, the traditional region of the former Banca Popolare di Marostica, due to its favourable competitive position, created by a loss in market share of other regional operators.

Moreover, the agency deems that the Bank will be able to sustain growth in assets due to the share capital increase of Euro 96 million that was successfully completed in the first half, at the same time maintaining adequate capital levels.

Finally, the forecast is to maintain modest levels of profitability. Specifically, the agency expects the Bank will support slight growth in the interest margin through growth in assets, on one hand, and cost reductions on the other.

On 20 June 2016, S&P Global Ratings communicated that the reclassification of loans in the impaired loan category and the increased write-downs on loans required by Bank of Italy as a result of the audit, and fully recognised in the six-month financial report, do not change the assigned rating or the positive outlook for Banca Popolare - Volksbank. According to S&P, these reclassifications and write-downs have a limited impact on the Bank's financial situation and, although the rating agency expects an increase in the percentage of impaired loans, the positive contribution from the favourable economic conditions in Trentino – Alto Adige and the historic ability of the Bank in collection activities and depreciation of impaired loans prevails.

DBRS

On 15 June 2016, DBRS Ratings Limited (DBRS) confirmed its rating for Banca Popolare - Volksbank, which includes the Senior Long-Term Debt and Deposit, at BBB (low) and the Short-Term Debt & Deposit at R-2 (middle). The outlook for the rating remains negative. DBRS also maintained the intrinsic valuation at BBB (low) and support at SA3.

According to the agency, the rating confirmation reflects the stable funding profile and improved capital position, as well as improvement in the integration process with Banca Popolare di Marostica Group. The current rating level also considers the modest level of profitability and weakness in asset quality.

The negative trend reflects high expenditures for the merger and credit risk associated with the acquisition of Banca Popolare di Marostica Group and the possibility that these aspects may affect 2016 profitability. In particular, according to the agency, the Bank's profitability is limited, not only by the costs associated with the acquisition of Banca Popolare di Marostica Group, but also by the modest profitability resulting from the Bank's reliance on interest margin. The agency believes that the 2016 results will remain contained as a result of the high cost of credit and merger costs.

The agency notes that credit quality experienced a weakening following the acquisition of Banca Popolare di Marostica Group. According to the agency, funding and liquidity level remain adequate. In particular, the Bank's funding capacity is supported by its robust retail deposit base.

In its opinion, the capitalisation level is strengthened from the Euro 96 million share capital increase in the first half. The agency notes that, despite the fact that capitalisation levels are lower than pre-acquisition levels, it is expected that the overall capital situation will improve through a combination of allocations to profit reserves and the issue of Tier 2 instruments.

On 7 September 2016, DBRS Ratings Limited acknowledged the Bank's half-year results, without making any changes to the rating or outlook. Specifically, DBRS highlighted the increase in revenues in the first half of the year, due to increased loan volumes, fees and commissions, and, at the same time, the reduction in funding costs, while the Bank's overall liquidity and funding situation remained stable.

1.9 CORPORATE GOVERNANCE AND REMUNERATION POLICIES

1.9.1 SHAREHOLDERS' MEETING

Banca Popolare - Volksbank is owned by a broad shareholding base of nearly 60,000 shareholders, with considerably fragmented ownership and, traditionally, high levels of participation in corporate transactions. Each ordinary share entails (1) voting right in Shareholders' Meetings. There are no preference shares.

In order to vote in Shareholders' Meetings, the law allows shareholders to aggregate votes. Typically, depending on the characteristics of the relevant affiliates, voting rights may be organised through the following institutions:

- an association of shareholders, which exercises the voting proxies obtained from members;
- shareholders' (voting) agreements, with the vote agreed by the majority of parties to the agreement;
- holding association (for the vote), with the vote decided by the board of directors of the holding association.

Regardless of the forms of aggregation that may be activated by shareholders, parties with voting rights, excluding Directors, Auditors, and employees of the Bank and its subsidiaries, may exercise up to 200 voting proxies, without prejudice of the right to participate through legal representation of individuals who are minors or incapacitated or in representation of legal entities.

The legal limit on the exercise of voting rights for shares that exceed 5% of share capital, set forth in art. 6, paragraph 2 of the Articles of Association, is revoked without effects.

The Shareholders' Meeting is called with notice of at least twenty days under the terms of the law and Articles of Association, normally in a single call for both the ordinary and extraordinary session, and in single call, validly constituted regardless of the portion of share capital attending.

The Articles of Association allow multiple calls at the discretion of the Board of Directors - in such a case, with the specific constitution and resolution quorums - and govern with an enhanced quorum the matters indicated in art. 16, paragraph 3 of the Articles of Association (exclusion or limitation of option rights, transfer of the registered office, and general management).

The Shareholders' Meeting resolves openly with the majority of voting rights established, with the exception of the appointment of corporate bodies, which is carried out through list voting according to the provisions of the Articles of Association, art. 21 for the Board of Directors and art. 33 for the Board of Statutory Auditors.

Corporate bodies are renewed every three years, with the mandates in effect in 2016, for:

- the Board of Directors, with the approval of the financial statements as at 31 December 2016;
- the Board of Statutory Auditors, with the approval of the financial statements as at 31 December 2018.

The lists of candidates for the election of Directors and Auditors are validly submitted, in accordance with relevant regulatory and statutory regulations, with the authenticated signature of a notary or rendered before a Bank employee authorised to receive it, by a group of shareholders that together hold voting rights representing at least one (1) percent of share capital.

The Articles of Association, available on the web site www.bancapopolare.it, as well as the documentation published in conjunction with the renewal of the corporate bodies, provide the methods and other useful information for creating the lists of candidates.

For purposes of the criterion for extracting from the list of candidates to form the Board of Directors or the Board of Statutory Auditors, the "majority" list is that which receives the greatest number of votes in the Shareholders' Meeting, while the second- and third-ranked lists for the election of the Board of Directors or the second-ranked list for the election of the Board of Statutory Auditors are the "minority" lists when they have received votes equivalent to at least one (1) percent of share capital.

1.9.2. ADMINISTRATION AND CONTROL MODEL

A high-quality organisation structure and corporate governance system is fundamental to ensure conditions for prudent and healthy management that promotes stability and economic growth and confidence that its business plan is suitable for the economic environment. In this context, the Bank of Italy sets guidelines and general standards for governance systems, especially with regard to rules on:

- financial structure and dialogue with ownership;
- configuration and operations of company bodies;
- prerequisites for company representatives and role of directors;
- organisation structure and oversight of internal audits and risk management;
- overseeing conflict of interest.

These rules are set forth in the “Organisation Project and Corporate Governance” introduced by board resolution dated 25 June 2009, amended into the version approved by the Board of Directors on 22 March 2013, and added to the internal rules that govern the various aspects of governance in accordance with the supervisory guidelines and provisions.

The transformation of the Bank into a joint-stock company did not change the corporate governance structure. The Bank adopts the “traditional” corporate governance structure that requires corporate bodies and the functions that they oversee in accordance with civil law and banking supervisory regulations, within a Board of Directors, charged with strategic direction and management, and a Board of Statutory Auditors, charged with certifying the proper administration of the Company.

Board of Directors and Board committees

The Board is responsible for strategic supervision, oversight of business management, and must ensure that the risk to which the Bank is exposed in its activities is managed.

Strategic supervision and risk governance are functions performed by the Board as a whole and involve (i) determination and (ii) verification of guidelines and strategic business objectives or:

- the Bank’s organisational, administrative, and accounting structure and its internal control system;
- commercial model and business and financial plans;
- risk objectives and related governance policies as part of an integrated understanding of business risks and their reciprocal links and links with the Bank’s external environment;
- transactions and procedures of strategic relevance.

Oversight of business management involves:

- measures to realise strategic guidelines and related objectives;
- ensuring the adequacy of the organisational, administrative, and accounting structure and its internal control system;
- decision-making powers regarding the current activities delegated by the Board.

Oversight of business management is assigned to the General Manager for all current affairs and for the execution of the resolutions adopted by the Board. Business oversight is also attributed to the Credit Committee, for categories of measures to grant credit, and to the General Manager, for individual legal transactions. The delegated functions manage the activities with executive powers according to the guidelines and objectives set forth by the Board and the functions report the results of their activities to the Board.

Pursuant to art. 20 of the Articles of Association, the Board of Directors may consist of a minimum of nine up to a maximum of twelve Directors, elected by the Shareholders’ Meeting for a period not longer than three years and may be re-elected. The number of Directors to be elected is determined by the Shareholders’ Meeting in the year prior to the appointment, on the proposal of the exiting Board of Directors.

The Board proposes the number of Directors that is deemed appropriate to the function of strategic supervision and management of the Bank, in compliance with the instructions for regulatory authorities and according to the procedures contained in Circular no. 285 - Title IV, Chapter 1 (Corporate governance), Section IV (Composition and appointment of corporate bodies).

Without prejudice to the requirements envisaged by law, supervisory regulations, the Articles of Association, and Shareholders' Meeting resolutions, the Directors must have professional experience pertinent to the sector of activities and the operating characteristics and size of the Bank.

The quality of the Board as a whole is ensured by the balanced combination of knowledge, professional experience, and skills, appropriately diversified among the individual Directors, who, in any case, are asked to contribute to discussions in all areas of the Board's responsibility, with independence of opinion and the capacity to analyse and assess.

Directors are expected to act based on an informed opinion and collectively deliberate, each with full independence of judgment.

The Chairman promotes the effective functioning of corporate governance and ensures effective Board debate so that the decisions reached by the Board are the result of an appropriate debate of roles, based on knowledgeable and reasoned contribution from all Directors.

Executive Directors are organised in Board committees with executive powers, granted by the Board of Directors, as part of the granting of credit.

Non-Executive Directors participate in the Board decision-making processes with specialised expertise, in particular, in the analysis of risk related to top management decisions.

Independent Directors are Non-Executive Directors with formal verification of the envisaged independence requirements applicable at any given point in time, from the supervisory authority and the Articles of Association. Independent Directors participate in Board decision-making processes in potential conflicts of interest, with authority and independence not conditioned on relationships of influence with the Bank or with parties connected to the Bank.

The following committees are part of the Board of Directors:

- Credit Committee
- Independent Directors Committee
- Risk Committee

The Credit Committee (CC) - art. 31, paragraph 2 of the Articles of Association - exercises the executive powers assigned annually by the Board in relation to granting credit and provides opinions to the Board for customer positions that exceed its authority. The CC is composed of between three and five Executive Directors appointed by the Board each year, as well as the General Manager, with deliberative voting. The CC is supported by specific regulations. The committee meets each week. It prepares the minutes of its decisions and informs the Board of Directors of these decisions, including in summary form, at the next appropriate Board meeting.

The Independent Directors Committee (IDC) - art. 28, paragraph 2, letter (l) of the Articles of Association - advises and develops opinions for the Board of Directors, in order to minimise the risks to the Bank from decisions that potentially involve conflicts of interest and, in particular, (i) in transactions with parties that may exercise influence on Board decisions ("Related Parties"), (ii) in determining the system of compensation and incentives for personnel whose activities have a relevant impact on the Bank's risk profile ("Remuneration Policies"), (iii) in determining the requirements of the theoretical profile that Director candidates must possess ("Optimal Composition of the Board"), and in selecting and appointing key employees in terms of the Bank's risk profile. The IDC is composed of three Non-Executive Directors who meet independence requirements. The committee is governed by specific regulations and operates according to the business discipline that implements the supervisory regulations for transactions indicated in this section.

The Risk Committee (RC) - art. 30 of the Articles of Association - is the internal reference for the Board of Directors for issues related to the assessment of risk and the internal control system. The RC has advisory, audit, and proposal powers to support the Board's decision-making process. The committee is composed of three Non-Executive Directors, the majority of whom meet independence requirements.

The committee is supported by specific regulations that govern the characteristics and duties according to the provisions of Circular no. 285 of the supervisory authority.

The Board of Directors (elected by the Shareholders' Meeting of 29 April 2014 and supplemented by the Shareholders' Meeting of 9 April 2016, on the co-options from the merger agreement for Banca Popolare di Marostica).

Board of Directors

Number of members	12 Directors
Number of meetings in 2016	26
Gender balance	10 M ÷ 2 F
Age (average)	48 years
Length of time in office (average)	9 years
Directors taken from minority lists	no minority lists submitted

Credit Committee

Number of members	4 Executive Directors
Number of meetings in 2016	22

Independent Directors Committee

Number of members	3 Independent Directors
Number of meetings in 2016	22

Risk Committee

Number of members	3 Non-Executive Directors, of which 1 Independent
Number of meetings in 2016	19

The Board of Statutory Auditors

The Board of Statutory Auditors is vested with the duty of overseeing compliance with regulations that discipline the activities of Banca Popolare dell'Alto Adige, on proper administration, and the adequacy of the Bank's organisational, administrative, and accounting structure. The Board of Statutory Auditors is obliged to report to Bank of Italy the facts and events of which they become aware in exercising their responsibilities as per art. 34 of Articles of Association, when these facts and events may constitute irregularities in the Bank's management or, more generally, an infraction of the rules of correct functioning of banking activities.

Board of Statutory Auditors

Number of members	3 Standing Auditors, 2 Substitute Auditors
Number of meetings in 2016	18
Gender balance	5 M ÷ 0 F
Age (average) - Standing Auditors	49 years
Length of time in office (average) - Standing Auditors	9 years
Auditors taken from the minority list	no minority lists submitted

1.9.3 REMUNERATION POLICIES

On 18 November 2014, the Bank of Italy added a new chapter on Remuneration Policies and Incentives to the Supervisory Provisions for Banks (Circular no. 285 of 17 December 2013), which incorporates the contents of Directive 2013/36/EU (CRD IV) and annuls the Provision of 30 March 2011 (Supervisory Provisions on remuneration policies and practices and incentives in banks and bank groups).

Furthermore, on 21 December 2015, the European Banking Authority (EBA) published the update to the Guidelines on remuneration.

During 2015, BPAA launched a process to revise the Remuneration Policies, in order to align them with the reference regulations that are currently in place.

On 9 April 2016, the Shareholders' Meeting approved the text of the Remuneration Policies, resolved by the Board of Directors on 1 April 2016, updated based on the trends in legislative and regulatory context noted above, and directed at the pursuit of medium- and long-term business objectives.

In particular, changes in the governing Remuneration Policies entail a bonus and incentive system anchored in the long-term performance of "key personnel", who have a greater impact on the Bank's risk. Hence, in accordance with principles dictated by the European legislature and Bank of Italy's regulatory dispositions, the Remuneration Policies applied by Banca Popolare - Volksbank envisage the payment of a portion of the variable remuneration in financial instruments, the deferment over time of part of this variable compensation, the ban on selling (for a fixed period of time) the financial instruments paid, and a series of ex-post correction mechanisms if the performance assumptions at the base of the remuneration obtained are discovered to be in error or, in more serious cases, are due to non-compliant (or financially fraudulent) behaviour of beneficiaries, known as malus and claw-back mechanisms.

For more information, refer to the document published on the Bank's web site at the following address: <https://www.bancapopolare.it/it/soci/documenti-societari/>.

1.9.4 MANAGEMENT OF CONFLICT OF INTEREST AND TRANSACTIONS WITH RELATED PARTIES

The rules on "Risk assets and conflict of interest with respect to related parties", decided by the Board of Directors on 22 June 2012 and amended by the Board most recently on 25 October 2015, summarise the following into a single set of rules:

- the prudential limits of risk activities with respect to the individual involved;
- the limits of exposure towards all related parties considered as a whole: calculation of the maximum limit is assigned in the Risk Appetite Framework; the threshold established updates the "Credit strategies";
- the procedures for identification, approval and execution of transactions with related parties, internal rules to ensure transparency as well as substantial and procedural propriety of transactions, the methods to ensure fulfilment of public communication obligations, financial reporting and all other disclosure obligations provided by the applicable law, including regulatory;
- monitoring transactions in which an employee or an external collaborator have a interest that is different than that of the Bank's;
- internal policies in matters of risk control and on the conflicts of interest with respect to related parties;
- the responsibilities of the company departments involved.

The rules govern transactions with related parties and give a detailed illustration of the procedures that the Bank applies in accordance with prevailing Consob and Bank of Italy regulations for identifying and monitoring transactions with parties related to the Bank and ensure compliance with the prudential limits for risk assets with these parties. This monitoring aims to capture, given the Bank's characteristics, the risk that the closeness of these parties to decision-makers could compromise the objectivity and impartiality of decisions with respect to granting of loans and other transactions with these parties, potentially distorting the procedures followed in the allocation of resources, thereby exposing the Bank to risks that are not adequately commensurate and potentially harmful to depositors and shareholders.

The rules define and formalise procedures and norms to manage, communicate, control and report the following transactions:

- transactions with related parties put in place by the Bank in order to ensure the transparency, substantive and procedural fairness of said transactions and to establish how to carry out the related disclosure obligations, including those provided for by the prevailing law and regulations (CONSOB Regulation);
- transactions with related parties (related parties and parties connected to them) put in place by the Bank in order to ensure compliance with the prudential limits for the risk assets and the substantive and procedural fairness of said transactions (provisions of the Bank of Italy), providing for the most restrictive obligations, procedures and definitions from those specifically provided for under the CONSOB Regulation and those of the Bank of Italy.

To ensure compliance with procedures for authorisation, disclosure and reporting to supervisory authorities, the Bank uses IT systems for automatic capture and reporting of agreements and transactions undertaken with any counterparties identified according to the rules.

1.9.5 ORGANISATION AND MANAGEMENT MODEL

The Organisation Model of Banca Popolare - Volksbank was fully revised and approved by the Board of Directors on 21 December 2010 and further amended following new regulatory provisions dated 27 January 2012, 25 January 2013, 18 July 2014 as well as 23 January and 7 August 2015, and 22 December 2016. It complies with the specific prescriptions laid down by Italian Legislative Decree 231/2001. With its adoption Banca Popolare - Volksbank continued to affirm and spread its corporate culture based on:

- lawfulness, as no unlawful conduct, regardless of whether it is in the interest of the Company or to its benefit, shall be considered in line with Company policy;
- prevention and continuing control, which should guide all decision-making and operations.

The Organisation Model of Banca Popolare - Volksbank consists in identifying activities exposed to risk (i.e., those involving offences under Italian Legislative Decree no. 231/01) and implementing a group of organisation measures and rules for all parties working in the interest, to the benefit or on behalf of the Bank, in order to:

- raise awareness that if the rules in question are violated then this may constitute an offence and result in sanctions both against the person committing the offence and the Company;
- reaffirm that Banca Popolare - Volksbank shall not tolerate illicit conduct of any kind or for any purpose and such conduct (even when apparently to the Company's benefit) is against the ethics and principles of the Company;
- strengthen and improve mechanisms for oversight, monitoring and discipline in order to prevent such offences from being committed.

The Organisation Model is an internal framework of rules for the Company and it is considered binding. It ensures that offences predicate to administrative liability of entities as identified under prevailing law will be monitored. For each of the offences resulting in administrative liability, the Organisation Model:

- specifies the sanctions laid down by lawmakers (pecuniary and prohibitory where applicable);
- identifies conduct considered open to risk;
- specifies the obligations and/or prohibitions for all employees of Banca Popolare - Volksbank.

The areas/operations open to risk are indicated for each of the offences that are considered high-risk. All employees (both executives and subordinates) are required to know the Organisation Model of Banca Popolare - Volksbank and respect the rules that supplement the Company's Code of Conduct 231, which are based on the general principles laid down in the Code of Ethics. Any violation of the model shall be punished in the manner and under the terms described in the model itself.

Supervisory Board under Italian Legislative Decree 231/01

The Supervisory Board (SB) is responsible for overseeing the model, including compliance and revisions. The Supervisory Board was set up by the Board of Directors. It exercises its duties and powers independently from all Company management and departments. The Supervisory Board must act on a completely independent basis without being subject to the will of other bodies in the Company and whose individual members will meet the necessary professional competence and reputation requirements.

The Supervisory Board of Banca Popolare - Volksbank consists of the following members:

- Compliance Department Manager;
- Internal Audit Department Manager;
- Risk Management Department Manager;
- Corporate and Legal Affairs Department Manager;
- one external legal expert (criminal lawyer) with specific skills and experience.

In 2016, the Supervisory Board confirmed the adequacy of the information flows that allowed it to perform its supervisory tasks in full compliance with the Organisation Model, assess its effectiveness and handle its revision. The Supervisory Board found no breaches in 2016 of the Organisation Model of Banca Popolare - Volksbank.

1.10 THE DISTRIBUTION MODEL

1.10.1 INTEGRATED APPROACH TO CUSTOMERS AND MULTI-CHANNEL BANKING

Banca Popolare - Volksbank is involved in credit brokerage and provides financial services and investment services to its customers through a network of branches in its territory, with maximum added value given to the bank-client relationship and the bank-shareholder relationship, and maximising the potential of the specific aspects of the local area.

The distribution model is based on an integrated multi-channel concept, establishing constant dialogue with the customer who can use all the channels available, including innovative ones, and the services on offer (information, consultancy, contact and the sale of products) are integrated among the various channels.

The distribution network is focused on providing consultancy services and assistance to the customers with the aim of ensuring optimal service to every group of customers, thanks in part to the specific segmentation criteria that defined consultancy service models are assigned to, specifically trained collaborators and specialised consultancy centres for specific client segments.

In 2016, operational segmentation was developed with a view to concentrating resources on consulting for higher-potential customers.

The retail customers are mainly handled in the branches. The customer is followed on a 360° basis by a consultant who identifies the customer's requirements and provides what is necessary through an integrated Customer Relationship Management ("CRM") system.

Private customers and higher-potential companies are mainly handled in the consultancy centres and are followed by specially-selected consultants operating in a number of branch head offices.

The consultancy service is carried out in accordance with specific service level agreements ("SLAs") which provide for an annual structured interview, among other things, supported by specific consultancy applications.

The multi-channel system and automation of services is increasingly freeing up the time available for the customers, to the benefit of the consultancy activities.

Specific commercial initiatives were developed to distinguish the Bank's services from the competition, including to ensure that staff are used to their maximum potential, which constitutes the true added value to the product. A close relationship with customers means that their needs and requirements can be more easily identified. In that sense, Banca Popolare - Volksbank intends to ensure development of a demand-driven product mix.

Banca Popolare - Volksbank aims to constantly strengthen its territorial roots as a regional bank through close involvement by the local community as shareholders and as stakeholders of the Bank. Therefore, the Bank establishes itself as a business that can ensure an important contribution to develop the local economy.

For 2017, a multi-channel strategy is expected to be implemented, revised as part of the 2017-2021 Business Plan. This new approach involves four distribution channels of equal importance (branch, online banking, contact centre, and mobile consultancy). The customer will choose which channel to use based on his/her needs and preferences. New channels will assume equal importance to the branch in terms of consultancy, operations, and customer management.

BRANCHES	31.12.2016	31.12.2015
Territorial distribution of branches		
Trentino-Alto Adige	79	83
- Bolzano	61	63
- Trento	18	20
Veneto	102	102
- Belluno	20	20
- Treviso	23	23
- Venice	15	15
- Vicenza	38	38
- Padua	6	6
Friuli Venezia Giulia	3	3
- Pordenone	3	3
Total	184	188

1.10.2 THE TERRITORIAL NETWORK AND SALES ACTIVITIES

Two sales centres with related commercial development offices have been set up to better satisfy the specific needs of the local markets.

SALES NETWORK	31.12.2016	31.12.2015
Traditional branches	184	188
of which: bank4fun branches	0	0
Total branches	184	188
Corporate consultancy centres	6	7
Private consultancy centres	7	7
ATMs	210	218
POS	7,951	7,172

The first of these centres, known as the "Alto Adige Sales Centre" covers the provinces of Bolzano, Trento and Belluno and is based in Bolzano.

The second, based in Marostica and known as the "Veneto Sales Centre" covers the provinces of Vicenza, Treviso, Pordenone, Venice and Padua. Both sales managers are members of the management team.

The sales network is organised into geographical areas with specific segmentation of customers:

- the areas are divided into individual markets by province (except Alto Adige which is divided into 3 areas);
- within each area, the geographic market is subdivided into market areas (Head Office) and branches with outlying sub-branches ("spokes") as necessary;

- as part of continual efficiency improvement processes for the distribution network, the following branch openings and closures took place in 2016:
 - closure of 5 branches in the Alto Adige Sales Centre (3 in the province of Bolzano, 2 in the Trento)
 - opening of 1 branch in the Alto Adige Sales Centre in the province of Bolzano (administrative branch).
 - transformation of 35 branches and agencies into outlying branches (“spokes”), of which 18 in the Alto Adige Sales Centre and 17 in the Veneto Sales Centre
- in the traditional areas covered by Banca Popolare - Volksbank, there are two consulting centres for Private and high value Corporate customers for each area, which provide support in the form of specialist functions to the sales structure. As part of the merger sales plan, a Corporate consulting centre was created for the Veneto Sales Centre, headed directly by the sales manager, who will oversee the entire reference geographic area.
- for 2017, a single Corporate consultancy centre is planned also for the Alto Adige Sales Centre; in addition, the efficiency improvement process will continue in the sales network in 2017, with additional transformations of branches into “spokes”, as well as targeted branch closings.

1.10.3 CUSTOMERS

Private customers

The Banca Popolare - Volksbank consultant continuously monitors customer relations and follows the customer during the entire relationship cycle, with a section dedicated specially to young people, who are accompanied as they begin to be employed, and following through with adult customers, who are offered many different solutions to meet their specific requirements.

The Bank offers a unique, professional consultancy service, aimed at the specific needs of the customer. This requires a careful, regular assessment of customer needs in order to adequately satisfy their various requirements.

The branches and consultancy centres of Banca Popolare - Volksbank manage about 227,000 private customers, 28,000 business customers, and 8,000 other types of customers.

CUSTOMERS	31.12.2016	31.12.2015
Number of customers		
Private (incl. young customers)	226,998	224,408
Businesses	28,046	28,073
Other (public administration, associations, etc.)	7,778	6,190
Total	262,822	258,671

The commercial dealings of Banca Popolare - Volksbank revolve around “constructive dialogue” whereby the consultant “discovers” the customer’s financial requirements and provides them with added value by proposing the most appropriate solutions.

The financial needs range from the building up of assets and life and non-life insurance, to mortgages for first home purchases and pension requirements.

The integrated multi-channel approach is a fundamental part of the sales strategy. The customers can use their computers to carry out most of their banking transactions. The Bank offers its customers a number of solutions: from mobile solutions (for smartphones and tablets) to direct banking and stands at branches to provide 24/7 service. Customers are given continuous assistance: the customer is contacted by the consultant to provide after-sales assistance, especially for certain complex online products, to confirm that the service sold created the required added value.

Corporate customers

The aim of Banca Popolare - Volksbank is to provide companies with consultancy services and global assistance in accordance with their requirements. A meeting is therefore held periodically with each company in order to discover not only their short-term requirements, but also their medium and long-term requirements.

Based on criteria well-defined at Bank level, around 2,780 corporate customers were identified that are followed with a more targeted approach and greater frequency. At least once a year, these customers are invited to a meeting with their consultant. During this meeting, the customer's current position is analysed and some time is dedicated to discussing future plans. The Rating Report is also discussed with and handed to the customer, and both consultant and customer decide on measures to improve the rating.

The aim of this meeting is to get a comprehensive picture of the financial requirements of the business.

A number of information evenings were organised in 2016 called "Banca Popolare - Volksbank meets business people". At these events, the Bank seeks open, transparent dialogue with existing and potential customers. In the traditional areas of operation, the focus was on the latest issues affecting the business world and partnerships between the businesses from various sectors and the Bank.

Young customers

Banca Popolare - Volksbank has invested in the youth segment for a number of years. Teenagers between the ages of 11 and 18 can become involved in various specially-designed activities.

One of these activities is the "Geo-Challenge", an educational quiz in which the pupils of one class test their geography knowledge against other classes. Over 400 classes from the entire catchment area of the Bank took part in the game in the 2016/2017 school year, with more than 35 events held involving about 5,400 schoolchildren. The success of the event, which has increased constantly year after year in terms of the number of classes participating and in the acceptance by teachers supporting the initiative, is due not only to the Euro 300 class trip award for the winning class, but also to the educational content.

A new orientation was introduced in 2015 that revolves mostly around the financial education of young people. Given the Bank's strengths, this topic was also undertaken with an alternative and innovative approach. Along with the Austrian company "Three Coins", specialised in the development of educational systems to raise awareness on using money, the "CURE Runners" app for smart phones was introduced. A "jump 'n run" game was designed that would provide a new way to capture the attention of young people on a topic that is normally seen as boring and of little interest. Based on the decisions that players have to make during the adventure game and during later workshops held at the schools, participants are able to reflect more thoughtfully on their day-to-day spending. "CURE Runners", currently available on Android and iOS, has not only won numerous awards, but in 2015 was also presented to the OECD (Organisation for Economic Cooperation and Development) as a best practice. The programme met with considerable interest from schools in its pilot stage. In 2016, 19 workshops were held by 27 staff who had been instructed in their role as official trainers.

Another key aspect that has been studied in recent years relates to support for schools on various banking topics. In fact, teachers have the option of requesting a specialist to participate in the classroom, choosing from topics such as money and savings, development of the bank, insurance, pension planning, and many others. On request, schools also have the chance to visit our branches for in-depth study of topics. The guided visits of our head office are also appreciated, especially by groups from junior and high schools.

The branches, in particular, are expected to contribute towards increasing the visibility of local services with tournaments, such as "Cagesoccer", which are supported enthusiastically any time they are organised during town festivals or other events.

To join any of the various initiatives proposed and designed for customers, Banca Popolare - Volksbank offers banking products such as the Orange savings book, Conto Orange ("Orange current account"), Conto Uni or Conto Start, all of which created according to age and the needs of the customer's current stage of life. The online

services associated with products for young people - direct b@nking or sms b@nking - are popular with this target group and are used to carry out all their banking transactions online.

For information on all the initiatives proposed, every branch has a youth consultant who is available for personal consultation to young customers and their parents. These are the consultants who, every year, put together our school package with all our initiatives offered together with the school calendar.

There is also a website dedicated to young people - <http://giovani.bancapopolare.it/> - which brings together all the useful information and new ideas associated with the world of Banca Popolare - Volksbank's young customers.

Children

Banca Popolare - Volksbank has developed specific initiatives and offers for younger children.

The "Baby pass" has been available since 2012. A free Polaroid camera and birth congratulations cards are given to the maternity wards of hospitals in the catchment area of Banca Popolare - Volksbank. Newborns can also have savings books opened in their own names, with an initial contribution of Euro 35, and a gift from the Bank.

Six-year-olds receive a birthday card on their birthday and a nice present they can collect from their local branch, along with an invitation to the "Blue" game initiative, an educational game for children aged 6 to 10 designed to raise awareness about savings. The accessories to this annual game contain information on different aspects related to saving and the current school programme. The title of the 2016/2017 Blue game is "Lo sapevi che ..." (Did you know that...). Every participant receives a comic book containing information about the weather, designed for the child's age. Every month thereafter the participant receives an instruction booklet with interesting experiments on this topic to try out at home. In addition, with every deposit in the savings book, the young customer receives a small gift, always associated with the game's topics. At the end of the game, the child has the chance to participate in a drawing for a final prize. In 2016, nearly 6,000 children took part. Comic books were also distributed to elementary schools with educational content on this topic, and they were given the option of taking part in a competition in which they could win a class trip connected with the game's theme. There were 23,550 copies of the comic book printed in 2016 and 366 classes took part in the competition.

Lastly, Banca Popolare - Volksbank offers "Bank visits" to children. The visit helps children understand how a bank works and what purpose it serves. The schoolchildren and their teachers are always enthusiastic about this opportunity and willingly take part.

The much-loved calendars for elementary schools are also provided to the children and young people.

1.11 BANKING ACTIVITIES

1.11.1 BANK PRODUCTS

Product Management

During 2016, product management services and virtual banking were primarily focused on the following areas:

- Analysis of the product range and ensuing optimisation of the product catalogue
- Introduction of new products based on expected sales results
- Strategic projects (multi-channels, home mortgages, digital payments, etc.)
- Digitalisation of sales and post-sales processes
- Expansion of the offer in on-line and mobile channels
- Support and assistance to the sales network
- Regulatory developments (compound interest, usury, EU Directive on mortgage lending, compliance with the decree on the deposit guarantee system, etc.)

The details of the different activities undertaken in the various product categories are presented below.

Core products - Current accounts and savings books

In order to optimise profitability, the commercial offer was revised during the year, starting from an analysis of profitability for the product range. For the new areas of expansion, specific commercial solutions were created in the form of welcome packets, to support new customer acquisition and increase the loyalty of new customers, thus furthering the Bank's penetration in the reference market.

In addition, optimisation activities on banking contracts were concluded with the objective of streamlining and reducing the timing connected with the sales process. The customer can sign contracts on tablets, with a marked reduction in paper printing, which is more environmentally sustainable. The updating of contract management procedures also allows technical management of the product at the point of service.

In accordance with new regulatory provisions, the Bank had to address two sizeable interventions. Firstly, the adaptation of information systems and contracts to the decree issued by the Inter-Ministerial Committee for Credit and Savings, which definitively resolved the dispute on the calculation of interest on interest (compound interest). Instead, the second intervention involved compliance with the decree regarding the deposit guarantee system, which envisages that, prior to concluding the contract or the restriction on the depositor with an offer, the Bank must sign the "Standard Form for Information to be Provided to Depositors" and, at least once a year, provide the depositor with an updated version of said form.

Insurance and pension funds

The insurance area was characterised by a focus on adaptation of policies to new regulations (credit protection insurance - CPI) and improving contractual conditions for customers, as well as simplifying issue procedures with a reduction in paper documents produced. All of these initiatives were undertaken with the aim of meeting the customers' needs as effectively as possible.

In general, the commission margin on insurance products strengthened. Pensions and life savings/investment policies showed good results. An important new aspect of the non-life segment is the introduction of a new version of the health policy, extending the indemnity to stays in day hospitals.

With the new policy, the insured customer may take advantage of this benefit in all facilities belonging to the Clinica Amica Network of Allianz, which has more than 290 care centres and 500 diagnostic centres, 21 of which are located in the region in which the Bank operates. Through this innovative offer, the customer no longer needs to pay the expense in advance, which also saves time in managing the claim paperwork.

During the year, an in-depth analysis was conducted on other Bancassurance models and/or partnerships with the objective of improving all segments and the customer offer in the near term. For this purpose, a collaboration

agreement was signed with Broker Assiconsult in Bolzano, which will expand the insurance consultancy offer to all customers in the Corporate segment.

There was a special focus on consultant training to provide them with effective tools for use in their discussions with customers, with the aim of providing excellent consulting services.

Training on insurance products ensured that staff providing insurance-related advice have the certification required by law. Approximately one hundred employees completed the training, which allowed them to begin placing insurance products.

Loans

There were numerous regulatory changes during 2016. These changes involved not only usury and compound interest, but also the new directive on real estate loans to consumers. The main objective of the directive is to ensure a high degree of protection for consumers who sign loan contracts related to real estate.

Adequate pre-contractual information must be provided to the consumer in a systematic and appropriate manner, using the European Standardised Information Sheet (ESIS), according to European provisions. These provisions contain detailed explanations of the loan contract prior to its conclusion and on effective annual percentage rate (APR).

In 2016, the new salary-backed loan product was introduced throughout the Bank. This product, which was offered prior to the merger with Banca Popolare di Marostica Group through an agreement with Pitagora S.p.A., was extended to the entire reference market in 2016.

In support of investments in capital equipment by business customers, the Bank participated in the new Sabatini-ter Law, which allows subsidised loans to be disbursed with a grant related to plants from the Ministry of Economic Development. The new Sabatini-ter Law resulted in a series of simplifications, including the fact that loans are exempt from the limits of Cassa Depositi e Prestiti, with the possibility of using alternative funding. This and other adaptations result in a reduction in timing for issue and disbursement of the grant and for stipulating loan contracts with businesses.

On-line banking

During 2016, the project to strengthen virtual channels continued, to offer the customer an on-line experience that is more comparable to the branch in terms of quality and experience of the purchase or transaction.

The product offer that can be easily purchased at home using on-line banking is enriched by the CartaSi products and will soon include Telepass. Through this completely on-line offer, the customer will be able to access the service without visiting a branch, ensuring a reduction in the operating expenses also for the distribution structure. The process of signing contracts takes place entirely on-line and was further simplified in 2016 in order to meet needs for greater ease and immediacy of use.

A new function that is especially appreciated by customers is the ability to activate a "privacy" mode for on-line banking, which allows certain "sensitive" data of the banking relationship to be obscured, such as balances and amounts of movements. This function was created mainly for portable use, to protect the customer from the prying eyes of others. The Volksbank app for tablets was also improved for portable use. It is now possible to view and save banking documents on a tablet, such as the bank statements and transaction confirmations. Moreover, all information on the CartaSi credit card can be viewed, such as transactions, residual availability, and IoSI club points.

Another step toward complete digitalisation processes was achieved in the method of sending access passwords through virtual channels, which is now managed with an SMS, no longer using a paper document sent through the mail.

1.11.2 PROVISION OF INVESTMENT SERVICES

As part of investment services, training sessions continue that aim to further increase technical-specialist knowledge, but also to develop the personal and relationship skills of investment consultants.

The process for providing investment services remains unchanged. This begins with understanding the customer's requirements, followed by determining the investment profile, and is then finalised in a specific recommendation that aims to satisfy the comprehensive needs (portfolio consultancy) or specific needs (individual goal).

A macro-project known as "MiFID II" was launched, whose name derives from Directive 2014/65/EU that will be effective from 3 January 2018. The objective is to improve, develop, and optimise investment services by introducing a new suitability mechanism that assesses the portfolio adequacy (rather than only on a single financial instrument) by identifying, through product governance, the correct customer target to which to provide the specific recommendation, with impacts on various roles that the Bank assumes (manufacturer/distributor) as well as on the range of financial products sold.

The Bank offers investment consultancy at various levels (light, full, plus) through its branch network. Particular attention is placed on higher-potential customers through 7 dedicated consultancy centres.

The primary objective of supporting our customers in all knowledgeable and rational investment choices through simple and sustainable solutions was further strengthened: special focus was given to managed savings products as a response to market conditions that were difficult to interpret and hence, met with products characterised by high levels of diversification and various risk/yield profiles.

The partnership with Istituto Centrale Banche Popolari continued in 2016, which periodically audits the composition of the model portfolios proposed to our customers and constantly monitors individual financial products included in the portfolios.

1.11.3 OWN PORTFOLIO MANAGEMENT

The year 2016 was characterised by high volatility, as well as important and surprising events, including the United Kingdom's decision to exit the European Community and the victory of Donald Trump in the U.S. presidential elections. For investors, 2016 represented a challenging year, with limited opportunities for profits, considering the risks. Over the 12 months, the Italian equity market posted negative performance, while government bonds remained at low levels.

Interest rates showed a diverging trend in various international economies. In the U.S., the Fed raised interest rates again and the rate curve reacted, pushing up rates on all maturities, including as a result of the initial statements on economic policy from Donald Trump.

Instead, the ECB continued its expansive policy, once again lowering the interest rate and confirming the QE programme. Consequently, the rate curve decreased and notably flattened. Growth in larger economies stabilised and shows signs of further improvement. Inflation is also showing signs of potential strengthening. Risks regarding the Italian economy persist, characterised by continued weak growth and high public debt, especially if the ECB should begin to gradually reduce monetary stimulus ("tapering") beginning in 2017. Uncertainties surround the possible effects of Brexit on the Eurozone economies and the economic policy decisions of the U.S. under the Trump presidency.

The Bank's discretionary portfolio nearly doubled during the year to Euro 2 billion. The greatest increase was in government securities, but also in funds, in order to ensure adequate diversification. The Bank benefitted from the positive performance of investment-grade and high-yield corporate bonds. With regard to equities, the portfolio benefitted from the early volatility in positioning at the beginning of the year and following the Brexit vote in June. The approach of requiring, for most funds, the SRI sustainability certification continued.

1.12 GOVERNANCE ACTIVITIES

1.12.1. LIQUIDITY MANAGEMENT AND FUNDING

The Strategic Plan and the Liquidity Management and Funding Plan for 2016 were based on the timetable for all forms of refinancing from institutional investors, the development of owned portfolios, and the planning of expected customer movements, with the necessary adjustments from month to month over the course of the year. The plans in question help to define the liquidity requirements for the year and consequently guide decisions on carrying out market transactions. The growth in direct funding from customers and the utilisation of the first tranche of the third EIB loan for Euro 26 million formed a solid refinancing base, also considering that there were no “Schuldschein” institutional bonds to be repaid. Securities underlying securitisations placed on the market were redeemed during the year in accordance with the amortisation plan. Liquidity needs during the year (including the gradual increase in the owned portfolio for nearly Euro 300 million and the outflow for the payment of year-end taxes) were refinanced, in part, with the placement of the A2 tranche of the Voba Finance n. 6 securitisation for a total of Euro 257.4 million, and with participation in the auctions in June and December as part of the ECB's TLTRO II programme, bringing the total ECB refinancing from Euro 549 million to Euro 800 million.

The amount of “eligible securities” which had not yet been pledged to secure funding stayed the same, supplemented mostly by purchases of securities issued by the Italian government and by other asset-backed securities. In addition, the ABACO residential pool was activated to transfer private mortgage loans into the Eurosystem guarantee pool.

The market environment was complex yet again in 2016. The tried and tested system of hedging maturities and the solid financial position of Banca Popolare - Volksbank guaranteed easy access to the interbank market. The net inter-bank position stood at Euro -1,043.1 million, an increase from Euro -793.6 million in the previous year.

1.12.2. CREDIT DEPARTMENT

During 2016, the merged entities (Banca Popolare di Marostica and Banca di Treviso) continued to be aligned with Banca Popolare - Volksbank standards for credit risk management, both in the sales network as well as in the offices analysing creditworthiness. Extreme care was paid in retaining the concept of one unique Bank, in the presence of the 9 strategic areas into which the two operations centres are divided.

The agreed loan portfolio is almost equally divided between the Alto Adige centre (which includes the offices in Alto Adige, Trentino, and Belluno) and the Veneto centre (which includes the offices of Vicenza, Marostica, Venice, and Treviso/Pordenone).

The primary reference target remains small and medium-sized customers. This segment mainly comprises SMEs, but also private customers, for which it is hoped to assume the role of reference bank.

With a view to the Bank retaining its local roots, a “special credit” segment was set up to allow businesses improved and easier access to credit by exploiting opportunities relating to low-interest loans offered by the Sabatini-bis Law or loans through circulating funds. In this context, the economic development partnerships with financial companies have been strengthened (e.g. Veneto Sviluppo) and with the various Confidi and guarantee consortia (e.g. Finimpresa, Sviluppo Artigiano, Fidimpresa, Garfidi, Confidimpresa) with which the related agreements have been signed. These organisations manage a series of subsidised instruments for the development of regional companies. In this respect, the Bank works with Finanziaria Internazionale, which manages the Trentino-Alto Adige Strategic Fund, on the “Minibond” product. Minibonds have expanded the range of products offered in order to become a partner of reference even for the most complex SMEs.

In the 2017-2021 Strategic Plan, the Bank forecasts an increase in total loan volume of 4.8% in 2017, growth that must also be accompanied by gradual alignment of productivity levels in the credit process across all areas.

Beginning in 2017, in addition to the Credit Department, which oversees the loan granting process and manages the performing loan portfolio, there will be a new Workout department, as suggested by the most recent regulatory instructions, which will be dedicated to monitoring credit risk and managing the non-performing loan portfolio, with the objective of ensuring active management of positions that already indicate deterioration.

1.12.3 PERSONNEL

The Workforce

The Bank's most important resource is its workforce. They determine the business results and the true competitive factor by personifying the unique points and ethical values that make up the tradition and Code of Ethics of Banca Popolare - Volksbank, as a regional bank.

The primary objective of the Human Resources Department is to ensure, by means of internal rotation and new recruits, the necessary resources for the branches throughout the territory, the strengthening of the Bank's workforce, and the timely replacement of both employees who terminate their employment with the Bank, as well as employees who are absent for extended periods of time (for maternity leave, accidents, or illnesses), based on human resources criteria and policies. As part of achieving this objective, special training courses are organised for each professional profile, which correspond with the strategy and with the career development of individual members of staff.

Furthermore, annual interviews are held with the employee to assess performance and behaviour, understand training needs for the role, and assess the potential of each employee. Development is considered from a professional, cultural and personal perspective, with the objective of leading workers to cover roles with increasingly more responsibility.

The workforce of Banca Popolare - Volksbank at the end of 2016 consists of 1,372 employees (1,418 at the end of 2015). This reduction in the workforce, consistent with objectives in the strategic plan, was the result of hiring 20 new employees and terminating the employment of 66 individuals.

The new hires in 2016 resulted from the addition of 9 new young professionals in the sales network, while 11 new employees with specific skill sets were added to internal departments, expanding the professional profiles.

In 2016, Banca Popolare - Volksbank reached an agreement with trade unions to introduce the Solidarity Fund on a voluntary basis, which 19 employees were able to access, while 11 other employees left as they reached their pension requirements.

Given the reduced working hours of staff with a part-time contract (229 – up from 209 in 2015) and absences due to maternity and unpaid leaves, the number of full-time equivalent (FTE) workers at the end of 2016 was 1,259, which also showed a reduction from 2015 (1,294).

The Bank has focused its reorganisation activities in both the sales network, introducing the new Hub and Spoke distribution model, which affected the number of branches and managers, as well as in the internal departments, optimising the activities of the head office in Bolzano and the Marostica offices, ensuring continuity in the process of structural integration defined in the pre-merger phase. The table below shows the breakdown of internal service and branch workers by province compared to the previous financial year:

Figures by Province	31.12.2016		31.12.2015	
	No. Units	%	No. Units	%
Bolzano - internal services and branches	689	50.2%	703	49.6%
Trento	83	6.0%	89	6.3%
Belluno	83	6.0%	86	6.1%
Venice	78	5.7%	80	5.6%
Treviso	107	7.8%	128	9.0%
Vicenza	304	22.1%	303	21.4%
Padua	18	1.3%	18	1.3%
Pordenone	10	0.8%	11	0.8%

Even after the merger, Banca Popolare - Volksbank is a young company: the average age of employees is just under 45 years. It has always placed great importance on hiring and creating mixed work teams. Currently, 41% of the workforce is female. Of these, 27 hold managerial positions in the Bank (8 at the head office, 19 in the network). In Italy, the employment of disabled persons is governed by the law. Banca Popolare - Volksbank believes it is important to ensure that disabled persons are given an opportunity to work and that it has a responsibility in its local area to give these workers the chance to provide a real contribution, and not simply to fulfil legal obligations. Banca Popolare - Volksbank undertakes to keep work-related activities compatible with family obligations. Within the scope of obtaining family-work compatibility certification, the Bank adopted various measures over a three-year period to obtain certification as a family-friendly company.

The Bank agreed new part-time contracts in 2016, just as in previous years. These types of contracts allow employees to reconcile work commitments with family commitments as best as possible. This project was also extended to fathers, and all employees who have domestic care responsibilities for family members.

There were 22 employees on maternity or paternity leave as at the end of 2016; another 17 employees were on unpaid leave, granted in accordance with the Supplementary Business Agreement for parents of children up to 5 years of age. In addition, two employees were on leave to assist family members with disabilities (Law 151/2001). The percentage of university graduates in the workforce is 26.6%, while 68.2% have a secondary school diploma. The objective of Banca Popolare - Volksbank is to ensure all employees are adequately motivated, through training programmes that ensure that the relationship is fruitful and long-lasting. An adequate generational mix helps reinforce and maintain the skill set in the Bank. The percentage of workers over 50 years of age was 29% in 2016, which represents a slight increase over 2015.

During 2016, initiatives were launched to facilitate the integration of employees from the former Banca Popolare di Marostica and Banca di Treviso into the "traditional" Volksbank. In particular, the Veneto Centre offered German language courses in which approximately 70 employees took place, while "pairing" initiatives were launched in the sales network for the temporary exchange of employees between branches, which involved 30 employees. But of all the initiatives to facilitate cultural integration, the most important was the Convention that took place in Marostica on 21 and 22 January 2016, attended by 1,000 employees, who were actively involved in discussing the Strategic Plan.

Remuneration

In 2016, the Bank paid, and therefore contributed to the local community, a total of Euro 99.1 million in wages, which represents about 56.6% of the added value created during the year.

The Bank compares its salary structure with the one provided by the Italian Banking Association "ABI", also in accordance with the remuneration survey of the banking and finance sector. This showed that the remuneration paid by the Bank is in line with average figures on the market. However, its variable remuneration is particularly competitive, and is above the market average.

Banca Popolare - Volksbank uses set salary ranges for the different categories of employment, which are applied equally to both men and women.

Human Resources Management Policy

With respect to Bank of Italy Circular 263 of 27 December 2006, as amended (Title V, Chapter 7, Section I), the policies and procedures used to manage human resources were set out in a specific company policy approved by the Board of Directors. The aim of the policy is to ensure that the staff have the necessary skills and professional competence to exercise the responsibilities attributed to them.

Staff Training and Development

Overall, more than 63,570 training hours were given to employees in 2016, which corresponds to 50.47 hours per FTE. This figure indicates the strong commitment to certifying and improving employees' skills.

Specifically, technical banking training received the greatest focus, offering in-depth guidance on finance and securities.

Professional development of employees in the sales network focused on the role of the relationship expert. The "positive meeting". The majority of these sales training activities were dedicated to employees of the former Banca Popolare di Marostica and Banca Treviso.

In total, 2,341 hours of on-the-job training were provided. Optimisation and efficiency improvements for training were again at the forefront of development planning in 2016.

Training initiatives were consistent with the figures and objectives set by the Bank. This is also the case for specialised training and training for management. The focus was on topics that required further interventions, identified through various indicators, surveys, and interviews. Self-learning has become increasingly important, in all its different forms. Through e-learning, Lync sessions, films and other forms of multi-media training, employees were able to take advantage of opportunities to save time and costs through technology.

The Company continued to focus attention on professional development of management during 2016, with the objective of developing a new Manager Model, by identifying new competencies to be aligned with the Volksbank strategy and vision, and to compete in a market that is in continuous evolution with a new Business Line structure. Using the Manager Model as the basis, the training necessary for developing internal resources will be scheduled. The Bank will continue to process and harmonise the basic skills of managers (feedback, coaching) and the role of leader who is acting as the instructor of his/her associates.

IVASS Certification

During 2016, 873 staff members were given ISVAP/IVASS certification, or 92% of sales staff who are trained to work in insurance consultation and sales. Almost 14,900 hours of e-learning and 22,300 classroom hours were provided for IVASS training.

Yearly Staff Interview

Staff interviews are held on a yearly basis and represent an important tool for management. A new evaluation form was introduced in 2016. The new form made it possible to assess the work performance and potential of the individual workers with greater objectivity. The dialogue between the leader and the staff member will continue to be of fundamental importance within the scope of the process. All the activities assigned will be discussed and commented on, including everything that could be improved. The annual interview with the staff member is an important instrument to define the reciprocal expectations, develop the strong points and counterbalance the weak points. It requires a personal commitment by both parties. It is also a tool to decide which training would be most suitable for the individual staff member. The staff members have regular, targeted interviews with their superiors which also clarify professional prospects. The Bank can also provide transparent incentives to the best employees and efficiently plan career advancements on the basis of merit.

1.12.4 LEGAL SERVICE

The Legal Service includes two separate organisations: the Service for Doubtful Loans and the Legal Consultation Office.

The Service for Doubtful Loans uses internal legal advisors and administrative management staff. Debt collection activity is proactive and aims to optimise legal proceedings and maximise the financial result. In particular, with regard to assessment of the initiatives to be taken, in-house legal advisors thoroughly assessed out-of-court actions which have a positive impact on collection times and the level of costs sustained (external legal advisors, taxes, judicial proceeding costs).

Where this solution cannot be considered, especially for more significant positions and positions in which a higher level of collection can be expected, external legal advisors are appointed to take legal action through which the disputes are often settled.

For this reason, the Bank signed an agreement with leading law offices for most ordinary debt collection. Credit that is minimal, irrecoverable or difficult to collect is generally treated en masse and subject to disposal transactions without recourse, given that legal action would be considered uneconomic with regard to cost-benefit terms. For financial statements purposes, doubtful loans are subject to analytical assessment to define provisions for expected losses. For each position, and for each relationship within the position, the extent of the expected loss is calculated on the basis of debtor solvency, the type and value of the guarantee and the current status of proceedings taken. The provisions are constantly being estimated in accordance with prudential criteria and the accounting standards, also applying time-discounting principles.

The Service for Doubtful Loans recovered about Euro 36.5 million during the course of 2016, settling 277 doubtful positions. A non-recourse factoring was also finalised, as part of a multi-originator transaction, on a portfolio of doubtful loans with a total nominal value of Euro 6 million and relating to 171 positions.

To the extent of its responsibilities, the Service has also fulfilled the requirement pursuant to the directive issued in January 2016 by Bank of Italy in regard to banking and financial supervision. With this directive, Bank of Italy required banks and financial intermediaries to provide a report containing information on doubtful exposures every six months. The introduction of this reporting has the objective of facilitating the electronic availability of detailed data on doubtful loans held by intermediaries, including to stimulate the development in Italy of a market of anomalous positions, whose prerequisite is also the ability of banks to make an appropriate and reliable set of information available to potential purchasers.

The Legal Consultation Office provides legal support to internal structures and the retail network on all legal matters (except for those concerning labour laws, social security and taxes). It ensures that issues encountered by the branches with respect to actual cases will be resolved, such as rules and regulations regarding donations, inheritance matters if particularly delicate, minors, disabled persons, disqualified persons, and matters related to civil law, with particular reference to property, personal and atypical guarantees as well as bankruptcy law.

The Legal Consultation Office provides consultancy advice to internal departments regarding all bank rules and regulations (apart from the Consolidated Law on Finance) and privacy laws, giving instructions on operations and ensuring that contracts are up to date with regulatory developments and case law. The Office provides support in the choice of strategies to follow with respect to bad loans and particularly sensitive complaints.

It follows the various projects that the Bank wishes to carry out, taking care of the legal aspects and setting boundary limits. It checks the contracts and agreements that the Bank intends to sign with suppliers, public entities, leasing companies and companies that provide banking services, etc.

The office manages the administrative and accounting disputes in which the Bank is involved from the legal standpoint (excluding those regarding labour law, social security, and taxes), ensuring that the preliminary investigations are carried out, adequate allocations are made in the financial statements (if a payment is considered probable based on information available at any given time), as well as coordinating the work of external professionals with whom fee arrangements are made. It takes the initiative to make out-of-court settlement of disputes, working with the opposing party, even on a direct basis, and drawing up documents.

It also manages bank attachments and seizures against third parties as well as relations with legal authorities and law enforcement.

1.12.5 TECHNOLOGICAL AND ADMINISTRATIVE SERVICES AND PROCESS INNOVATION

Banca Popolare - Volksbank is supported by the IT outsourcer SEC Servizi S.C.p.A. in Padua for the management, development and innovation of the entire IT system supporting all bank processes, both internal and at branch level.

SEC Servizi offers advanced multi-channel solutions and centralised back-office services, able to guarantee appropriate service levels and constant development and innovation of the Bank's products and services.

Integration of Former BPM Processes and Services

In 2016, all services of the former BP Marostica were integrated on the IT platform and in the consolidated processes, following the Volksbank organisational and operating model.

Specifically, during 2016, service contracts with various suppliers of the former BP Marostica, which had been cancelled during 2015, were brought to an end. These services were changed to Volksbank suppliers and operating models, partially bringing in-house certain activities that the acquired banks had outsourced to external suppliers. In this manner, additional cost reductions were achieved that, in 2016, had effect for a portion of the year, and will have full effect in the 2017 financial statements. These include, for example, supplies and services for office machinery (PCs and printers), data and telephone connection services, and bancomat equipment.

The Branch of the Future - Expansion of cash recyclers with touchscreen to rationalise counter operations

The rationalisation of counter operations continued in 2016, reaching more than 40 branches with this type of automation. The role of the bank teller has been abolished in these branches, instead counter operations are automated with a multi-operator machine that is used by all branch employees. The objective is to make it more advantageous for customers to use the self-service area (ATMs, stands, coin counters) for cash transactions. This equipment is adapted to small and medium-sized branches with low volumes of transactions in cash and allows staff to focus on consulting, however offering the option of serving customers who do not intend to make independent use of Next-Generation ATMs.

The data confirm this operating model: in these branches, the utilisation rate of Next-Generation ATMs for cash deposits is the highest overall, corresponding to 70% of cash deposits, on average.

Tablets, Next-Generation ATMs, Stand e-posts and Cash Recyclers with Touchscreens form the basis of the "Branch of the Future - the paperless branch", no longer just a slogan for Banca Popolare - Volksbank but a tangible reality.

Tablets

In addition to increasing the use of tablets for signatures on branch transactions, tablet signature was also expanded to banking contracts in 2016. All Volksbank branches now offer the possibility of signing the most common banking contracts on tablets rather than paper: current accounts, bancomat cards, prepaid cards, internet banking services, securities portfolios, due diligence questionnaires, MiFID questionnaires, etc.

This function will bring notable advantages to customers:

- operational risk from missing signatures on contracts is reduced (avoiding subsequent actions to collect the missing signatures from customers)
- there is certainty and immediacy in the archiving of contracts (the customer immediately obtains a copy of the contract in his/her internet banking area and it can be viewed at any time)
- physical management of contracts in branches and central offices is reduced, with corresponding cost savings
- it contributes to environmental protection, by reducing the consumption of paper and toner

The methods for tablet signature are the result of an analysis on the usage methods that are most convenient for customers and staff. In this way, for example, a function of "deferred signature" was developed for tablets that, in the event of co-signed contracts (e.g., husband and wife, business with 2 or more legal representatives, etc.), allows all signing customers to visit the branch at different times and independently of each other. The contract

becomes valid with the signature of the last of the co-signers. This development was especially complex and involved months of testing, but feedback from users demonstrates that it is an extremely popular and highly-utilised function. The use of tablets in Volksbank was further increased during 2016 and is destined to be even greater in 2017.

Activation of contracts on tablets was launched in all branches at the end of 2016, with the immediate result of up to 900 contracts and forms signed on tablets every day. As familiarity with the new tool increases, additional forms, contracts, and questionnaires will be migrated to tablets during 2017. At this time, loan contracts are excluded from tablet signature, although this functionality may be added in the future.

The Branch of the Future - Desktop Scanners

As part of the paperless branch, progress was made in 2016 to digitalise processes: a desktop scanner was added to each workstation in the branches. This equipment will allow paper documents to be scanned at the branch, so that the paper document no longer needs to physically circulate among branches as well as between the branch and internal departments.

This will reduce the postal mailing of documentation, which currently must be maintained on a daily basis for settling cheques. According to Bankit and ABI regulations, cheques will be digitalised in 2017, resulting in costs savings for internal post mailings. Desktop scanner applications already bring considerable advantages in the following areas:

- customer documents to be attached to loan applications: the employee no longer needs to spend time photocopying and mailing, and the wait times for processing a loan application in the internal departments is reduced
- identification documents: staff no longer needs to photocopy and mail
- internal departments no longer need to archive paper documentation received from the branches

This new tool will reduce the “dead time” for branch staff that is currently necessary to perform certain activities, but that has no real added value (photocopying, mailing, and archiving). Moreover, wait times are now reduced (in some cases as much as entire days), which had been inevitable as another office was waiting to receive the necessary documents to proceed with processing loan applications and/or customer requests.

During 2016, desktop scanners replaced the functionality of automated cheque readers, in expectation of digital cheque settlement in 2017.

The initial functions in which the desktop scanners may be used were introduced in 2016. In coming years, more functionality will be added for greater digitalisation and speed in branch processes.

Stand e-posts

The availability of banking documents at stands (e-posts), introduced in autumn 2014, was expanded during the course of 2016. There are now 90 types of documents that can be viewed and printed at the stands, which covers nearly all of the documents that the Bank sends to the customer.

The e-post service is generally appreciated by customers: in some geographic areas, more than 80% of customers without internet banking choose to view their documents at the stands and no longer wish to receive the paper copy.

Expansion of Next-Generation ATMs

The installation of Next-Generation ATMs continued throughout 2016, which accept banknotes and cheque deposits. This service is increasingly attractive to customers, and 85 Next-Generation ATMs were available at the end of the year, or at nearly half of the branches. Where installed, an average 55% of cash deposits are performed at these machines. Banca Popolare - Volksbank will continue making these investments to improve the efficiency of the resources used and automate banking services.

Modernisation of the Branch Infrastructure

During 2016, the hardware infrastructure of the branches was modernised.

All branch workstations were equipped with new PCs, known as “thin clients”, which are updated to the latest requirements and technological advances. Furthermore, all branch printers were modernised, a necessary investment where the equipment was outdated. As part of these activities, everywhere a desktop scanner was also installed, as discussed in the previous section.

In branches with higher numbers of cash transactions, a “cash recycler” was installed at each window that increases the speed of transactions for the teller and manages cash more securely (theft risk). These updates also meet supervisory provisions that require traceability of cash through modern equipment, especially in branches with high levels of cash transactions.

During 2017, these machines will continue to be installed in an increasing number of branches.

Modernisation of the Central Infrastructure

During 2016, a second data centre was created in Marostica. The primary data centre for Volksbank is in Bolzano. With the creation of a second data centre in available space in Marostica, response times for those offices were improved, and a back up was established in the event of disruptions at one of the 2 centres. In this manner, it will be possible in coming years to reduce costs of third-party suppliers that, up to now, had ensured the back-up function for the data centre.

As part of the modernisation of the central infrastructure in 2016, security systems and defences against electronic attacks were updated and strengthened. These investments must be maintained over time.

Regulatory Amendments

Again in 2016, most of the application developments involved amendments which had to be made in accordance with numerous regulations. The regulations included repeated innovations and amendments on anti-money laundering, due diligence, usury, compound interest, reporting and financial statements, as well as FATCA and CRS regulations for the prevention of international tax evasion. Specifically, a project was launched to amend the IFRS 9 accounting standard, which will be completed at the beginning of 2018.

As a whole, in 2015, more than 50% of the application updates made by the SEC on behalf of banks referred to new regulatory obligations or amendments.

1.13 MUTUAL NATURE AND INITIATIVES FOR SHAREHOLDERS

1.13.1 ANNUAL REPORT ON THE MUTUAL NATURE OF THE COOPERATIVE COMPANY UNDER ART. 2545 OF THE ITALIAN CIVIL CODE

Based on art. 2545 of the Civil Code, this chapter will deal with the “criteria followed by management policies to achieve mutual objectives”, where mutual objectives are expressed and set out under art. 2 of the Articles of Association, which contains the text: “The corporate purpose of the Company is to collect savings and grant various types of loans to both shareholders and non-shareholders, taking inspiration from cooperative and people’s bank principles.”

Art. 2 of the Articles of Association was eliminated as part of the transformation into a joint-stock company, resolved by the Extraordinary Shareholders’ Meeting of 26 November 2016. Hence, this discussion applies for the portion of the year in which the form of cooperative bank was maintained.

Pursuant to art. 2545 of the Italian Civil Code, the cooperative legal form assumes that the “criteria followed by management policies to achieve the mutual objectives” are indicated in the financial statement reports.

To that end, the Company is especially attentive to the territory it operates in through its network, with special regard to small and medium-sized companies and cooperative companies. In accordance with its corporate purpose, the Company can grant its shareholders concessions in order to use specific services. The Company can carry out all banking, financial and stock-brokerage transactions and services, including the activities recognised as mutually beneficial, and carry out any other transaction geared towards or, in any case, related to achieving the corporate purpose. The Company may belong to associations and consortiums and enter into agreements in Italy and abroad in order to achieve its corporate purpose”. In accordance with the cooperative nature of the Company, management is focused on its main objective of establishing long-lasting relations with shareholders and customers, favouring families and small and medium-sized enterprise segments, with special attention to local economies.

The Bank’s business model is focused on its main objective of establishing long-lasting relations with shareholders and customers, favouring families and small and medium-sized enterprises, with special attention to local economies. The cooperative relationship was demonstrated in 2016 both in the internal cooperative nature, i.e. its relations with shareholders who provide capital to the Bank and receive services as customers, and in its external cooperative nature, i.e. its socio-economic relations in its reference territory, whose development the Company commits to support, including indirectly through Fondazione Banca Popolare di Marostica.

1.13.2 SHAREHOLDERS

On 26 November 2016, the Extraordinary Shareholders’ Meeting approved the proposal to transform Banca Popolare - Volksbank into a joint-stock company. The resolution was recorded in the Business Register of Bolzano on 12 December 2016. With the effective date of the transformation into joint-stock company, there is no longer a distinction between shareholders and members.

As at 31 December 2016, the shareholding structure comprised 59,900 shareholders. The total number of shares is 49,859,929.

The Shareholders’ Meeting of 9 April 2016, in which 1,500 shareholders participated, set the issue price of shares at Euro 19.65, including Euro 4.00 nominal value and Euro 0.27 per share as the dividend paid in 2016 for 2015.

A total of 355,154 shares were traded in 2016 for a value of nearly Euro 7 million, corresponding to 0.71% of the total outstanding shares.

Shareholder Information, Events, and Initiatives

Banca Popolare - Volksbank pays particular attention to enhancing the value of the relationship with those who decide to invest in share capital, and offers its shareholders several advantages:

- Volksbank-Lounge Community: In accessing the virtual meeting point, shareholders can benefit from exclusive offers, get an overview of upcoming events, enter announcements, and stay in contact with other shareholders;
- Exclusive information: continuously updated information about the Bank and products, via e-mail or the NEWS4YOU magazine, with an overview of activities performed and those scheduled for the future;
- Events: constant dialogue with the Bank's top management as part of informational evenings and discussions on current topics;
- Bancomat card for shareholders: shareholders receive a personalised bancomat card with a unique layout;
- CartaSi Gold credit card at special conditions: all privileges of the prestigious CartaSi Gold at favourable conditions, including a higher limit, greater insurance guarantees, and a series of useful lifestyle services;
- Free Telepass Family: the Bank pays the quarterly Telepass fee for its shareholders;
- Automobile liability policy at special conditions: the Bank allows shareholders to subscribe an automobile liability policy at special conditions, with flexible and personalised solutions according to their needs. The agreement applies to vehicles owned by the Bank shareholder (individual or legal entity);
- No stamp duty for underage shareholders: the Bank pays stamp duties for security portfolios held by underage shareholders who deposit only Banca Popolare - Volksbank shares in them (up to a maximum of Euro 34.20 per year).

1.13.3 SPONSORSHIPS AND DONATIONS

Sponsorships

Banca Popolare - Volksbank sponsors events, activities, and organisations in exchange for well-defined advertising and/or economic benefits.

Banca Popolare - Volksbank supports associations or initiatives that reflect its precise marketing plan in order to achieve specific image and/or commercial goals. The sponsorships promote the image and popularity of the Company, and also aim to consolidate links with the customer in addition to being a strategic way of facilitating the initiation of new relationships.

In 2016, Banca Popolare - Volksbank invested a total of Euro 555,000 in sponsorships.

The sectors that have benefited from sponsorships range from sport and culture to social initiatives and training. Its support of the youth sections of sporting associations is worthy of special mention.

Banca Popolare - Volksbank sponsored about 140 associations in 2016. About 70.82% of the investment was related to sporting activities, while the remaining 29.18% benefited cultural, social, and environmental associations. The amounts managed directly by the branches to support local initiatives of small/medium-sized entities should also be added to this amount. This amount came to a total of Euro 329,000 in 2016.

Sponsorship activities 2016	Amount	% of total
<i>(in euro)</i>		
Sport	392,000	70.82%
Culture	95,000	17.07%
Social	23,000	4.04%
Other	45,000	8.06%
Total	555,000	100.00%

Donations

Banca Popolare - Volksbank also supports its territory through donations, supporting worthy causes. Generally, the donations are for public benefit, and can also be given to cultural institutions. Traditionally, the Company contacts local structures receiving such donations directly within their catchment area. There was a total of about Euro 298,000 given in 2016. The beneficiaries included parishes, lay voluntary associations and local institutions.

1.13.4 FONDAZIONE BANCA POPOLARE DI MAROSTICA

On 1 January 2016, Fondazione Banca Popolare di Marostica - Volksbank was established, whose objective is to promote and sustain initiatives of a cultural, educational, training, recreational, social and health assistance, religious, or scientific research nature, to the benefit of the civic and social fabric in the reference area of the former Banca Popolare di Marostica, now merged into Banca Popolare - Volksbank.

Overall, donations disbursed by the foundation amount to Euro 300,000 in 2016.

1.14 OTHER INFORMATION

1.14.1 INFORMATION PURSUANT TO BANK OF ITALY/CONSOB/ISVAP DOCUMENTS NO. 2 OF 6 FEBRUARY 2009 AND NO. 4 OF 3 MARCH 2010

On 6 February 2009, Bank of Italy/CONSOB/ISVAP issued document no. 2 on the application of IAS/IFRS, in order to recommend inclusion of information in financial reports on the going-concern assumption, financial risks borne by the entity, impairment tests and uncertainties in using estimates.

The importance of dedicating the maximum commitment to valuations related to the going-concern assumption and information in the financial statements was also mentioned in document no. 4 of 3 March 2010 issued by the same authorities. It stresses the need to ensure transparency in reporting valuations of goodwill and other intangible assets with indefinite useful lives and equity investments, on the valuation of equity instruments classed as "available for sale", and on the classification of financial liabilities backed by special contractual stipulations.

With regard to going concern, the Directors did not detect any situations that would raise doubt on the Bank's ability to continue its regular operations in the Bank's transactions and financial development. Thus, the Directors feel that the equity and financial structure of the Bank is satisfactory to guarantee that the Bank can operate as a going concern. Based on this reasonable expectation, the financial statements as at 31 December 2016 were prepared under the going-concern assumption.

The financial risk disclosure was described in the Directors' Report and in Part E of the Notes to the Accounts: "Information on risks and related hedging policies."

When preparing the year-end financial statements, Banca Popolare - Volksbank performed impairment tests on its assets, including goodwill, equity investments carried under assets and available-for-sale securities. A description of how the tests were conducted and their results is provided in the Notes to the Accounts.

There is a special section entitled "Uncertainties related to use of estimates" addressing these uncertainties in preparing financial statement in the Notes to the Accounts under Part A – "Accounting Policies, A. 1 – General Information".

Lastly, with regard to the classification of the Bank's financial liabilities, none of the medium/long-term payables are classed as "current" as a result of the acceleration clause or due to default of the liability's underlying contractual clauses.

1.14.2 DISCLOSURE ON STRUCTURED EQUITY PRODUCTS AND EXPOSURE TO SPECIAL PURPOSE ENTITIES

Based on recommendations made in 2008 by the Financial Stability Forum (now Financial Stability Board) and the Bank of Italy (Communication no. 71589 of 18 June), a report on exposures as at 31 December 2016 to financial products that the market considers high risk, such as Collateralised Debt Obligations (CDO), Residential Mortgage Backed Securities (RMBS), Commercial Mortgage Backed Securities (CMBS), other Special Purpose Entities (SPE) and leveraged finance, is included below.

Exposures to SPEs (Special Purpose Entities)

Special Purpose Entities (SPEs) are entities that are set up to achieve a specific objective, normally entailing the realisation of credit securitisation transactions and covered bond issue transactions.

Securitisations use special purpose vehicles (SPVs), established in accordance with art. 3 of Italian Law no. 130 of 30 April 1999, which place debt instruments on the market, issued to finance the purchase of receivables subject to securitisation. The aforesaid receivables act as a guarantee to repayment of the liabilities issued by the SPV.

Covered bond transactions, governed by Italian Law no. 130 of 30 April 1999, are debt issues by credit institutions, specifically guaranteed by portfolios of identified assets that are segregated from the issuer's assets. These assets are sold by the issuer to a specially established SPV.

For further details, please refer to Chapter "C. Securitisations and asset disposal transactions", Section 1 – Credit Risk in the Notes to the Accounts and Section 3 - Liquidity risk for self-securitisations.

Lastly, note that as set out in table "C.1.3 Exposures from main third party securitisations according to securitised asset type and exposure type", the Company holds a portion of senior tranches of HIPOCAT 15.1.50 TV, registered under held to maturity instruments (HTM) for Euro 0.7 million and regarding a securitisation of receivables.

For further details on the aforesaid financial instrument, please refer to the Notes to the Accounts, Assets, Section 5, and table "C.2 Exposures from main third party securitisations according to securitised asset type and exposure type".

There are no exposures to SPEs other than those reported in the financial statements.

Exposures to Structured Products

The main positions in structured credit securities issued by third parties as at 31 December 2016 are represented by corporate bonds, all issued by credit institutions, all in EU countries, as well as Italian corporate minibonds.

The overall exposure to covered bonds, in terms of amounts recorded in the financial statements, is Euro 45.6 million, representing a limited exposure with respect to the overall portfolio of debt securities (equal to about 2.9%). Of these, Euro 33.6 million were classified as available for sale ("AFS") while Euro 12.1 million were classified as held to maturity ("HTM").

The structured securities, totalling Euro 14.5 million in the financial statements (equivalent to 0.9% of the total bond portfolio), include securities classified as available for sale (AFS), amounting to Euro 12.1 million, and held for trading (HFT), amounting to Euro 2.4 million. All these instruments have remaining maturity equal to or less than five years.

Please refer to the tables under Assets, Sections 2 and 4 of the Notes to the Accounts for further details on the financial instruments held for trading and the financial instruments classified as available for sale.

1.14.3 EXPOSURE TO SOVEREIGN DEBT

In accordance with the recommendations of the European Securities and Markets Authority (ESMA), contained in document no. 2011/226 of 28 July 2011, and of Consob, contained in communication DEM/11070007 of 5 August 2011, the exposure of the Company to sovereign debt, mostly comprising Italian debt securities, is provided below. As noted in the ESMA document, "sovereign debt" refers to bonds issued by central and local governments and government entities and loans issued to them.

Exposure to sovereign debt - by maturity

(thousands of Euro)

	2017	2018	2019	2020	2021	After 2021	Total
HFT	-	-	-	-	-	-	-
AFS	139,957	122,495	10,319	247,873	51,586	299,659	871,890
HTM	25,204	15,487	-	10,427	-	189,934	241,052
LRO	-	-	-	-	-	-	-
Total	165,162	137,982	10,319	258,300	51,586	489,593	1,112,942

The following shows the breakdown by accounting category and issuing country.

Exposure to sovereign debt - by issuing country

(thousands of Euro)

	HFT	AFS	HTM	LRO	31.12.2016
EU countries					
- Italy	-	871,890	241,052	-	1,112,942
Non-EU countries	-	-	-	-	-
Total portfolio	-	871,890	241,052	-	1,112,942

There are no other exposures to sovereign debt. Of the total exposure, 56.0% has a residual maturity of less than 5 years.

As at 31 December 2016, the sensitivity to an increase of 1 bps in the credit spread of Republic of Italy government securities classified as "Financial assets available for sale" amounts to Euro -326,000, with an implicit spread duration of 3.74 years. There were no government securities classified as "Financial assets held for trading".

1.14.4 ATYPICAL OR UNUSUAL TRANSACTIONS

With reference to Consob communication no. 6064293 of 28 July 2006, there were no atypical and/or unusual transactions carried out in 2016, defined in Consob communication no. DAC/98015375 of 27 February 1998 and no. DEM/1025564 of 6 April 2001 as transactions that do not form part of the normal day-to-day operations of the company, and which, due to their significance and/or relevance, nature of the counterparties, methods for calculating the transfer price or timing of the event, could give rise to doubts regarding the correctness or completeness of the information on the financial statements, conflicts of interest, safeguarding the company assets or protection of the shareholders.

1.15 BUSINESS OUTLOOK

The forecast for global GDP growth indicates an increase of 2.7% in 2017 and 2.9% in 2018, thus constituting a modest recovery, more representative of a stabilisation in the overall economic situation rather than an indicator of robust and sustained growth in global demand. Considering the close link between demand, investments, trade, and productivity, the extended period of weak growth in the international economy could prove to be an enduring phenomenon, in particular in the absence of concerted policies to support investments and enhance productivity. In Europe, the short-term market rate is, at this point, structurally negative: between January and September, the 3-month Euribor was, on average, 25 bps below zero (-0.04% in the same period of 2015). In a similar context, both the volume effect (+2.8%, mainly due to the securities portfolio) as well as the continuous reduction in funding cost were not sufficient to offset the decline in interest income.

Against this scenario, the Bank can, in addition to strengthening loans, pay particular attention to controlling funding cost, as it has in the past. The Bank took advantage of the TLTRO programme, as noted above, which entails support at the negative interest rate of -0.4%, provided that a portion of these funds are disbursed to businesses. Also in regard to funding cost, specific focus is given to maturing bonds (whose cost is greater than that required by the ECB and the market), which will be renewed only in part. The objective is to maintain a positive effect on the interest margin.

The trend in net commissions is a priority for maintaining profitability. The outlook for commission revenue continues to be positive. Commissions on managed assets and bancassurance, or those most important for growing core revenues, may experience additional improvement. In the expectation of more favourable market conditions, performance could improve further. Granting of loans, which is also linked to various types of commissions, has encouraging forecasts, again dependent on a more favourable market context. Overall, the management approach envisages an increase in the percentage of managed assets on total assets, together with the commitment in terms of financial planning, which would result in an increase in commission revenue.

With regard to costs, efforts to reduce costs continue, whose benefits are already seen in 2016, the first year in which the initial synergies from the Banca Popolare di Marostica Group merger were evident. With regard to actions on administrative expenses, in addition to cost containment policies for personnel expenses, there may be additional specific actions on other administrative expenses that, on one hand reflect investments in marketing and re-branding, and on the other, could benefit from a reduction due to redundancy programmes carried out in 2015 (finalised with the terminations of 2016) and from the constant attention on reducing operating costs.

The commitment in terms of credit quality as a top priority for the Bank will not change. With regard to impaired loans, a specific Workout Department was created to ensure more fluid and standardised management processes, according to an industrial credit management approach to bad loans. The plan to improve efficiency in loan administration may bring about an improvement in collection rates, supplemented by specific sales of defined portfolios, which will continue to represent a method for reducing the overall portfolio. All of these actions are taken within a market context for non-performing loans that remains challenging, still driven principally from the buyer's perspective.

The finalisation of the workout project will also allow the Bank to achieve greater competencies in the sector. Hence, the approach will be framed within a perspective of optimising opportunities that are presented, completing the sale of doubtful loans only at the proper conditions and right price, optimising the management process, timing of actions on individual exposures, and, if necessary, also through commissioning third parties to manage specific positions.

1.16 SIGNIFICANT EVENTS AFTER YEAR END

In accordance with the special rules enacted by the Bank of Italy, the significant events occurring after year-end are set forth in the Notes to the Accounts, Part A, Section 3.

**REPORT BY THE BOARD OF
STATUTORY AUDITORS**

REPORT BY THE BOARD OF STATUTORY AUDITORS

REPORT BY THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING PURSUANT TO ART. 2429(3) OF THE ITALIAN CIVIL CODE

Dear Shareholders,

The Report by the Board of Statutory Auditors discusses the activities of supervision and control performed, in fulfilment of the Board's duties, during the year ended 31 December 2016. It was prepared in accordance with the norms of Italian Civil Code - namely art. 2429 – and art. 153(1) of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance; T.U.F.).

Summary and results of supervisory actions

The Board of Statutory Auditors currently in office was appointed by the Ordinary Shareholders' Meeting of 9 April 2016, and will remain in office until the Shareholders' Meeting called to approve the financial statements as at 31 December 2018.

During 2016, the Board of Statutory Auditors performed the audits required by the Italian Civil Code, Italian Legislative Decree no. 385/1993 (Consolidated Banking Law "T.U.B."), the guidelines issued by public authorities that exercise supervisory and control functions, and according to the standards and recommendations of the National Board of Accountants and Bookkeepers.

With regard to the activities performed in 2016, we specifically inform the Shareholders' Meeting that:

- to the extent of our responsibility, we oversaw compliance with the law, regulations and the Articles of Association and compliance with the principles of proper management;
- the Directors and head office provided us with significant information on management, its development and on transactions of significant equity, economic and financial impact;
- we took part in the Shareholders' Meetings of 9 April 2016 and 26 November 2016, all meetings of the Board of Directors, as well as, through a representative or as part of joint sessions, meetings of the Risk Committee and the Supervisory Board established by the Bank pursuant to Italian Legislative Decree 231/2001, and we obtained exhaustive information on the activities performed and transactions of greatest significance carried out by the Bank, and confirmed validity of operations through periodic audits (19 meetings);
- the findings of our audits were made available to the Board of Directors and to Management, and we presented verbal and written reports to the Board of Directors on our activities;
- resolutions carried and implemented by the Board of Directors complied with law and the Articles of Association and did not appear to be clearly imprudent, reckless or risky, or involve any potential conflict of interest with resolutions passed by the Shareholders' Meeting, and they do not compromise the integrity of the Bank's equity;
- we monitored the adequacy and function of the organisational structure, the system of internal controls, the risk management system, and the accounting-administration of the Bank, and the reliability of the latter to correctly represent the affairs of the Company. More specifically, meetings with the heads of the main corporate departments, the Independent Auditors, the manager responsible for the preparation of corporate accounting documents and the Internal Audit Department, did not reveal any critical issues relating to the adequacy or reliability of the administrative-accounting system in correctly representing the affairs of the Company and providing proper financial disclosure;
- we received from BDO Italia S.p.A., pursuant to art. 17 of Italian Legislative Decree no. 39/2010, confirmation of its independence, as well as communication of non-audit services provided to the Bank by said company or other companies belonging to its network;
- during the meetings with heads of the main corporate departments we acquired information required to carry out the institutional supervisory duties. Specifically, we earnestly interacted with the heads of corporate control departments (Risk Management, Compliance and Internal Audit), also on the basis of the results of activities and audits they performed, as well the reports they prepared;

- we oversaw the Bank's internal processes, especially with regard to procedures to grant credit, assess loans and manage non-performing positions; We acknowledged the creation of a new department aimed at strengthening the collection and credit valuation processes, also considering the overall volume of outstanding impaired loans;
- we checked the transactions falling within the scope of art. 136 of the Consolidated Banking Law, and monitored compliance with the obligation, under art. 2391-bis of the Italian Civil Code, to adopt rules ensuring transparency and substantive and procedural correctness of transactions with related parties. No significant issues emerged from these checks. The disclosure on transactions with related parties is illustrated in Section H of the Notes to the Accounts;
- we met with the Manager responsible for the preparation of corporate accounting documents, and these documents showed no signs of significant gaps in the administrative-accounting processes and in controls, such as to affect the assessment of the adequacy and effective application of the administrative-accounting procedures set up to monitor the correct representation of operational events, in compliance with governing international accounting standards. We acknowledged the certification issued on 10 February 2017, for the year 2016, of the Chairman and the Manager responsible for the preparation of corporate accounting documents, in accordance with art. 154-bis of the Consolidated Law on Finance and art. 81-ter of Consob Regulation no. 11971/1999, which found no deficiencies that would influence the assessment of the adequacy of the administrative-accounting procedures;
- during the year, the Bank was subject to audits by the supervisory authority. We interacted with representatives of the audit team and analysed the audit findings. The audit was concluded without recommending any sanctioning measures;
- on 19 February 2016, the new Compliance Manager was appointed, who took office on 1 July 2016, and on 27 January 2017, the new Internal Audit Manager was appointed. We issued a favourable opinion on these appointments;
- During 2016, the Board of Statutory Auditors received 2 reports pursuant to art. 2408 of the Italian Civil Code, both submitted by shareholder Giuseppe Tocchetti – owner of shares representing less than one-fiftieth of share capital, dated 18 November 2016 and 21 November 2016, respectively. The reports concerned, respectively, the application of rules that regulate the proceedings of Shareholders' Meetings and the decision-making process of the first agenda item, relative to the approval of the financial statements and the calculation of the share premium.

The Board of Statutory Auditors considered the reports and performed the necessary analyses, including by reviewing documents and meeting with the relevant business functions. From the reviews conducted, the Board of Statutory Auditors did not find elements that gave rise to censurable events in terms of legitimacy or negligence. The shareholder's complaint was, therefore, determined to be baseless.

Significant economic, financial and equity transactions performed by the Bank

During the year, the Board of Statutory Auditors acquired information on significant economic, financial and equity transactions performed by the Bank. Based on information made available, the Board of Statutory Auditors found that these transactions complied with principles of proper management, laws and the Articles of Association, were not clearly imprudent, reckless or risky, or in conflict with resolutions or such as to compromise the integrity of the Bank's equity.

For a more in-depth analysis of the significant transactions carried out during the year, refer to the Directors' Report that accompanies the 2016 financial statements.

The following is reported:

- on exceeding the threshold of Euro 8 billion in balance sheet assets, as introduced by Italian Law Decree 03/2015, converted with amendments to Italian Law 33/2015, the shareholders of Banca Popolare dell'Alto Adige, in their meeting of 26 November 2016, resolved to transform from a "cooperative bank" into a "joint stock company" and adopt new Articles of Association containing amendments related to the transformation. The resolution of the Extraordinary Shareholders' Meeting was registered on 12 December 2016;
- as part of the withdrawal process, pursuant to art. 2437-ter, paragraph 2 of the Italian Civil Code, on 5 November 2016, we provided an opinion regarding the calculation of the liquidation value of shares. In addition, we received

- the report from BDO Italia S.p.A. on 5 November 2016 that, as party responsible for the independent accounting audit, expressed its opinion in accordance with art. 2437-ter, paragraph 2 of the Italian Civil Code.
- in the Director's Report on the 2016 financial statements, to which the reader is referred for more information, the Directors provided a thorough and detailed description of the events that, subsequent to the effective date of the transformation, modified the reference legal framework, with particular regard to the Order of the Council of State on 2 December 2016, as well as the uncertainties that this development has had on the transformation process;
 - the Shareholders' Meeting of 26 November 2016, in execution of the remuneration policies approved by the shareholders on 9 April 2016, approved a free share capital increase for a maximum of Euro 300,000, in service of the stock granting plan for the years 2016 to 2018. At the same time, a restricted profit reserve was set up in service of the free share capital increase;
 - no critical issues emerged during the year relating to the independence of the Independent Auditors;

Proposals related to the financial statements, their approval and matters concerning the board of statutory auditors

With regard to the financial statements as at 31 December 2016, we report the following:

- pursuant to art. 2409-bis of the Italian Civil Code, legal audits of Banca Popolare dell'Alto Adige accounts were performed by Independent Auditors BDO Italia S.p.A.;
- on 16 March 2017, the Independent Auditors issued their report on the financial statements as at 31 December 2016 pursuant to arts. 14 and 16 of Italian Legislative Decree 39/2010, which did not find any irregularities or inconsistencies with regard to the financial statements. This report also included an opinion on the consistency of the Directors' Report;
- the application of the accounting standards, as well as the recognition and representation in the financial statements of significant economic, financial, and equity items, were discussed at meetings with the Independent Auditors. During these discussions, the Auditors detected no anomalies, critical issues or omissions;
- we obtained the draft financial statements as at 31 December 2016, approved by the Board of Directors on 10 February 2017, and acquired information on the presentation format of the financial statements, their general compliance with regulations in terms of format and structure, also taking into consideration IAS/IFRS international accounting standards and the provisions issued by the Bank of Italy in Circular no. 262 of 22 December 2005 and later updates;
- in particular, as part of the supervisory activities assigned to the Board of Statutory Auditors by law, we verified the adequacy of the audit procedures on impairment of financial statement assets, acquiring the necessary information from the Bank and through meetings with the Independent Auditors with regard to the results of audits they performed on the proper bookkeeping of accounts and the correct recognition of operational events in accounting entries;
- we received from BDO Italia S.p.A. the report describing the critical issues that emerged during the audits, from which it was found that there were no significant weaknesses in the internal control system relative to the financial reporting process, nor were there other issues that required being brought to the attention of the Board of Statutory Auditors;
- the Notes to the Accounts contain detailed information on the items of the balance sheet – concerning goodwill and other assets that underwent impairment tests also with the support of the Independent Auditors – and the income statement, together with other information required to provide a true and fair representation of the Bank's equity, economic and financial position;
- the Directors' Report describes the company performance during the financial year and contains an analysis of the Bank's situation and of the performance and results of operations. There is nothing that needs reporting on this point;
- none of the directors made recourse to the exceptions provided by art. 2423, paragraph 4 of the Italian Civil Code;
- on 10 February 2017, the Chairman of the Board of Directors, Otmar Michaeler, and the Manager responsible for the preparation of corporate accounting documents, Alberto Caltroni, issued the certification on the financial statements, pursuant to art. 154-bis, paragraph 5, of Italian Legislative Decree 58/98, with no critical issues;

With reference to the proposal to allocate all profit to reserves, taking account of the supervisory authorities' recommendations and the dividend distribution policy approved by the Board of Directors, the Board of Statutory Auditors hereby approves the proposal made by the Board of Directors.

In accordance with art. 19 of Italian Legislative Decree 39/2010, auditing allowed us to monitor the administrative-accounting procedures related to financial disclosure, the effectiveness of the internal control systems and risk management, the efficiency of the auditing activities and the independence of the Independent Auditors.

Given all of the above, to the extent of its responsibilities, the Board of Statutory Auditors raises no objections regarding the proposals of the Board of Directors for items on the agenda.

Bolzano, 17 March 2017

THE BOARD OF STATUTORY AUDITORS

Heinz Peter Hager – Chairman
Georg Hesse – Standing Auditor
Joachim Knoll – Standing Auditor

CERTIFICATION ON THE FINANCIAL STATEMENTS

CERTIFICATION ON THE FINANCIAL STATEMENTS

CERTIFICATION ON THE FINANCIAL STATEMENTS PURSUANT TO ART. 81 - TER OF CONSOB REGULATION NO. 11971 DATED 14 MAY 1999 AS AMENDED

1. The undersigned, Otmar Michaeler, as Chairman of the Board of Directors of Banca Popolare dell'Alto Adige joint-stock company, and Alberto Caltroni, as the Manager responsible for the preparation of corporate accounting documents for Banca Popolare dell'Alto Adige joint-stock company, certify, taking account of the provisions of art. 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998:

- the adequacy with reference to the characteristics of the enterprise and
- the effective application of the administrative and accounting procedures for forming the financial statements for the year, during the course of 2016.

2. It is further certified that:

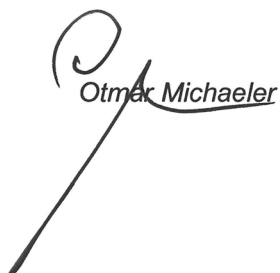
2.1. the financial statements as at 31 December 2016:

- a) were drawn up in compliance with the applicable international accounting principles accepted within the European Community pursuant to (EC) regulations no. 1606/2002 of the European Parliament and of the Council, dated 19 July 2002;
- b) correspond to the records in the accounting books and entries;
- c) are suited to provide a true and correct view of the equity, income and cash flow position of the issuer.

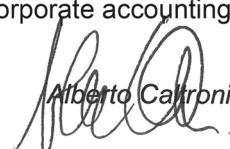
2.2. the directors' report includes a reliable analysis on the progress and results of management, and on the position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Bolzano, 10 February 2017

Chairman of the Board of Directors


Otmar Michaeler

Manager responsible for the preparation
of corporate accounting documents


Alberto Caltroni

INDEPENDENT AUDITORS' REPORT

**INDEPENDENT AUDITORS' REPORT PURSUANT TO ARTS.
14 AND 16 OF ITALIAN LEGISLATIVE DECREE NO. 39/2010**

To the shareholders of Banca Popolare dell'Alto Adige joint-stock company

Report on the financial statements

We have audited the attached financial statements of Banca Popolare dell'Alto Adige joint-stock company, comprising the balance sheet as at 31 December 2016, income statement, statement of comprehensive income, statement of changes in shareholders' equity and the cash flow statement for the year ended at that date, as well as the notes to the accounts.

Responsibility of directors for the financial statements

The Directors are responsible for drafting financial statements that provide a true and fair view in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in accordance with art. 9 of Italian Legislative Decree no. 38/2005 and art. 43 of Italian Legislative Decree no. 136/2015.

Responsibility of the Independent Auditors

It is our responsibility to express an opinion on the financial statements based on the accounting audit. We performed the audit in compliance with International Standards on Auditing (ISA Italia), developed in accordance with art. 11 of Italian Legislative Decree no. 39/2010. These standards require observance of ethical standards as well as the planning and execution of the accounting audit in order to acquire reasonable certainty that the financial statements do not contain any significant errors.

The audit involves the performance of procedures aimed at acquiring the evidence supporting the balances and disclosures in the financial statements. The procedures chosen depend on the professional judgment of the auditor, including the assessment of the risks of significant errors in the financial statements due to fraud or unintentional behaviour or events. In conducting these risk assessments, the auditor considers the internal control relating to the drafting of the financial statements of the company which provides a true and fair view, in order to define the appropriate audit procedures to the circumstances, and not to express an opinion on the effectiveness of the company's internal control. The audit also includes an evaluation of the appropriateness of the accounting standards adopted, the reasonableness of the accounting estimates made by the directors, as well as an assessment of the presentation of the financial statements as a whole.

We believe we have acquired sufficient and appropriate evidence on which to base our opinion.

Opinion

In our opinion, the financial statements provide a true and fair view of the equity and financial position, the economic result and cash flows of Banca Popolare dell'Alto Adige joint-stock company as of and for the year ended 31 December 2016, in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in accordance with art. 9 of Italian Legislative Decree no. 38/2005 and art. 43 of Italian Legislative Decree no. 136/2015.

Report on other legal and regulatory provisions

Judgment of consistency of the directors' report, certain information contained in the corporate governance report, and ownership structures with the financial statements

We performed the procedures indicated in auditing standard (SA Italia) no. 720B in order to express, as required by the law, an opinion on the consistency of the directors' report, certain information contained in the corporate governance report, and ownership structures indicated in art. 123-bis, paragraph 4 of Italian Legislative Decree no. 58/98 (for which the directors of Banca Popolare dell'Alto Adige joint-stock company are responsible) with the financial statements of Banca Popolare dell'Alto Adige joint-stock company. In our opinion, the directors' report, information in the corporate governance report, and ownership structures are consistent with the financial statements of Banca Popolare dell'Alto Adige joint-stock company as of and for the year ended 31 December 2016.

Milan, 16 March 2017

BDO Italia S.p.A.


Francesca Scelsi
Partner

FINANCIAL STATEMENT SCHEDULES

Balance Sheet

Assets	31.12.2016	31.12.2015
<i>(in euro)</i>		
10. Cash and cash equivalents	59,170,988	62,622,180
20. Financial assets held for trading	14,394,347	39,093,738
40. Financial assets available for sale	1,625,719,283	1,387,185,925
50. Investments held to maturity	260,923,680	170,425,794
60. Due from banks	41,916,636	44,803,704
70. Loans to customers	6,727,222,564	6,447,870,911
100. Investments	6,913,336	4,769,334
110. Property and equipment	142,475,976	145,591,338
120. Intangible assets	120,370,270	121,936,848
of which:		
- goodwill	99,601,776	99,601,776
130. Tax assets	183,995,804	164,480,147
a) current	59,943,447	65,970,087
b) deferred	124,052,357	98,510,060
of which: Law 214/2011	79,438,462	86,611,064
150. Other assets	132,982,832	126,544,475
Total assets	9,316,085,716	8,715,324,394

Liabilities and shareholders' equity	31.12.2016	31.12.2015
<i>(in euro)</i>		
10. Due to banks	1,085,006,401	838,462,663
20. Due to customers	6,001,785,846	5,207,990,000
30. Debt securities issued	1,099,040,171	1,570,686,783
40. Financial liabilities held for trading	2,269,549	3,129,718
50. Financial liabilities designated at fair value through profit or loss	9,720,698	9,692,320
80. Tax liabilities	31,850,865	51,475,184
a) current	1,844,721	15,335,514
b) deferred	30,006,144	36,139,670
100. Other liabilities	187,328,133	214,845,363
110. Employee termination indemnities	20,523,562	21,260,432
120. Provisions for risks and charges:	17,139,791	20,628,487
a) pensions and similar commitments	-	-
b) other provisions	17,139,791	20,628,487
130. Valuation reserves	(5,543,206)	(15,302)
160. Reserves	276,644,070	267,738,225
170. Share premium reserve	383,158,533	307,527,281
180. Share capital	199,439,716	179,535,732
200. Net income (loss) for the year (+/-)	7,721,587	22,367,508
Total liabilities and shareholders' equity	9,316,085,716	8,715,324,394

Income Statement

	Income Statement	31.12.2016	31.12.2015 (*)
<i>(in euro)</i>			
10.	Interest and similar income	176,930,136	197,878,147
20.	Interest and similar expense	(38,031,970)	(65,400,300)
30.	Interest margin	138,898,166	132,477,847
40.	Fee and commission income	90,620,801	86,154,885
50.	Fee and commission expense	(8,526,675)	(8,612,504)
60.	Net fee and commission income	82,094,126	77,542,381
70.	Dividends and similar income	6,453,969	7,996,901
80.	Profits (losses) on trading	2,213,643	2,025,039
100.	Profits (losses) on disposal or repurchase of:	13,699,432	22,124,216
	a) receivables	(258,114)	(2,190,918)
	b) financial assets available for sale	13,633,780	24,097,779
	c) investments held to maturity	(8)	161
	d) financial liabilities	323,774	217,194
110.	Profits (losses) on financial assets and liabilities designated at fair value through profit or loss	152	114,180
120.	Net interest and other banking income	243,359,488	242,280,564
130.	Net losses/recoveries on impairment of:	(91,891,075)	(46,485,762)
	a) receivables	(89,205,421)	(43,661,500)
	b) financial assets available for sale	(2,260,305)	(2,403,672)
	c) investments held to maturity	-	-
	d) other financial transactions	(425,349)	(420,590)
140.	Net income from financial activities	151,468,413	195,794,802
150.	Administrative expenses:	(181,564,617)	(184,764,382)
	a) personnel expenses	(99,090,206)	(97,953,754)
	b) other administrative expenses	(82,474,411)	(86,810,628)
160.	Net provisions for risks and charges	(671,851)	(6,186,708)
170.	Net adjustments to /recoveries on property and equipment	(7,368,327)	(6,583,809)
180.	Net adjustments to /recoveries on intangible assets	(1,848,253)	(1,882,549)
190.	Other operating income/expenses	20,950,554	26,820,734
200.	Operating costs	(170,502,494)	(172,596,714)
210.	Profits (losses) on investments in associates and companies subject to joint control	2,438,900	143,568
240.	Profits (losses) on disposal of investments	2,554,000	71,979
250.	Income (loss) before tax from continuing operations	(14,041,181)	23,413,635
260.	Taxes on income from continuing operations	21,762,768	(1,046,127)
270.	Net current operating profit (loss) after tax	7,721,587	22,367,508
290.	Net income (loss) for the year	7,721,587	22,367,508

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Statement of Comprehensive Income

Items	31.12.2016	31.12.2015 (*)
<i>(in euro)</i>		
10.	Net income (loss) for the year	7,721,587
	Other comprehensive income after tax without reclassification to profit or loss	
40.	Defined benefit plans	(537,405)
	Other comprehensive income after tax without reclassification to profit or loss	
100.	Financial assets available for sale	(4,990,499)
130.	Total comprehensive income after tax	(5,527,904)
140.	Comprehensive income (Item 10+130)	2,193,683

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Statement of Changes in Shareholders' Equity

Statement of Changes in Shareholders' Equity from 1 January to 31 December 2016

<i>(in euro)</i>	Balance as at 31.12.2015	Adjustment to opening balances	Balance as at 01.01.2016	Changes during the year							Shareholders' equity as at 31.12.2016		
				Allocation of result from previous year		Equity transactions			Stock options	Comprehensive income for 2016			
				Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of treasury shares				Distribution of extraordinary dividends	Change in equity instruments
Share capital	179,535,732	-	179,535,732	-	-	-	-	-	-	-	-	-	199,439,716
a) ordinary shares	179,535,732	-	179,535,732	-	-	-	-	-	-	-	-	-	199,439,716
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	307,527,281	-	307,527,281	-	-	-	-	-	-	-	-	-	383,158,533
Reserves	267,738,225	-	267,738,225	8,902,345	-	-	-	-	-	-	-	-	276,644,070
a) retained earnings	267,738,225	-	267,738,225	8,902,345	-	-	-	-	-	-	-	-	276,644,070
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	(15,302)	-	(15,302)	-	-	-	-	-	-	-	-	-	(5,527,904)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the year	22,367,508	-	22,367,508	(8,902,345)	(13,465,163)	-	-	-	-	-	-	-	7,721,587
Shareholders' equity	777,153,444	-	777,153,444	-	(13,465,163)	-	-	-	-	-	-	(213,642)	861,420,700

Statement of Changes in Shareholders' Equity from 1 January to 31 December 2015 (*)

<i>(in euro)</i>	Balance as at 31.12.2014	Adjustment to opening balances	Balance as at 01.01.2015	Changes during the year							Shareholders' equity as at 31.12.2014		
				Allocation of result from previous year		Equity transactions			Stock options	Comprehensive income for 2015			
				Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of treasury shares				Distribution of extraordinary dividends	Change in equity instruments
Share capital	152,508,440	-	152,508,440	-	-	-	-	-	-	-	-	-	179,535,732
a) ordinary shares	152,508,440	-	152,508,440	-	-	-	-	-	-	-	-	-	179,535,732
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	202,458,684	-	202,458,684	-	-	-	-	-	-	-	-	-	307,527,281
Reserves	262,856,546	-	262,856,546	8,809,072	-	(3,927,393)	-	-	-	-	-	-	267,738,225
a) retained earnings	262,856,546	-	262,856,546	8,809,072	-	(3,927,393)	-	-	-	-	-	-	267,738,225
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	1,750,639	-	1,750,639	-	-	-	-	-	-	-	-	-	(1,765,941)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the year	20,247,205	-	20,247,205	(8,809,072)	(11,438,133)	-	-	-	-	-	-	-	22,367,508
Shareholders' equity	639,821,514	-	639,821,514	-	(11,438,133)	(3,927,393)	-	-	-	-	-	20,601,567	777,153,444

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Cash Flow Statement

A. OPERATING ACTIVITIES	31.12.2016	31.12.2015
<i>(in euro)</i>		
1. Operations	88,594,965	59,027,354
- interest received (+)	176,930,136	197,878,147
- interest paid (-)	(38,031,970)	(65,400,300)
- dividends and similar income (+)	6,453,969	7,996,901
- net fee and commission income (+/-)	82,094,126	77,542,381
- personnel expenses (-)	(99,090,206)	(97,953,754)
- other costs (-)	(85,495,579)	(88,271,106)
- other revenues (+)	23,971,721	28,281,212
- taxes and duties (-)	21,762,768	(1,046,127)
- costs/revenues after tax from discontinued operations (+/-)	-	-
2. Cash flows generated/absorbed by financial assets	(556,108,164)	(81,520,002)
- financial assets held for trading	63,605,703	313,910,245
- financial assets designated at fair value through profit or loss	-	-
- financial assets available for sale	(227,159,883)	(320,761,631)
- loans to customers	(369,487,039)	(177,079,482)
- due from banks: on demand	(4,664,163)	155,751,788
- due from banks: other receivables	7,551,232	10,558,655
- other assets	(25,954,014)	(63,899,577)
3. Cash flows generated/absorbed by financial liabilities	479,699,974	166,374,616
- due to banks: on demand	32,530,209	(24,407,625)
- due to banks: other amounts due	214,013,529	147,071,876
- due to customers	793,795,846	506,192,469
- debt securities issued	(471,748,187)	(253,413,139)
- financial liabilities held for trading	(37,552,838)	(46,377,304)
- financial liabilities designated at fair value through profit or loss	28,530	(148,772,008)
- other liabilities	(51,367,115)	(13,919,653)
Net cash flow generated/absorbed by operating activities	12,186,775	143,881,968
B. INVESTMENT ACTIVITIES		
1. Cash flows generated by	5,964,260	81,734
- sales of investments in associates and companies subject to joint control	277,398	-
- dividends from investments in associates and companies subject to joint control	17,500	-
- sale of investments held to maturity	-	-
- sale of property and equipment	5,669,362	81,734
- sale of intangible assets	-	-
- sale of business branches	-	-
2. Cash flows absorbed by	(98,147,896)	(130,872,992)
- purchase of investments in associates and companies subject to joint control	-	-
- purchase of investments held to maturity	(90,497,894)	(115,668,432)
- purchase of property and equipment	(7,368,327)	(14,532,572)
- purchase of intangible assets	(281,675)	(671,988)
- purchase of business branches	-	-
Net cash flow generated/absorbed by investment activities	(92,183,636)	(130,791,258)
C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares	95,535,236	-
- issue/purchase of equity instruments	(5,524,404)	(1,762,870)
- dividend distribution and other allocations	(13,465,163)	(11,441,205)
Net cash flow generated/absorbed by financing activities	76,545,669	(13,204,075)
NET CASH FLOW FROM/USED IN ACTIVITIES DURING THE YEAR	(3,451,192)	(113,364)
(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.		
RECONCILIATION	31.12.2016	31.12.2015 (*)
Cash and cash equivalents at the beginning of the year	62,622,180	51,172,669
Cash from the merger of Banca Popolare di Marostica and Banca di Treviso	-	11,562,875
Net cash flow from/used in activities during the year	(3,451,192)	(113,364)
Cash and cash equivalents: impact of exchange differences	-	-
Cash and cash equivalents at year end	59,170,988	62,622,180
(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.		

NOTES TO THE ACCOUNTS

PART A ACCOUNTING POLICIES

A.1 GENERAL PART

Section 1 STATEMENT OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

These financial statements, in application of Italian Legislative Decree No. 38 of 28 February 2005, are drafted in accordance with the international accounting standards IAS/IFRS enacted by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and are approved by the European Commission, in accordance with the procedures established by EU Regulation No. 1606 of 19 July 2002.

The approved international accounting standards in effect as at 31 December 2016 were applied in the preparation of the financial statements, including the interpretative documents known as SIC and IFRIC.

For an overview on the standards approved during 2016 or those approved in previous financial years, whose application is prescribed or permitted for 2016, please refer to “Section 4 – Other Aspects” below where the principal impacts on the Company are also illustrated.

In addition, the financial statements as at 31 December 2016 were drafted on the basis of “Instructions for drafting company financial statements and the consolidated financial statements of banks and financial parent companies of banking groups” issued by the Bank of Italy, by means of Ruling dated 22 December 2005, which provides, among other things, for the obligation to prepare the financial statements in accordance with the instructions contained in Circular No. 262 of 22 December 2005 “Bank financial statements: formats and compilation regulations”, and subsequent updates. These Instructions impose requirements on what schedules to use for the financial statements and how to compile them, along with the contents of the Notes to the accounts.

Section 2 BASIS OF PREPARATION

The financial statements are composed of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement, and the notes to the accounts and are accompanied by the Directors' Report on operations and on the capital and financial situation of Banca Popolare • Volksbank.

These financial statements were drafted adopting the Euro as the reporting currency.

The amounts in the financial statements are expressed in Euro, whereas the data reported in the tables of the notes to the accounts are expressed – when not indicated otherwise – in thousands of Euro.

Based on the applicable provisions, the financial statements must be drafted with clarity and provide a true and fair view of equity, income and the financial position for the year. If the information required by the international accounting standards and by the instructions contained in the cited Circular are deemed unsatisfactory to provide a true and fair view, additional information necessary for that purpose is provided in the notes to the accounts.

Should, in exceptional cases, the application of a provision envisaged by international accounting standards be incompatible with the true and fair view of equity, income and the financial position, it is not applied. In this case, the justifications for any exemption and the influence thereof on the representation of equity, income and the financial position are explained in the notes to the accounts.

These financial statements are drafted in compliance with the following general principles:

- **Going concern:** the financial statements are drafted assuming that the Bank will continue as a going concern;
- **Accrual basis accounting:** the financial statements are drafted according to the accrual principle, irrespective of the date of settlement;
- **Consistency of presentation:** the presentation and classification of the items in the financial statements is constant from one financial year to the next, except when a principle or an interpretation requires a change in the presentation or in which another presentation or classification is deemed more appropriate making allowance for the provisions of IAS 8. In the latter case, the disclosure regarding the changes made with respect to the previous year is provided in the notes to the accounts;

- **Materiality and aggregation:** The balance sheet and income statement formats consist of items (marked by Arabic numerals), of sub-items (marked by letters), and of further details for information purposes (the “of which” entries of the items and of sub-items). The items, the sub-items and added details make up the financial statement accounts. The formats comply with those defined by the Bank of Italy in the cited Circular No. 262 of 22 December 2005 and subsequent updates. New items may be added to the above-mentioned formats if their content cannot be attributable to any of the items already envisaged by the formats and only if significant amounts are involved. The sub-items envisaged by the formats may be grouped together when one of the following two conditions are met:
 - a. the amount of the sub-items is negligible;
 - b. this grouping helps clarify the financial statements; in this case, the notes to the accounts distinctly contain the sub-items subject to grouping.

Accounts that have no associated sums for the current and previous financial years are not indicated in the balance sheet or in the income statement.

- **Principle of substance over form:** transactions and other events are recorded and represented in conformity with their substance and economic reality and not only in accordance with their legal form;
- **Offsetting:** assets and liabilities, and income and costs are not offset unless this is allowed or required by an international accounting standard or by an interpretation thereof or prescribed by the aforementioned Bank of Italy Circular;
- **Comparative information:** for each balance sheet and income statement item, comparative information relative to the previous financial year is provided, unless an accounting standard or an interpretation does not allow it or prescribes otherwise. The data relative to the previous financial year may be appropriately adapted, where necessary, to guarantee comparability of the information relative to the current financial year. Any non-comparability, adaptation or the impossibility to adapt the information are indicated and commented on in the notes to the accounts.

The notes to the accounts are broken down into parts. Each part of the notes is subdivided into sections, each of which illustrates an individual aspect of operations.

In relation to the indications in Document No. 2 dated 6 February 2009 issued jointly by the Bank of Italy, Consob and ISVAP, and subsequent amendments, the Company reasonably expects to continue operations in the foreseeable future and has therefore drawn up the financial statements on the assumption of going concern, also taking into account the uncertainties resulting from the current economic context.

Uncertainties associated with the use of estimates

The application of certain accounting standards entails using estimates and assumptions that have an effect on the values of assets and liabilities reported in the financial statements and on the disclosure provided on potential assets and liabilities.

For the purpose of formulating reasonable estimates and assumptions for recognising operating transactions, they are formulated by subjective assessments based on the use of all available information as well as of the assumptions considered reasonable in view of historical experience.

In particular, the use of subjective assessments is required more by company management in the following cases:

- quantifying impairment of financial assets, especially for loans and financial assets available for sale;
- determining the fairness of the value of equity investments;
- determining the fair value of the financial instruments to be used for reporting purposes in the financial statements and the use of valuation models for determining the fair value of financial instruments not listed in active markets;
- determining the fair value of financial assets and liabilities when it is not readily available on capital markets. In this case, the discretionary elements lie in the choice of valuation models or input parameters which might not be observable on the market;

- determination of the impairment of property and equipment and intangible assets, including goodwill;
- quantifying the provisions for risks and charges, pension funds, petition uncertainty, contingency timeframes and actuarial assumptions used;
- estimates of the recoverability of deferred tax assets.

The valuation processes listed above are provided only to enable the reader to have a clearer understanding of the main areas of uncertainty and it is not meant in any way to suggest that alternative assumptions might be appropriate under current conditions.

Moreover, the valuations in the financial statements were made based on the going concern assumption, since there are no risks that might jeopardise the ordinary operations of the Bank. The disclosure regarding risks, with particular reference to liquidity risk, is contained in “Part E – Information on risks and related hedging policies”.

Section 3 SUBSEQUENT EVENTS

Year-end closing of the option right for withdrawing shareholders

On 27 January 2017, as part of the transformation into a joint-stock company, the Board of Directors assessed the withdrawal declarations received, acknowledged the final number of withdrawing shareholders, assumed the appropriate resolutions on the terms of the procedure to exercise the option and redemption right, as well as placed the withdrawn shares with third parties.

Shareholders who did not exercise the withdrawal right were able to exercise the option and redemption right in the period between 13 February and 17 March 2017, inclusive, at the price of Euro 12.10.

The withdrawal right ensuing from the transformation from a cooperative bank into a joint-stock company, resolved by the Extraordinary Shareholders' Meeting of 26 November 2016, was validly exercised for a total of 2,645,288 ordinary shares, equivalent to 5.31% of share capital. The total value of withdrawn shares, valued at a withdrawal price of Euro 12.10 per share, was Euro 32,007,984.80

Pursuant to art. 2437-quater of the Italian Civil Code, the withdrawn shares will be offered in option to shareholders of Banca Popolare - Volksbank that did not exercise the right of withdrawal, in proportion to the number of ordinary shares owned, at the price of Euro 12.10 per share, and in the ratio of 1 share for each 17.848582 owned.

If requested by shareholders of Banca Popolare dell'Alto Adige at the same time they exercise their option right, they may also have the right of redemption in purchasing withdrawn shares that remain unopted. Any shares that may remain at the end of the option and redemption exercise period may eventually be placed with parties that requested as such.

Section 4 OTHER ASPECTS

Terms for the approval and publication of the financial statements

Art. 135-sexies of Italian Legislative Decree 59/98 (Consolidated Law on Finance) prescribes that the financial statements be approved and the annual financial reports containing the financial statements, the Directors' Report, and the certification under art. 154-bis, paragraph 5 be published within one hundred twenty days after the close of the financial year.

The draft financial statements were approved by the Board of Directors' meeting on 10 February 2017.

Independent audit

The financial statements are subject to audit by the company BDO Italia S.p.A. in accordance with Italian Legislative Decree 58/98, in fulfilment of the mandate conferred upon said company for the 2010-2018 period by means of shareholder's resolution dated 20 April 2010. The full audit report is published together with the annual financial report, pursuant to art. 135-septies of Italian Legislative Decree 58/98.

Amendments to the accounting standards approved by the European Commission

The table below lists the new international accounting standards or the amendments to accounting standards already in force, with the relevant approval regulations by the European Commission, with obligatory application starting - for financial statements drawn up in accordance with the calendar year - from 1 January 2016 or subsequently.

Standard	Description	Effective date	Approval date	Publication date
IFRS 9	Financial Instruments. Issued on 24 July 2014	01/01/2018	22/11/2016	29/11/2016
IFRS 15	Revenue from Contracts with Customers. Issued on 28 May 2014. Includes amendments to IFRS 15. Effective date of IFRS 15. Issued on 11 September 2015.	01/01/2018	22/09/2016	29/10/2016
IFRS 10, IFRS 12, and IAS 28	Amendments to IFRS 10, IFRS 12, and IAS 28: Investment Entities – Applying the Consolidation Exception. Issued on 18 December 2014.	01/01/2016	22/09/2016	23/09/2016
IAS 27	Amendments to IAS 27: Equity Method in Separate Financial Statements. Issued on 12 August 2014	01/01/2016	18/12/2015	23/12/2015
IAS 1	Amendments to IAS 1. Disclosure Initiative. Issued on 18 December 2014.	01/01/2016	18/12/2015	19/12/2015
Various IFRSs	Annual IFRS improvements - 2012-2014 Cycle Issued on 25 September 2014	01/01/2016	15/12/2015	16/12/2015
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38. Clarification of Acceptable Methods of Depreciation and Amortisation. Issued on 12 May 2014.	01/01/2016	02/12/2015	03/12/2015
IFRS 11	Amendments to IFRS 11. Accounting for Acquisitions of Interests in Joint Operations. Issued on 6 May 2014	01/01/2016	24/11/2015	25/11/2015
IAS 16 and IAS 41	Amendments to IAS 16 and IAS 41. Bearer Plants. Issued on 30 June 2014	01/01/2016	23/11/2015	24/11/2015

In relation to the above, no significant impacts have been noted for the purpose of drafting this Financial Report. Detailed below are the new international accounting standards, or amendments to standards already in force, but not yet approved as at 31 December 2016.

Standard	Description	IASB eff. date
IFRS 14	Regulatory Deferral Accounts (published on 30 January 2014). The European Union has decided not to begin the process of endorsing this standard in the current version, instead waiting for the final version of the standard.	01/01/2016
IFRS 16	Leases (published on 13 January 2016)	01/01/2019

Standard	Description	IASB eff. date
IFRS 10 - IAS 28	Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (published on 11 September 2014)	Indefinitely deferred
IAS 12	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (published on 19 January 2016)	01/01/2017
IAS 7	Amendments to IAS 7: Disclosure Initiative (published on 29 January 2016)	01/01/2017
IFRS 15	Clarifications on IFRS 15 Revenue from Contracts with Customers (published on 12 April 2016)	01/01/2018
IFRS 2	Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (published on 20 June 2016)	01/01/2018
IFRS 4	Amendments to IFRS 4: Application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts (published on 12 September 2016)	01/01/2018
Various IFRSs	Annual improvements to IFRS standards - 2014-2016 Cycle (published on 8 December 2016)	01/01/2018
IFRIC 22	IFRIC 22 - Foreign Currency Transactions and Advance Consideration (published on 8 December 2016)	01/01/2017
IAS 40	Amendments to IAS 40: Transfers of Investment Property (published on 8 December 2016)	01/01/2018

IFRS 9: new accounting standard on financial instruments

Essential points of the accounting standard

The new IFRS 9 accounting standard, issued by the IASB in July 2014, will replace IAS 39, effective 1 January 2018, which currently governs the classification and measurement of financial instruments. IFRS 9 was approved by the European Commission with EU Regulation no. 2016/2067 of 22 November 2016.

The new accounting standard prescribes aspects of classification and measurement, impairment, and hedge accounting for financial instruments.

IFRS 9 thoroughly updates the methods of initial classification of financial assets, envisaging, for each instrument, the identification of characteristics of contractual cash flows and requiring entities that apply the standard to define the management model of the framework in which the instrument is held.

As a result of this new structure, accounting categories into which the financial instruments are classified were also modified. IFRS 9 provides for three categories: assets measured at amortised cost, assets measured at fair value with changes recognised to the income statement, and assets measured at fair value with changes recognised to shareholders' equity. For the latter two categories, it is envisaged that, in the event of sale, the positive or negative reserve that accumulated over the instrument's life will be transferred to the income statement. This recognition must be made in coherence with the characteristics of the instrument's cash flow and with the defined management model.

Financial assets may be recognised at amortised cost or at fair value with changes recognised to shareholders' equity only if the instrument passes a test to ascertain the characteristics of the instrument's contractual cash flow. In specific cases, such as for example, for equity instruments, the measurement is always at fair value with changes recognised to shareholders' equity, unless the entity, upon initial recognition, makes the irrevocable decision, for shares not held for trading purposes, to present the changes in value in an equity reserve that will never be transferred to the income statement, even upon sale of the financial instrument. This is also the case for those instruments that do not pass the cash flow test.

The classification and measurement of financial liabilities has not been substantially changed with respect to the framework envisaged in IAS 39. In the specific instance of financial liabilities designated at fair value (for which the issuer exercised the fair value option), the fair value changes attributable to changes in the issuer's credit risk ("own credit risk") are recognised in shareholders' equity, while the effects of fair value changes in liabilities not due to changes in own credit risk are recognised in the income statement.

For instruments recorded at amortised cost and those designated at fair value with a contra-entry in shareholders' equity, a valuation model is introduced based on the concept of expected loss, in place of the current model based on incurred loss. This new model introduces the obligation of also considering future losses, then developing a forecast of expected changes in impairment losses on said instruments.

IFRS 9 envisages various risk levels, known as "stages", indicating for each of these the valuation time horizon. For all financial instruments, expected losses in the subsequent 12 months ("Stage 1") must be included at initial recognition. If, after initial recognition, the financial instrument suffers a "significant" deterioration in credit risk, the expected loss will be calculated over a time horizon coinciding with the entire residual life of the asset being measured ("Stage 2").

The new hedge accounting model simplifies verification obligations associated with the accounting for specific hedge transactions, and strengthens the link between hedge accounting representation and risk management objectives identified at the time the hedge is recorded, providing for greater disclosure on risk management activities undertaken by the entity. These changes do not apply to "macro-hedges", which are currently not included in approved version of IFRS 9.

Supervisory authorities, especially in the banking and financial sector, are analysing IFRS 9 with special attention. In December 2015, the Basel Committee issued the "Guidance on Accounting for Expected Credit Losses", that sets the objective of defining "sound credit risk practices" that can support the measurement of expected losses, focusing the attention on 11 "principles" around which the document is structured.

The Basel Committee emphasises the relevant expectations that supervisors set for the ability of the banking system to adequately implement the requirements of the new standard. Banca Popolare - Volksbank has launched a specific project to ensure adequate training within the Bank for all business structures that will be directly involved in its implementation, defining its qualitative and quantitative impacts, as well as identifying and taking the necessary actions for complete adoption of the new provisions.

Implementation project

Banca Popolare - Volksbank, together with its supplier of IT services, SEC Servizi, defined a structure of the IFRS 9 Project, to pro-actively support and facilitate the phases of identifying user requirements, defining the methodology framework, designing target solutions, as well as subsequent implementation within the scopes of responsibility. In particular, the project has the primary objective of guiding the gathering and standardisation of the Bank's user requirements and, more generally, harmonising methodologies and processes as the result of a pro-active approach, optimising implementation costs and timing. For this purpose, an end-to-end project was communicated, including through SEC, as well as the relative modular work plan for the components of assessment and design of this transition programme. Certain key aspects of the assessment and design components take on particular significance currently, as they characterise the project approach and the highly-valued synergies.

The project was developed following the guidelines on which the standard is structured: classification and measurement (C&M) and impairment. For each guideline, the same methodological approach is used, divided into the following three macro-stages of activities: preliminary analysis and decisions (primarily accounting and model), IT simulations and target operating model design, and impact development and analysis.

The plan provides for the following stages:

- **Bank assessment:** accounting and risk diagnostics, portfolio review and information gap analysis to guide the project setup;
- **Accounting handbook:** design and updating of accounting policies, updating of financial reporting process, definition of SPPI methodology and related testing, model for measuring amortised cost and fair value;
- **New impairment methodology:** definition of the methodology framework in relation to stage allocation, multi-period PD-LGD-EAD, method of converting parameters from TTC to PIT, introduction of forward-looking factors;
- **Detailed business requirement and functional specifications:** definition of functional specifications for IT implementations, through progressive early releases to SEC beginning in December 2016;
- **Adapt processes, policies, products and IT solution releases:** completion of actions (including Target Operating Model, validation of models, tax issues, etc.) and release in production of IT solutions for subsequent go-live.

Project governance activated a "Control Room" consisting of a Steering Committee, Operations Committee, and a PMO Support Team. The Steering Committee envisages the permanent participation of the CRO, CFO and COO of the Banks, as well as the Information Systems Manager from SEC Servizi, with the support of project leadership from the external consultant. Furthermore, the Loans, Finance, and Sales areas are expected to be involved on an "on-call" basis. SEC Servizi's information systems structure ensures the link between project governance (Steering Committee and Control Room) and the BoD of SEC Servizi, to which any solutions will be presented.

Participants in the Operations Committee, designated by the managers within the Steering Committee, are managers of the departments that are most involved in the project, with appropriate managerial competencies and able to represent all internal departments involved in the shared initiative and discuss project issues that interest the Bank and SEC. The Operations Committee is responsible for finding the most suitable and advantageous solutions with respect to the Bank's needs. Specific requirements/requests that entail potential re-planning or the development of ad hoc solutions are appropriately documented to activate subsequent project stages.

In reference to expected effects of the new standard, with regard to the C&M guidelines, the initial analyses conducted indicate no significant impacts for the securities area, under the current business model, from the first application. For the derivatives area, both for trading and hedging, no substantial effects from either reclassification or measurement, including considering the limited size of the Bank's derivative portfolio.

With regard to loans, an analysis was launched, considering the size of the individual portfolios. For the impairment guidelines, specific project steps were developed for both lending transactions as well as securities transactions. The preliminary analysis studied the following key topics:

- staging (elements that may or must result in passage from Stage 1 or Stage 2, or vice versa, in relation to performing loans or securities);
- cash flows, as part of the calculation for expected losses, especially lifetime cash flows;
- definition of the framework to be used in defining the model for calculating expected loss.

In addition, thematic working groups were established, based on the standard's guidelines.

The principal organisational impacts involve the review and adaptation of existing operating processes, design and implementation of new processes, as well as the review of the breadth and depth of skills available in various departments, in terms of both operations as well as administration and control.

Specifically, actions associated with the classification and measurement guidelines regard, firstly, Credit Management, Market, and Operations, in order to identify and define the business model as well as the management and monitoring of activities relative to the SPPI test.

With regard to impairment guidelines, effective oversight of loan impairment represents one of the primary objectives that the Bank is pursuing in adopting the IFRS 9 standard, especially - in the context of new accounting regulations - in terms of preventing the potential passage from Stage 1 to Stage 2, in order to limit the effects from the application of lifetime expected loss for the loss forecasted at 12 months.

Adaptations to systems involve both the development in existing procedures of functionality required to comply with new IFRS 9 requirements, as well as identification and creation/integration of new software applications necessary for a more efficient and effective management of the issues addressed in IFRS 9.

Based on initial analyses that have been conducted, certain potential impacts have been identified that could result from the application of IFRS 9. These include:

- a possible increase in the volume of FVTPL securities due to instruments that fail the SPPI test and are currently classified as AFS or L&R, or non-trading equity securities for which the OCI option is not exercised (reclassified from AFS);
- possible impact on failure of the SPPI test and, in addition, the need to perform the benchmark test on a considerable portion of the loan portfolio;
- possible impacts on provisions under various scenarios:
 - possible impacts relative to impairment on the value of loan loss provisions (LLPs) of the performing portfolio (the perimeter includes, firstly, the items of the financial statements involved in the calculation of LLP under IAS 39, or Loans & Receivables (L&R); the items potentially affected include guarantees and commitments as well as non-utilised margins);
 - possible impacts on the valuation of securities portfolios, both for the AFS and HTM components. Other possible impacts could result from any new classification of Fair Value Through Profit and Loss (FVTPL) of any exposures of the loan portfolio and securities portfolio.

Possible organisational impacts were identified in the following operating areas of the Bank:

- business management: review of the process to create new products to consider implications of IFRS 9, review of the product catalogues, adjust pricing logic to new IFRS 9 concepts;
- classification and measurement: manage portfolios based on the business model; SPPI test tool (including benchmark test), calculation of amortised cost, calculation of fair value;
- accounting management: method of recognising financial instruments based on new IFRS 9 categories, review and update of the accounting manual;
- performance measurement: verify remuneration to structures in consideration of fluctuations in FV (especially for loans measured at FV), review of the performance measurement process from the perspective of IFRS 9;
- valuation: impairment calculation, stage allocation, expected losses;

- credit risk control: development and continuous verification of lifetime expected loss data (e.g., credit parameters), valuation of credit risk from fluctuations in FV at inception;
- reporting: update the account matrix, manage new and more complex disclosures and notes to the accounts of the financial statements (focus on transfer criteria), any impacts on reports and the supervisory process.

Contributions to deposit guarantee schemes and to resolution mechanisms

By Directives 2014/49/EU of 16 April 2014 and 2014/59/EU of 15 May 2014, respectively known as the “Deposit Guarantee Schemes Directive (DGS)” and “Bank Recovery and Resolution Directive (BRRD)”, and the establishment of the Single Resolution Mechanism (SRM; EU Regulation 806/2014 of 15 July 2014), the European legislator imposed significant changes on bank crises regulations, with the strategic aim of strengthening the single market and system stability. As better illustrated below, these newly introduced provisions have a significant impact on the financial position in relation to the mandatory setup of specific funds with financial resources that must be provided in the form of contributions paid by the credit institutions.

Directive 2014/49/EU - Deposit guarantee schemes (DGS)

In order to ensure suitable management of credit institution insolvency and the negative effects on financial stability and depositor trust, Directive 2014/49/EU not only envisages a depositor reimbursement function, but also sufficient flexibility for member states to allow the DGS to implement measures that limit the likelihood of future claims for reimbursement made to these schemes.

In principle, the Directive envisages that all credit institutions participate in an approved DGS to ensure a high level of consumer protection and fair competition terms between credit institutions and to avoid regulatory arbitrage.

The Directive also states that a DGS, where permitted under national law, can also go beyond the mere reimbursement function and use available financial means to avoid the insolvency of a credit institution, so as to avoid the costs of reimbursement to depositors and other negative effects.

The deposits coverage level is determined with the aim of guaranteeing consumer protection and financial system stability, and is borne by each participating credit institution.

The fund financing mechanism involves an ex-ante contribution system in which the contributions must be paid in advance until a target minimum level, equal to 0.8% of deposits covered, is reached, within 10 years of entry into force of the Directive (by 3 July 2024).

The contributions are calculated as a ratio between the total deposits of the individual institution and the total deposits protected in the related member state. The contribution to be made can include up to a maximum 30% of payment commitments with low-risk asset-backed guarantees, unencumbered by third party rights.

A gradual reduction is also expected to be implemented in the reimbursement payment terms to depositors. In three steps, the DGS must be able to guarantee such payment within 7 business days rather than the current 20. The total coverage, if funds are unavailable, is Euro 100,000 per depositor, adopting the principle by which it is the depositor - not the individual deposit - that is protected.

The Directive in question forms part of the Banking Union framework, as demonstrated in the aforementioned provision envisaging the use of funding obtained, not only to reimburse depositors but also for the resolution of credit institution crises, in compliance with Directive 2014/59/EU (BRRD). Powers are also assigned to the European Banking Authority (EBA) to coordinate and verify the solidity of DGSs.

With its letter of 21 November 2016, Protocol no. 209, the Board of the Inter-Bank Deposit Protection Fund established that the total contribution from member banks for 2016 would be Euro 449.2 million, broken down as follows:

- an ordinary contribution of Euro 348.8 million;
- an additional contribution of Euro 384.1 million;
- allocation to the Solidarity Fund of Euro 100 million.

With its note of 13 December 2016, the Inter-Bank Deposit Protection Fund communicated the amount of the 2016 ex-ante contribution of Banca Popolare - Volksbank, which amounted to Euro 2.4 million, fully recognised in the income statement for the year.

Directive 2014/59/EU - Bank Recovery and Resolution Directive (BRRD)

Directive 2014/59/EU of the European Parliament and Council, issued on 15 May 2014 and published in the Official Journal of the European Union on 12 June 2014, harmonises procedures for crisis resolution for credit institutions and investment firms.

Member States had to implement the Directive by 31 December 2014. In parallel, a regulation was approved that establishes a system centralised at European level for the management of bank crises. The regulation will be applied directly. Its scope of application includes “participating” Member States, i.e. those with the Euro as their currency, and the “non-participating” Member States that have established close relations with the ECB pursuant to art. 7 of Regulation (EU) 1024/2013 on the Single Supervisory Mechanism.

Among the new aspects introduced by the Directive is the expectation that bail-outs of banks in difficulty, previously borne by the state budget, is now the responsibility of their shareholders, bondholders and creditors (so “bail-ins”). Crisis prevention is based on the setup, by the bank and the supervisory authority respectively, of a recovery plan and a resolution plan, and on the authority’s assessment of the bank’s “resolvability”.

For bail-ins, intervention by the resolution fund could be envisaged to level out losses or to recapitalise the bank (therefore allowing a reduced credit “haircut”). This is possible only if at least 8% of liabilities were previously covered by capital and liabilities subject to bail-in. The fund’s contribution cannot be more than 5% of the total liabilities.

As is known, the Directive is based on the principle that the costs of the bank crisis must be incurred first and foremost by the shareholders (reducing the share capital to zero) and then by its creditors (using write-down and bail-in approaches). Operating alongside these, as mentioned previously, is the resolution fund, financed through annual contributions from the same entities that could become subject to resolution. The target level is set at 1% of total deposits guaranteed by the country’s authorised banks, to be achieved in 10 years.

The contributions of each entity are calculated as a ratio between the entity’s total liabilities (net of own funds and protected deposits) and the total liabilities of all authorised credit institutions in that Member State. As for the DGSs, in order to achieve the target level the financial means provided by the credit institutions can include up to a maximum of 30% of payment commitments with low-risk asset-backed guarantees, free from encumbrance. Italian Legislative Decrees 180 and 181 of 16 November 2015 provided the rules for the implementation of Directive 2014/59/EU into Italian law.

Italian Legislative Decree 180/2015 (the “BRRD Decree”) mainly covers the provisions of the BRRD on resolution, whilst the second decree (the “Amendments Decree”) amends the Consolidated Banking Law (Italian Legislative Decree no. 385 of 1 September 1993 or “TUB”) and the Consolidated Law on Finance (Italian Legislative Decree no. 58 of 24 February 1998 or “TUF”) to implement the BRRD provisions on recovery plans and introduce further amendments associated with the new resolution system.

The BRRD Decree assigns the exercise of resolution powers to the national resolution authority, which in Italy has been identified as the Bank of Italy. In the event of collapse or risk of collapse of an entity and if other required conditions are met, together with prior approval from the Ministry of Economy and Finance, the Bank of Italy adopts a resolution plan which - amongst other things - identifies the specific resolution measures that can be applied, also defining the methods for recourse to the resolution fund if necessary.

On 24 November 2015, following set up of the National Resolution Fund, the Bank of Italy defined the calculation methods for the annual contribution due from each bank. In particular, the annual percentage contributions were calculated on the basis of total liabilities net of own funds and protected deposits. The baseline contribution was adjusted according to the risk profile of the intermediaries. The risk adjustment can result in a discount (of a maximum 20%) or a penalty (of up to 50%) to be applied to the baseline contribution.

The amount of the ex-ante contribution payable by Banca Popolare - Volksbank was Euro 2.1 million, which was communicated in the notes of 4 May 2016 and 27 May 2016.

In addition, on 29 December 2016, Bank of Italy announced that, due to the financial requirements of the National Resolution Fund associated with the resolution interventions in the crises related to Banca delle Marche S.p.A., Banca Popolare dell'Etruria e del Lazio S.c.p.a., Cassa di Risparmio della Provincia di Chieti S.p.A., and Cassa di

Risparmio di Ferrara S.p.A. (all already under extraordinary administration), it was necessary to arrange collection of the extraordinary contribution, fixed at double the amount of the 2016 annual contribution. The amount payable for the year by Banca Popolare - Volksbank was Euro 4.1 million.

Domestic tax consolidation option

Banca Popolare - Volksbank has opted, together with the subsidiaries Voba Invest S.r.l. in liquidation and Valpolicella Alta Società Agricola S.r.l., for the application of the group taxation regime (tax consolidation) pursuant to arts. 117 et seq. of Italian Pres. Decree No. 917/86.

Dealings between these companies have been regulated by means of a private agreement signed by the parties in June 2014 for the three-year period 2014-2016.

This tax regime permits individual subsidiaries participating in tax consolidation, after having calculated the tax owed, to transfer the corresponding taxable income (or tax loss) to the parent company, who will calculate - making the adjustment for the intercompany interest expense provided regarding the deductibility of interest expense - a consolidated taxable income or tax loss, as the algebraic sum of its own income/losses and of the individual subsidiaries forming part of the consolidation, with identification of the tax credit or debit with respect to the Inland Revenue Authorities.

The offsetting of the transfers resulting from the tax gains and losses between the parent company and the subsidiaries are governed by specific agreements. These transfers are calculated by applying the IRES rate in effect to the taxable amounts of the companies involved. With respect to companies with tax losses, the offsetting, calculated as set out above is recognised by the parent company to the subsidiary for the losses realised after joining the domestic tax consolidation regime, where said losses form part of the consolidated taxable amount. Losses realised prior to joining the domestic tax consolidation must be offset in the consolidated entity's own taxable amounts in accordance with tax regulations in effect.

A.2 INFORMATION ON THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

The financial statements as at 31 December 2016 were prepared applying the same accounting standards used for drafting the previous year's financial statements, supplemented with the amendments approved and in force starting from the 2016 financial year, indicated in "Section 4 – Other Aspects - A. 1 – General Information".

The main accounting standards applied, described in detail by financial statement item, are listed below.

1. *Financial assets held for trading*

Recognition criteria

Initial recognition occurs on the settlement date for the debt securities and equity instruments and on the date of subscription for derivative contracts. At the time of the initial recognition, financial assets held for trading are recorded at fair value, without taking into account the transaction costs or proceeds directly attributable to the instrument itself.

Any derivatives implicit in these instruments that are not strictly correlated to them and that satisfy conditions that define derivatives, are separated from the primary contract and measured at fair value. The relevant accounting treatment is applied to the primary contract.

Classification criteria

This classification includes all financial assets (debt securities, equity securities, mutual investment fund units, loans and derivatives, etc.) held for trading, therein including derivatives related to assets/liabilities designated at fair value and derivatives separated on an accounting basis from the underlying structured financial instrument when the unbundling requirements have been met.

A derivative contract is a financial instrument whose value is related to the progression of an interest rate, the performance of a financial instrument, the price of a good, a currency exchange rate, a price or rate index or other indexes; it is settled on maturity and requires a limited initial net investment.

Derivative contracts embedded in complex financial instruments must be separately recognised when the following conditions are met:

- their economic characteristics and risks are not strictly correlated with the characteristics of the underlying contract;
- the embedded instruments, even if separate, satisfy the definition of a derivative;
- the hybrid instruments of which they are part are not carried at fair value with the relevant variations recognised in the income statement.

Reclassifications to other financial asset categories are not allowed unless other unusual events occur and it is very unlikely they will reoccur in the short term, except for the cases specifically envisaged by IAS 39. In these cases, debt and equity securities no longer held for trading may be reclassified to other categories defined by IAS 39 whenever the conditions for recognition are met (investments held to maturity, financial assets available for sale, and loans).

The transfer value is represented by the fair value at the time of reclassification. During reclassification, checks are performed to detect the presence of any embedded derivative contracts to be separated.

Valuation criteria

Following initial recognition, financial assets held for trading are recorded at fair value at the reference date. The effects of the valuation are recorded in the income statement.

To determine the fair value of the financial instruments listed on an active market, reference is made to market prices, normally corresponding to the bid price at the closing date. In the absence of an active market, prices from information providers, such as Bloomberg, are used, or valuation models that take into account all risk factors correlated with the instruments and based on data obtainable on the market, such as: methods based on the valuation of instruments that have similar characteristics (comparables method); discounted cash flow calculations; models for determining option prices; values recognised in recent comparable transactions (“recent transactions” method).

Whenever approaches indicated above cannot be used, appraisal methods and valuation models are adopted that also consider inputs not directly observable on the market.

Equity securities and the correlated derivative instruments, for which it is impossible to reliably determine the fair value, are retained at cost and written down in case of impairment losses. Such impairment losses cannot be subsequently reversed.

Derecognition criteria

Financial assets are derecognised when the contractual rights to cash flows deriving from the assets themselves expire or when the financial assets are transferred, with the substantial transfer of all related risks and rewards.

On the other hand, whenever a significant portion of the risks and rewards relevant to the financial assets sold have been retained, they continue to be recorded in the financial statements, even though legally the ownership of said assets has actually been transferred.

If it is impossible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised in the financial statements whenever no control of any type has been retained over them. Otherwise, the preservation, even partial, of control entails retention of the assets in the financial statements at a value equal to the residual interest, measured by the exposure to changes of value of the assets sold and changes in their cash flows.

Lastly, the financial assets sold are derecognised from the financial statements if the contractual rights to receive the related cash flows have been retained, with the simultaneous assumption of an obligation to pay said flows, and only them, to other third parties.

Income recognition criteria

Profits and losses from trading and capital gains and losses from valuation of the trading portfolio are recorded in the income statement under item “80. Profits (losses) on trading”, with the exception of those relative to derivative instruments associated with the fair value option, which are classified under item “110. Profits (losses) on financial assets/liabilities designated at fair value through profit or loss”. Interest income and dividends are recognised under the following income statement items: “interest and similar income” and “dividends and similar income” respectively.

2. Financial assets available for sale

Recognition criteria

Initial recognition takes place on the settlement date for debt securities and equity instruments and, for loans, on the date they were disbursed.

At the time of initial recognition, the assets are recorded at fair value, which normally corresponds to the consideration paid, including the transaction costs or proceeds directly attributable to the instrument itself.

Financial assets recognised in this category after reclassification of investments held to maturity are recorded at their fair value as at the date of reclassification.

Classification criteria

This category includes non-derivative financial assets not classified as loans, financial assets held for trading, investments held to maturity, and assets designated at fair value through profit or loss.

In particular, this item includes debt securities not subject to trading and not classified in the other portfolios cited above, equity investments not managed for trading purposes and not qualifiable as investments in subsidiaries, associates and joint ventures, including private equity investments, the shares of subscribed syndicated bank facilities which, from the beginning, are meant to be sold.

In cases permitted by the accounting principles, reclassifications are only permitted to the category of investments held to maturity. In addition, debt securities can be reclassified to both the investments held to maturity and the loans and receivables categories, when there is the ability and intent to hold the instrument for the foreseeable future and when the conditions for recognition provided under IAS 39 have been met. The transfer value is represented by the fair value at the time of reclassification. The fair value of the instrument at the reclassification date becomes the new cost or amortised cost depending on the situation.

Valuation criteria

Following initial recognition, financial assets available for sale continue to be designated at fair value, with the change in value resulting from application of the original effective interest rate (known as “amortised cost”) recognised in profit or loss, whereas any gains or losses resulting from a change in fair value are recognised in a specific reserve under shareholder’s equity until the financial asset is derecognised or an impairment loss is recorded.

Fair value is determined based on the criteria previously illustrated for financial assets held for trading.

Equity securities and UCIT units for which there is no price available on an active market and for which the fair value may not be measured reliably, and related derivatives that must be paid by delivery of the aforesaid instrument, are kept at cost and written down in the event of impairment.

Financial assets available for sale undergo impairment testing to identify objective evidence of impairment. If such evidence exists, the amount of the loss is measured as the difference between the purchase cost of the asset and the fair value having deducted any impairment loss previously recognised in the income statement. In the case of impairment, and when being divested, the accumulated loss recognised in the equity reserve is removed from that reserve and charged to the income statement.

As regards equity securities, a significant or prolonged reduction of fair value below the carrying amount is evidence of impairment.

If there is a difference between the fair value and the carrying amount, this in itself is insufficient reason for recognition of an impairment loss. This evidence is simply a first sign of a possible impairment, which must however be supplemented by a qualitative analysis, aimed at identifying possible negative events, that might imply the assets’ carrying amount is not fully recoverable.

If the reasons that led to recognition of the impairment loss cease to apply following an event occurring after the recognition, a write-back is recorded in the income statement if it refers to debt securities or loans, or to a specific reserve under shareholder's equity for equity securities. For debt securities and loans, this reversal of the impairment loss does not in any case result in a carrying amount greater than what the amortised cost would have been had the loss not been recognised.

Derecognition criteria

The financial assets available for sale are derecognised in the financial statements when the contractual rights to the cash flows resulting from the assets expire or if the sale leads to the substantial transfer of all risks and rewards associated with the assets themselves.

On the other hand, if a significant portion of the risks and rewards relevant to the financial assets sold has been retained, they continue to be recorded in the financial statements, even though legally the ownership of said assets could have been transferred to third parties.

If it is impossible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised in the financial statements whenever no control of any type has been retained over them. Otherwise, the preservation, even partial, of control entails retention of the assets in the financial statements at a value equal to its residual interest, measured by the exposure to changes of value of the assets sold and changes in their cash flows.

Lastly, the financial assets sold are derecognised from the financial statements regardless of whether the contractual rights to receive the related cash flows have been retained, with the simultaneous assumption of an obligation to pay said flows, and only them, to other third parties.

Income recognition criteria

Interest, calculated using the original effective interest rate, which considers the amortisation/depreciation, the transaction costs and the differences between the cost and the redemption value, are recognised on the income statement.

Gains and losses from changes in fair value are recognised in a specific equity reserve until the asset is derecognised. On derecognition of the asset, the equity reserve is recognised to the income statement for the period.

Dividends on an available-for-sale equity instrument are recognised in the income statement when the right to receive payment arises.

3. Investments held to maturity

Recognition criteria

The financial asset is initially recognised on the settlement date. At the date of initial recognition, the financial assets classified in this category are recognised at fair value, which normally corresponds to the consideration paid, including any directly attributable costs and income.

If recognition in this category takes place due to reclassification from financial assets available for sale or from financial assets held for trading, the fair value of the assets on the reclassification date is assumed to be the amortised cost of the asset.

Classification criteria

This category includes debt securities with a fixed term and fixed or calculable payments which the Company has the intent and capacity to hold until maturity.

If, during a financial year, prior to maturity, a non-insignificant amount of the instruments classified in this category is sold or reclassified, the remaining financial assets classified as held to maturity are reclassified as financial assets available for sale and the portfolio in question may not be used for the following two financial periods (known as the "tainting rule") unless the sales or reclassifications:

- are so close to maturity or to the instrument option exercise date that the fluctuations of market interest rates would not have a significant effect on the fair value of the financial asset;
- occurred after payment of substantially all the original capital of the financial asset through ordinary programmed or prepaid payments; or
- can be attributed to an uncontrollable isolated event, that is non recurring and therefore cannot be reasonably predicted.

Valuation criteria

After initial recognition, investments held to maturity are valued at amortised cost using the original effective interest rate method. Gains or losses in reference to fair value changes are recognised in the income statement at the time the assets are derecognised.

At the close of the year and of the infra-annual reporting periods, impairment testing is performed to detect objective evidence of impairment. If such evidence exists, the amount of the loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate recognised at the date of initial recognition). The impairment loss is recognised in the income statement.

If the reasons for impairment cease to apply following an event occurring after recognition of the impairment loss, write-backs are made to the income statement. The write-back may not result in a carrying amount of the instrument that exceeds what would have been the amortised cost of the instrument if the impairment had not been recognised.

Derecognition criteria

The aforesaid financial assets are derecognised from the financial statements when the contractual rights to cash flows deriving from the assets themselves expire or when the financial assets are sold, with the substantial transfer of all related risks and rewards.

Similarly, whenever a significant portion of the risks and rewards relevant to the financial assets sold continue to be recorded in the financial statements even though legally the ownership of said assets has actually been transferred.

If it is impossible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised in the financial statements whenever no control of any type has been retained over them. Otherwise, the preservation,

even partial, of control entails retention of the assets in the financial statements at a value equal to its residual interest, measured by the exposure to changes of value of the assets sold and changes in their cash flows.

Lastly, the financial assets sold are derecognised from the financial statements where, despite retention of the contractual rights to receive the related cash flows, there is the simultaneous assumption of an obligation to pay said flows, and only them, to other third parties.

Income recognition criteria

Profits or losses are recognised in the income statement at the time the assets are derecognised. Interest is recognised according to the amortised cost criterion, using the original effective interest rate method.

If objective evidence of impairment exists at the reporting date, the amount of the loss recognised in the income statement is the difference between the asset carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

If the reasons for impairment cease to apply following an event occurring after recognition of the impairment loss, write-backs are made to the income statement. The write-back cannot result in a carrying amount higher than what would be the amortised cost value of the financial asset had the impairment loss never been recognised.

4. Loans and receivables

Recognition criteria

Loans are initially recognised on the date they were disbursed or, in case of a debt security, on the settlement date, based on the fair value of the financial instrument. The latter is normally equal to the amount disbursed, or to the subscription price, including costs/income directly attributable to the individual loan and calculable since the start of the transaction, even if paid at a later date. Costs which, despite having the aforesaid characteristics, will be repaid by the debtor or can be considered as standard internal administrative costs are excluded.

If recognition in this category takes place due to reclassification from financial assets available for sale or from financial assets held for trading, the carrying amount corresponds with the fair value of the assets as at the date the transfer was decided and is assumed to be its new amortised cost. For further details, refer to the subsequent paragraph "Other information, Reclassifications between financial asset portfolios (IAS 39 amendment)".

The initial recognition value of any loans disbursed at conditions other than those of the market is at the fair value of such loans, calculated using measurement techniques. The difference between the fair value and the amount disbursed or subscription price is recognised in the income statement.

Classification criteria

Loans include loan commitments with customers and with banks that anticipate fixed or in any case calculable payments, not listed in an active market. The "loans" item also includes trade receivables, loans originating from financial leasing transactions, repurchase agreements with forward sellback obligations, securities purchased through subscription or private placement, with calculated or calculable payments, not listed in active markets. Reclassifications from the Loans category to other categories of financial assets provided by IAS 39 are not allowed.

As regards loans acquired without recourse, these are included under the item loans and receivables, subject to verifying that no contractual clauses exist that significantly alter the transferee company's risk exposure.

Valuation criteria

After the initial recognition, loans are valued at amortised cost, equal to the initial recognition value reduced/increased by capital repayments, by any value adjustments/recoveries and the amortisation – calculated based on the original effective interest rate – of the difference between the sum disbursed and that repayable at maturity, usually the cost/income directly attributed to the individual loan. The effective interest rate is identified by calculating the rate at which the present value of future flows of the loan, for capital and interest, is equal to the amount disbursed, including costs/income attributed to the loan.

The estimation of cash flows must factor in all the contractual clauses that may influence the amounts and the maturity dates, without however considering the expected losses on the loan. This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the loan.

The amortised cost method is not used for loans whose short duration makes this effect negligible or in any case where the effect resulting from application of the original effective interest rate method is insignificant, regardless of the duration. Such loans are valued at historical cost. The same valuation criterion is adopted in the case of loans with no fixed maturity or valid until cancelled.

At the end of each year or infra-annual reporting period, loans are tested to identify those which, as a result of events occurring after recognition, show objective evidence of impairment. Included in this category are loans assigned the status of unlikely to pay or doubtful, in compliance with current regulatory provisions.

These non-performing loans are subject to an analytical measurement process or a process to calculate expected losses by similar categories and analytical allocation to each position. The amount of write-down of each receivable is equal to the difference between the book value at the time of measurement - amortised cost - and the present value of the expected future cash flows, calculated applying the original effective interest rate. The write-down is recorded in the income statement.

The expected cash flows take into account the expected recovery times, the estimated realisable value of any guarantees, as well as the expected costs incurred to recover the credit exposure.

The effective original rate of each loan remains unchanged over time even if there has been a restructuring of the relationship that entailed the change in contractual rate and even if the relationship becomes interest free.

The original value of the loan is written back in subsequent financial years to the extent the reasons that led to the adjustment cease to exist, provided that said valuation is objectively associated with an event that took place after the adjustment. The write-back is recorded in the income statement and in any case may not exceed the amortised cost which the loan would have had in the absence of previous adjustments.

The list of impaired loans also includes past-due exposures, i.e. loans continuously overdue or show repeated delayed payments, according to the current rules established by regulatory provisions. The adjustments of said loans, though determined in accordance with a lump-sum/statistical calculation method, are represented as "Specific value adjustments", in observance of instructions contained in the Bank of Italy's Circular no. 262.

Performing loans for which no objective evidence of impairment loss has been individually identified, including those to counterparties in countries at risk, are valued on a collective basis. This valuation takes place for loan categories that are homogeneous in terms of credit risk and the relevant impairment percentages are estimated taking time series data into account, based on facts observable on the valuation date, which allow the value of latent impairment to be estimated in each loan category. The collectively determined value adjustments are charged to the income statement. At the end of each year and each infra-annual reporting period, any additional adjustments or write-backs are recalculated differently in relation to the entire portfolio of performing loans on the same date.

Derecognition criteria

The loans sold are derecognised in the financial statements only if the disposal led to the substantial transfer of all risks and rewards associated with the loans. However, whenever the risks and rewards relative to the loans transferred have been retained, the loans continue to be recorded among assets, even though legally the ownership of the loan has actually been transferred.

If it is impossible to ascertain the substantial transfer of the risks and rewards, the loans are derecognised whenever no control of any type has been retained over them. Otherwise, the retention, even partial, of control entails retention of the loans at a value equal to the residual interest, measured by the exposure to changes of value of the loans sold and changes in their cash flows. Lastly, the loans sold are derecognised if the contractual rights to receive the related cash flows have been retained, with the simultaneous assumption of an obligation to pay said flows, and only them, to other third parties.

Income recognition criteria

Impairment losses, as defined in the previous paragraph on loan valuation, are recognised in the income statement. If the reasons underlying the impairment cease to apply following an event occurring after recognition of the impairment loss, write-backs are made to the income statement. The write-back cannot result in a carrying amount higher than the amortised value of the loan had the impairment loss never been recognised.

Write-backs associated with the passing of time, corresponding to interest accrued during the year based on the original effective interest rate previously used to calculate the analytical impairment losses, are recorded under "net losses/recoveries on impairment".

5. Financial assets designated at fair value through profit or loss

Recognition criteria

At the time of initial recognition, these financial assets are recorded at fair value, without considering the costs or proceeds of the transaction directly attributable to the instrument.

Initial recognition occurs on the settlement date for debt securities and equity instruments, on the date of trading for derivative contracts, and on the date of disbursement for loans.

Classification criteria

Any financial asset defined as such at the time of purchase can be classified under financial instruments measured at fair value with a contra entry in the income statement, in accordance with the international accounting standards. If the financial instruments are classified in this category, they cannot be reclassified in any other financial asset category.

A financial asset is designated at fair value during initial recognition, with the effects of said designation recorded in the income statement, only when:

1. it involves a hybrid contract containing one or more embedded derivatives and the embedded derivative significantly modifies the cash flows that would otherwise be anticipated by the contract;
2. the fair value designation recognised in the income statement allows better disclosure in so far that:
 - i. it considerably eliminates or reduces a lack of uniformity in the valuation or in the recognition that would otherwise result from the asset or liability valuation or from the recognition of the relevant profits and losses over different bases;
 - ii. a group of financial assets, financial liabilities, or both is managed and its progression is valued based on the fair value according to a documented risk management or investment strategy, and the information on the group is provided internally on that basis to the key management personnel.

Banca Popolare - Volksbank uses the aforesaid category only to account for hedging transactions on its debt securities.

Valuation criteria

Following initial recognition, the financial assets in question are recorded at fair value. Fair value is determined based on the criteria previously illustrated for financial assets held for trading.

Derecognition criteria

The financial assets are derecognised when the contractual rights to the cash flows resulting from the assets expire or if the sale leads to the substantial transfer of all risks and rewards associated with the assets.

On the other hand, whenever a significant portion of the risks and rewards relevant to the financial assets sold have been retained, they continue to be recorded in the financial statements, even if their ownership is transferred.

Income recognition criteria

The valuation results are recorded in the income statement.

6. Hedging Transactions

Recognition criteria

Hedging transactions are recognised in the balance sheet at their fair value.

Classification criteria

Risk hedging transactions seek to neutralise potential recognisable losses on a specific component or group of components attributable to a specific risk, in case that particular risk actually materialises.

IAS 39 envisages the following types of hedges:

- fair value hedge, with the objective of hedging exposure to the change in fair value of an asset or liability in the financial statements attributable to a particular risk;
- cash flow hedge, with the objective of hedging exposure to changes in future cash flows attributable to particular risks associated with a recognised asset or liability;
- foreign currency investment hedge, that hedges against the risks of an investment in a company expressed in foreign currency;
- fair value macro-hedge (“macro-hedging”) with the objective of reducing fluctuations in fair value, attributable to interest rate risk, by a monetary amount, originating from a portfolio of financial assets and liabilities (including “core deposits”). Net amounts deriving from the differences in assets and liabilities cannot be macro-hedged.

Valuation criteria

After initial recognition, hedging derivatives are carried at fair value. In case of fair value hedging, the change in fair value of the hedged component is offset by the change in fair value of the hedging instrument. This offsetting is recognised by recording the changes in value in the income statement, referring both to the hedged item (as regards the variations produced by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect.

The derivative instrument is designated as a hedge if formalised documentation of the relationship between the hedged instrument and the hedging instrument exists and if it is in effect when the hedge begins and, prospectively, throughout the duration of the hedge. The hedge’s effectiveness depends on the measure to which the changes in fair value of the hedged instrument are offset by those of the hedging instrument.

Therefore the effectiveness is appraised by comparing the aforesaid changes, taking into account the intent pursued by the company at the time the hedge was implemented. Effectiveness is achieved when the changes of the fair value of the hedged financial instrument neutralise each other, i.e. in the 80-125% range, the changes in the fair value of the risk being hedged with reference to the hedged instrument. The effectiveness assessment is conducted at the end of each financial year or infra-annual reporting period by means of:

- forward testing, that justifies the application of hedge accounting, in that testing demonstrates its expected effectiveness;
- back testing, that show the degree of hedge effectiveness attained during the reference period. In other words, they measure how much the actual results diverge from perfect hedging.

If the tests do not confirm the effectiveness of the hedge, from that point on, the accounting of hedging transactions, according to that stated above, is interrupted, the derivative hedging contract is reclassified among trading instruments, and the hedged financial instrument reacquires the valuation criteria corresponding to its classification in the financial statements.

At the balance sheet date, the Company has no hedging transactions in place.

Derecognition criteria

Hedging derivatives are derecognised from the balance sheet on expiry. If the tests do not confirm the effectiveness of the hedge, the hedge accounting is interrupted and the derivative hedging contract is reclassified among trading instruments.

If a hedge is terminated for reasons other than disposal of the hedged component, changes in the value of the component recognised in the financial statements whilst the hedge remains effective are instead recorded in the income statement on an amortised cost basis for interest-bearing financial instruments, or in a lump sum in other cases.

Income recognition criteria

If hedging is effective, the change in fair value of the hedged components is offset against the change in fair value of the hedging instrument. This offsetting is recognised by recording the changes in value in the income statement, referring both to the hedged item and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect.

7. Investments

Recognition criteria

The financial asset is initially recognised on the settlement date. At the time of initial recognition, the financial assets classified in this category are recognised at cost, including any directly attributable accessory charges.

Classification criteria

This item includes interests in subsidiaries, jointly-owned companies, and associates or that are recorded on the basis of the equity method.

Subsidiaries are defined as those entities in which the Bank is exposed to variable returns or holds rights to said returns, resulting from its relationship with the subsidiaries and, at the same time, the Bank has the ability to influence these returns by exercising its power over the entity.

Those companies for which contractual arrangements or other types of arrangements exist, based on which unanimous consent is required from all parties sharing control to make financial and operational decisions of strategic significance, are considered jointly controlled.

Associated companies are defined as those subject to considerable influence, in which the Bank owns at least 20% of voting rights (including "potential" voting rights) or in which - even with a smaller percentage of voting rights - the Bank has the power to participate in setting financial and management policies of the company due to its particular legal relationship, such as participation in shareholders' agreements.

Valuation criteria

If evidence exists that the value of an investment may have been impaired, the recoverable value of the investment, which represents the greater value between the fair value, net of selling costs, and the value in use, is estimated. Value in use is determined by discounting the future cash flows that the investment may generate, including the final disposal value of the investment. If the recovery value is less than the carrying amount, the corresponding difference is recognised in the income statement.

If the reasons for impairment cease to apply following an event occurring after the impairment is recognised, a write-back of the investment is recorded, with a contra-entry in the income statement.

Derecognition criteria

Investments are derecognised when the contractual rights to the cash flows resulting from the assets expire or if the financial asset is sold with substantial transfer of all related risks and rewards.

If there is a loss of control, association or joint control, as a result of partial disposal of the investment, the residual interest held is recorded in the financial statements at fair value and the profits and losses with respect to the previous carrying amount are charged to the income statement.

Income recognition criteria

The carrying amount is subsequently increased or reduced to reflect the portion of profits or losses, as a contra entry to the income statement item "210 Profits (losses) on investments in associates and companies subject to joint control". Dividend income reduces the carrying amount of the investment.

The last validly approved financial statements of the investee are used as reference.

If value adjustments have to be made due to changes in the shareholders' equity of the investee company that have not been recorded in their income statement, the amount of those changes pertaining to the Company is recorded directly in the equity reserve items.

8. Property and equipment

Recognition criteria

Property and equipment are initially recognised at cost which, in addition to the acquisition cost, includes all accessory costs directly attributable to the acquisition and the commissioning of the asset.

Extraordinary maintenance expenses that result in an increase in future economic rewards are recognised as an increase in the value of the assets, whereas other ordinary maintenance costs are charged to the income statement in the financial year in which they are incurred.

Classification criteria

Property and equipment include land, operating properties, investment property, technical systems, fixtures, fittings, furnishings and equipment of any type.

These are tangible assets held for use in production or in the supply of goods and services, to be leased to third parties, and that are expected to be used for more than one period. Properties are classed as investment property if they are held for the purpose of achieving rental revenues or an increase in value or both. Properties for mixed use are classified according to their main use (operating or investment).

Assets used under the terms of finance leases, even if the lessor has retained legal ownership, are also recorded under this item.

Valuation criteria

Property and equipment, including non-instrumental properties, are valued at cost, less any depreciation expense and impairment losses. Property and equipment are depreciated every year throughout their useful life on a straight line basis.

Property is depreciated at a rate considered to be reasonable to represent the depreciation of the assets over time following their use, considering the residual useful life and the extraordinary maintenance expenses that increase the depreciable amount.

The following are not depreciated:

- land, since it has an infinite useful life. If its value is incorporated in the building value, due to application of the component approach, it is considered an asset separable from the building; the value of the land and of the building are subdivided based on independent expert opinions;
- assets qualifying as artistic heritage, since the useful life of a work of art cannot be estimated and its value is normally assumed to increase over time.

Derecognition criteria

Property and equipment are derecognised from the balance sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Income recognition criteria

Depreciation is recognised in the income statement. If any evidence exists that an asset may have suffered an impairment loss, a comparison is made between its carrying amount and its recoverable amount, equal to the higher between the fair value, net of selling costs, and the value in use of the asset, understood to be the actual value of future cash flows expected from the asset. Any adjustments are recognised in the income statement.

If the reasons that led to recognition of the impairment loss cease to apply, a write-back is made, which may not exceed the value that the asset would have had, net of depreciation, calculated in the absence of previous impairment losses.

9. Intangible assets

Recognition criteria

Intangible assets are recognised at cost, net of any accessory charges, only if it is likely that the economic rewards expected from the asset will be realised and only if the asset's cost can be reliably determined. Otherwise, the cost of the intangible asset is recognised in the income statement in the financial year in which it is incurred.

Classification criteria

Intangible assets are identifiable non-monetary assets, without physical substance, originating from legal or contractual rights, and possessed for use in a multiyear period.

Intangible assets include:

- technology-based intangible assets, such as application software, which are amortised as a function of the assets' obsolescence and over a maximum period of five years;
- costs incurred internally for the development of software projects are intangible assets and are recorded under assets only if all the following conditions are fulfilled: i) the cost attributable to the development can be reliably calculated, ii) there is the intention, availability of financial resources and technical capacity to make the asset available for use or sale, iii) it can be proven that the asset can produce future economic benefits. Capitalised software development costs only include the costs incurred that can be directly attributed to the development process. Capitalised software development costs are systematically amortised over the estimated life of the relative product/service so as to reflect the way that the future economic benefits deriving from the asset are expected to be consumed by the entity from the beginning of production and throughout the estimated life of the product;
- intangible assets associated with customers represented by the valuation, when aggregating, of the asset management relationships, the insurance portfolio, and the core deposits. These assets, all with finite lives, are originally valued, using a rate that represents the time value of money and the specific risks of the asset, by discounting the flows representing the income margins over a period that expresses the residual estimated life of the relationships in place at the time of aggregation;
- goodwill, which represents the positive difference between the acquisition cost and the fair value of the assets and liabilities owned by an acquired entity.

Goodwill may be recorded when the positive difference between the amount transferred and the fair value of the equity components acquired represents the future capacity of the investment to generate profit.

If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the business acquired, the difference is charged to the income statement.

Valuation criteria

For assets with finite useful lives, the cost is amortised on a straight-line basis or through accelerated amortisation with allowances determined as a function of the inflow of economic rewards expected from the asset.

Intangible assets with infinite useful lives are not subject to systematic amortisation, but to periodic impairment tests.

Every year - and any time evidence of an impairment loss exists - a test is performed to verify the suitability of the goodwill value. The Cash Generating Unit ("CGU") to which the goodwill must be allocated is identified for this purpose. For Banca Popolare - Volksbank, the CGU corresponds to the business entity as a whole. The amount of any impairment is calculated based on the difference between the recognition value of the goodwill and the realisation value, if lower. This recovery value is equal to the higher value between the fair value of the Cash Generating Unit, net of any selling costs, and the relative value in use. The resulting write-downs are recognised in the income statement.

Derecognition criteria

An intangible asset is derecognised in the balance sheet at the time of disposal and whenever no future economic rewards from its use or its disposal are expected.

Income recognition criteria

Depreciation is recognised in the income statement. If there is any evidence demonstrating that an asset with a finite useful life may have suffered an impairment loss, the recovery value of the asset will be estimated. The amount of the impairment loss, recognised in the income statement, is equal to the difference between the asset carrying amount and the recoverable value. The recoverable value is represented by the greater of the fair value, net of selling costs, and the recovery value. If the reasons that led to the write-down of an intangible asset component other than goodwill no longer apply, a write-back is recognised in the income statement. The write-back cannot exceed the value the asset would have had, net of amortisation, if calculated in the absence of previous impairment losses.

10. Non-current assets and groups of assets held for sale and related liabilities

Recognition and classification criteria

Non-current assets and groups of assets and liabilities that are discontinued are classified under these items. Classification under this item is possible when the disposal is deemed highly probable. In this case these assets and liabilities are valued at the lesser value between the carrying amount and their fair value net of selling or divestiture costs.

Valuation and income recognition criteria

If the assets being disposed of are depreciable, the depreciation process ceases from the financial year in which they are classified among discontinued assets. The related income and expenses are shown in the income statement under separate items, net of the tax effect when they refer to discontinued operations. In this case, the same economic information is also presented under separate items for the comparative periods shown in the financial statements.

11. Current and deferred taxes

Recognition criteria

Income taxes for the period, calculated in compliance with tax regulations in force, are accounted for at cost based on the accrual principle, consistent with the recognition in the financial statements of the costs and revenues which generated them.

They therefore represent the balance of current and deferred taxes related to the income for the year.

If the deferred tax assets and liabilities regard transactions that involved the shareholders' equity on a direct basis but with no effect on the income statement (such as adjustments due to the first time application of IAS/IFRS or the measurement of available-for-sale financial instruments), they are recorded as a contra entry in shareholders' equity, involving specific reserves where provided for (usually the valuation reserves).

Latent taxation of the "taxable if used" equity items is recorded in the financial statements as a reduction of shareholders' equity. Deferred taxes related to revaluations due to translation to Euro, directly charged to the specific reserve pursuant to art. 21, Italian Legislative Decree 213/98 in deferred taxation, are recorded in the financial statements as a reduction of the translation reserve.

The latent taxation referring to the "taxable only if distributed" items in equity is not recorded in the financial statements since the amount of the available reserves already subject to taxation means that it can be considered that no taxable transactions will be made.

Classification criteria

The current tax assets and liabilities are presented in the balance sheet with balances offset, whenever settlement will take place based on the net balance, due to the existence of a legal right to offsetting.

Deferred tax assets and liabilities are recognised in the balance sheet with open balances and no offsetting, recorded under "Tax assets" and "Tax liabilities" respectively.

When the results of transactions are recognised directly in shareholders' equity, current taxes, deferred tax assets and deferred tax liabilities are also recorded in shareholders' equity.

Tax liabilities include the allocations, made based on IAS 37, to manage the expenses that could result from already announced audits or in any case from ongoing disputes with the tax authorities.

Subsequent to adoption of the domestic tax consolidation with reference to the investment in Voba Invest S.r.l. in liquidation and Valpolicella Società Agricola S.r.l., the tax positions attributable to the Company and those originating from Voba Invest S.r.l. in liquidation and Valpolicella Società Agricola S.r.l. are managed separately in administrative terms.

Current tax assets and liabilities

Current tax assets and liabilities contain the net balance of the Company's tax position in relation to tax authorities. In particular, these items include the net balance between current tax liabilities for the financial year, calculated based on a prudent expectation of the tax burden due for the year and determined based on tax regulations in force, and current tax assets represented by advances and by other tax credits for withholding taxes incurred or other tax credits of previous financial years for which the Company has requested offsetting against taxes of later financial years. Current tax assets also include tax credits for which the Company has requested a rebate from the relevant tax authorities.

The current tax assets and liabilities are presented in the balance sheet with balances offset, whenever settlement will take place based on the net balance, due to the existence of a legal right to offsetting.

Deferred tax assets and liabilities

Deferred taxes are determined based on the so-called balance sheet liability method, making allowance for the tax effect associated with temporary differences between the carrying amount of the assets and liabilities and their tax value, which will determine taxable or deductible income in future periods. For this reason, “temporary taxable differences” are understood to be those differences that will result in taxable income in future years, and “deductible temporary differences” are understood to those which differences that will result in deductible income in future years.

Deferred taxes are calculated applying the tax rates established by the statutory provisions in force to the taxable temporary differences for which taxes are likely to be incurred and to the deductible temporary differences for which it is reasonably certain that future taxable income will result when the corresponding tax deductions are made (“probability test”).

Deferred tax assets and liabilities relative to the same tax and falling due in the same period are offset.

Whenever the deferred tax assets and liabilities refer to components that affect the income statement, the corresponding entry is represented by the income taxes.

Valuation criteria

Deferred tax assets and liabilities are periodically assessed to take into account any regulatory or tax rate changes.

Derecognition criteria

Deferred tax assets and liabilities are derecognised in the year in which:

- the originating temporary difference becomes taxable in reference to deferred tax liabilities or becomes deductible in reference to deferred tax assets;
- the originating temporary difference is no longer relevant for tax purposes.

Valuation and income recognition criteria

Income taxes are recognised in the income statement, except for those relating to items debited or credited directly in shareholders' equity. Current income taxes are calculated on the taxable income for the period. Income tax payables and receivables are recognised at the value it is expected will be paid to/recovered from the tax authorities, applying the tax rates and regulations in force.

12. Provisions for risks and charges

Recognition and classification criteria

Retirement benefits and similar commitments

The provisions for retirement benefits were set up to implement company agreements and can be classified as defined benefit plans. The liabilities relating to these plans and the related social security contribution costs are calculated on the basis of actuarial assumptions by applying the “Projected Unit Credit” method, which involves projecting future payments on the basis of time series statistical analyses and the demographic curve and the financial discounting of these flows on the basis of a market interest rate. The contributions paid each year are considered as separate units, recorded and measured separately in order to calculate the final obligation. The rate used for discounting is calculated as the average of the market rates related to the measurement dates. The present value of the bond at the date of the financial statements is also adjusted by the fair value of any assets serving the plan.

The actuarial gains and losses are recognised in a specific equity reserve.

Other provisions

Other provisions for risks and charges include provisions for legal obligations or related to employee relationships or disputes, including tax disputes, resulting from past events for which it is probable that payments will have to be made to fulfil said obligations, as long as a reliable estimate of said amounts can be made.

Therefore, a provision will be recognised if and only if:

- a present obligation (legal or implicit) exists owing to a past event;
- it is probable that an outflow of resources expected to produce economic benefits will be required to fulfil the obligation;
- a reliable estimate of the probable future disbursement can be made.

The amount recognised as a provision represents the best estimate of the expense required to fulfil the obligation existing as at the reporting date and reflects risks and uncertainties that inevitably characterise a large number of facts and circumstances.

When the financial effect associated with the passing of time is significant and the payment dates of obligations can be reliably estimated, the provision is discounted at the market rates in force as at the reporting date.

The item “Provisions for risks and charges” includes the provisions relative to long term services and to services subsequent to the termination of employment dealt with by IAS 19 and the provisions for risks and charges dealt with by IAS 37.

Provisions for risks and charges do not include write-downs due to the impairment of guarantees issued and of similar credit derivatives in accordance with IAS 39, which are recorded in the financial statements under the item “Other liabilities”.

The sub-item “other provisions for risks and charges” includes allocations against presumed losses for petitions and lawsuits, including revocatory action, the estimated disbursement for customer claims regarding stock broking activity, as well as a reliable estimate of other disbursements against any other legal or implicit obligations existing as at the close of the financial year.

Derecognition criteria

Provisions are only utilised against the charges for which they were originally recognised. If it is considered no longer probable that the obligation will require the use of resources, the provision is reversed by reallocation to the income statement.

Valuation and income recognition criteria

Amounts recognised as provisions are reviewed at every reporting date and are adjusted to reflect the best estimate of the expense required to fulfil obligations existing as at the close of the period.

The effect of discounting, the effect of the passing of time, and that relating to changes in interest rates are recorded in the income statement under net provisions for the period.

13. Payables and debt securities issued

Recognition criteria

Initial recognition is based on the fair value of the liabilities, usually equal to the amount received or to the issue price plus any additional costs/income directly attributable to the individual funding or issue transaction and that have not been reimbursed by the creditor. Internal administrative costs are excluded. Such financial liabilities are recorded on receiving the deposits or on issue of the debt securities.

Repurchase agreements are recorded in the financial statements as deposits for the amount paid in the spot transaction.

Classification criteria

The items “due to banks”, “due to customers” and “debt securities issued” comprise the various forms of inter-bank funding, funding with customers and deposits made through outstanding certificates of deposit and bonds, net of any amount repurchased. Also included are repurchase agreements and securities lending involving the receipt of cash guarantees.

Valuation and income recognition criteria

After initial recognition, the financial liabilities are valued at amortised cost using the original effective interest rate method. Exceptions to this are short-term liabilities, where the time factor proves to be negligible, that remain recorded at the collected value and where any charges are recognised in full in the income statement.

Derecognition criteria

Financial liabilities recorded under these items are derecognised from the balance sheet following the repurchase of previously issued securities, as well as at the time of settlement or maturity. In this case, the difference between the carrying amount of the liability and the amount paid for its purchase is recorded in the income statement.

Any re-placement of own liabilities on the market subsequent to their repurchase is considered a new issue with recognition of the liability on the basis of the new placement price, without any effect on the income statement.

14. Financial liabilities held for trading

Recognition criteria

The initial recognition of financial liabilities occurs on the settlement date for debt securities and equity instruments and on the date of subscription for derivative contracts.

Initial recognition is made based on the fair value of the liability, normally equal to the amount collected, without considering the transaction costs or income directly attributable to the instrument that are charged directly to the income statement.

Classification criteria

This item includes the negative value of the trading derivative contracts carried at fair value and the cash financial liabilities held for trading.

Also included are the negative values of derivatives associated with assets and liabilities carried at fair value, the embedded derivatives that pursuant to IAS 39 have been separated from the host composite financial instruments, as well as any liabilities deriving from technical losses generated by securities trading.

Valuation criteria

Following initial recognition, financial liabilities held for trading are recorded at fair value. With regard to the fair value measurement criteria, reference should be made to the previous paragraph on the valuation of financial assets held for trading.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or infra-annual reports when they expire or are extinguished. Derecognition also occurs when previously issued liabilities are repurchased. The difference between the carrying amount of the liability and the amount paid for its purchase is recorded in the income statement.

Income recognition criteria

Profits and losses from trading and capital gains and losses from the valuation of the trading portfolio are recorded in the income statement under "Profits (losses) on trading", except those relating to derivatives associated with the fair value option which are instead classified under "Profits (losses) on financial assets/liabilities designated at fair value through profit or loss".

15. Financial liabilities designated at fair value through profit or loss

Recognition criteria

At the time of initial recognition, these financial assets are recorded at fair value, without considering the costs or proceeds of the transaction directly attributable to the instrument.

Initial recognition occurs on the settlement date for debt securities and equity instruments, on the date of trading for derivative contracts, and on the date of disbursement for loans.

Classification criteria

A financial liability is designated at fair value through profit or loss in the following cases only:

1. when it entails a hybrid contract containing one or more embedded derivatives and the embedded derivative significantly modifies the cash flows that would otherwise be envisaged in by the contract; or
2. the designation at fair value through profit or loss allows better disclosure, in so far that:
 - i. it considerably eliminates or reduces a lack of uniformity in the valuation or in the recognition that would otherwise result from the asset or liability valuation or from the recognition of the relevant profits and losses over different bases;
 - ii. a group of financial assets, financial liabilities, or both, are managed and its performance is valued based on fair value in accordance with a documented risk-management or investment strategy. Based on this, the group disclosure is provided internally to key management personnel.

Valuation criteria

The financial liabilities in question are carried at fair value from the time of initial recognition. The initial income and expenses are immediately charged to the income statement.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or infra-annual reports when they expire or are extinguished.

Where financial liabilities are represented by shares issued, they can also be cancelled if repurchased: the difference between the carrying amount of the liability and the amount paid for its purchase is recorded in the income statement. Any re-placement of own securities on the market subsequent to their repurchase is considered a new issue with recognition at the new placement price, without any effect on the income statement. Please refer to paragraph "17 - Other information, method used to calculate the fair value of financial instruments" for further information on the framework of the liabilities in fair value option, the methods used to calculate the fair value and the quantification of own creditworthiness.

Income recognition criteria

The valuation results are recorded in the income statement.

16. Currency transactions

Recognition criteria

Foreign currency transactions are recorded, at the time of initial recognition, in the reporting currency, applying the exchange rate in effect on the date of the transaction to the amount in foreign currency.

Valuation criteria

At the close of each financial year or infra-annual reporting period, items in foreign currency are valued as follows:

- monetary items are translated at the exchange rate recorded as at the closing date;
- non-monetary items measured at historical cost are translated at the exchange rate in effect on the date of the transaction;
- non-monetary items measured at fair value are translated at the exchange rate in effect on the closing date.

A monetary component is the right to receive, or the obligation to deliver, a fixed or determinable number of monetary units. Conversely, the fundamental characteristic of non-monetary components is the absence of the right to receive, or the obligation to deliver, a fixed or determinable number of monetary units.

Derecognition criteria

The criteria indicated for the corresponding financial statement items are applied. The exchange rate used is that in effect at the date of settlement.

Income recognition criteria

Exchange rate differences relating to the settlement of non-monetary components or to the translation of monetary components at exchange rates other than those used for the initial translation, or for translation in the previous financial statements, are recognised in the income statement for the period in which they arise.

When a profit or a loss relative to a non-monetary component is recorded in shareholders' equity, the exchange difference relative to said component is also recognised in shareholders' equity. Similarly, when a profit or a loss is recognised in the income statement, the relative exchange difference is also recognised in the income statement. Costs and revenues in foreign currency are recognised at the exchange rate in effect at the time they are recorded or, if they have not yet accrued, at the exchange rate in effect at the balance sheet date.

17. Other information

a) Content of other financial statement items

Cash and cash equivalents

The item includes currencies that are legal tender, including banknotes, foreign currency coin and demand deposits with Central Banks. The item is recorded at nominal value. For foreign currencies, the nominal value is translated into Euro at the exchange rate as at the date of the financial statements.

Other assets

Assets that cannot be attributed to other balance sheet asset items are recorded here. Amongst others, the item includes:

- a) gold, silver, and precious metals;
- b) accrued income other than that capitalised on the relevant financial assets;
- c) any asset inventories in accordance with the definition of IAS 2;
- d) improvements and incremental expenses incurred on third-party assets other than those belonging to the item "property and equipment". The renovation costs of unowned properties are capitalised considering the fact that, for the duration of the lease contract, the user company has control over the assets and may draw future economic benefits therefrom. The aforesaid costs classified under "Other assets", as provided in the Bank of Italy Instructions, are depreciated for a period not greater than the duration of the lease contract;
- e) receivables related to the supply of non-financial goods or services
- f) tax receivables other than those recognised under Item 130 "Tax assets".

These may also include unprocessed and suspended transactions (with a "debit balance") not attributed to the accounts to which they belong, provided the amounts are negligible.

Other liabilities

Liabilities that cannot be attributed to other balance sheet liabilities appear in this item.

The item includes, by way of example:

- a) payment arrangements that must be classified as liabilities in accordance with IFRS 2;
- b) initial recognition value of guarantees provided and similar credit derivatives in accordance with IAS 39, as well as the subsequent write-downs from their impairment;
- c) debts associated with the payment for deliveries of non-financial goods and services;
- d) accrued expenses other than those to be capitalised on the relevant financial liabilities.
- e) tax liabilities other than those recognised under Item 80 "Tax liabilities".

Employee termination indemnities

Subsequent to the entry into force of the 2007 Finance Act, that brought forward the supplementary pension reform under Italian Legislative Decree no. 252 of 5 December 2005 to 1 January 2007, the employee termination indemnities are considered to be a "post employment benefit" classified as follows:

- "defined contribution plan" for the portions of employee termination indemnities maturing from 1 January 2007 (date of entry into force of the supplementary pension reform pursuant to Italian Legislative Decree no. 252 of 5 December 2005), both for cases in which the employee chooses a supplementary pension plan and in cases of allocation to the INPS Treasury fund. The amount accounted for these portions as personnel expenses is calculated on the basis of the contributions due without the application of actuarial calculation methods;
- "defined benefit plan", and therefore recorded on the basis of the actuarial value calculated using the "Projected Unit Credit" method, for the portion of employee termination indemnities accrued up to 31 December 2006.

The amounts relating to “defined benefit plans” are recorded on the basis of their actuarial value calculated using the “Projected Unit Credit” method, without pro-rata application of the service provided since it is a current service cost of the employee severance indemnity and almost entirely accrued, and its revaluation for coming years is not expected to provide significant benefits for the employees.

For discounting purposes, the rate used is determined with reference to the market yield, considering the residual average duration of the liabilities, weighted in accordance with the percentage of the amount paid and paid in advance, for each due date, with respect to the total to pay and advance until the entire obligation has been paid. The service costs for the plan are recorded as personnel expenses, whilst actuarial gains/losses are immediately included in the calculation of net payables to employees as a contra-entry to a shareholders' equity item (OCI, Other comprehensive income) in the statement of comprehensive income for the period.

Provisions for guarantees and commitments

The provisions on an analytical and collective basis, regarding the estimation of any payments associated with credit risk relating to guarantees and commitments, calculated by applying the same criteria previously reported with reference to loans, are recognised under “Other liabilities”, as provided in Bank of Italy Instructions.

Valuation reserves

This item includes valuation reserves relating to financial assets available for sale, foreign investment hedges, cash flow hedges, translation differences, “individual assets” and groups of discontinued assets, and to actuarial gains (losses) on defined benefit plans. Valuation reserves recognised in application of special revaluation laws are also included, even if subject to special-rate taxation.

Share capital and treasury shares

The item share capital includes the amount of the shares, both ordinary and preference, issued net of any subscribed capital not yet paid in. The item is presented gross of any treasury shares held by the Company. The latter are presented with a negative sign under “treasury shares” among the balance sheet liabilities.

The historical cost of treasury shares repurchased and the profits or losses from their subsequent sale are recognised as changes in shareholders' equity.

Any direct transaction costs relative to a share capital transaction, such as, for example, a share capital increase, are recorded as reduction of shareholders' equity, net of any related tax benefit.

Securitisations

All outstanding securitisations were performed after 1 January 2004.

The loans assigned are not derecognised from the financial statements when there is substantial retention of the risks and rewards, even if formally subject to factoring without recourse to a special purpose vehicle. This occurs, for example, when the Company subscribes a tranche of Junior securities or similar exposures, since it bears the risk of the first losses and, likewise, benefits from returns on the transaction.

Consequently, the loans appear in the financial statements as “Assets sold and not derecognised” with respect to the loan received from the special purpose vehicle, net of securities issued by the SPV and subscribed by the originator Company. Similar presentation criteria, based on substance over form, are applied for recognition on an accrual basis.

b) Recognition of revenues and costs

Revenues are recognised when achieved, or, in the case of the sale of goods or products, when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably when they are provided. For services, revenues are recognised when the services are rendered. More specifically:

- interest amounts are recognised on an accruals basis according to the contractual interest rate, or effective interest rate if the amortised cost method is applied; Interest income (interest expense) also includes the positive (negative) spreads or margins, accrued up to the reporting date with respect to financial derivative contracts:
 - a) classified on the balance sheet in the trading book, but related to the financial assets and/or liabilities measured at fair value (“fair value option”);
 - b) related to the assets and liabilities classified in the trading book and which provide for payment of differentials or margins with more than one maturity date;
- default interest, if envisaged by contract, is recorded in the income statement only when actually collected;
- dividends are recognised in the income statement during the year in which their distribution was decided;
- commissions for service revenues are recorded, on the basis of contractual arrangements, in the period in which the services were provided. The commissions considered in the amortised cost in order to calculate the effective interest rate are recorded under interest;
- revenues or costs resulting from the sale of financial instruments, calculated as the difference between the amount paid or received from the transaction and the fair value of the instrument, are charged to the income statement when recording the transaction if the fair value can be calculated with reference to official prices available on active markets, or for assets and liabilities measured using reference benchmarks observable on the market other than listed prices for the financial instrument (Level 1 and Level 2 of the fair value hierarchy). If the reference benchmarks used for the measurement are not observable on the market or the instruments show reduced liquidity (Level 3), the financial instrument is recorded at an amount equal to the transaction price; the difference compared to the fair value is recorded in the income statement for the duration of the transaction;
- profits and losses from financial instruments trading are recognised in the income statement when the sale is concluded, on the basis of the difference between the amount paid or received and the carrying amount of the instrument;
- revenues received from the sale of non-financial assets are recorded when the sale is concluded, unless most of the risks and benefits related to the asset have been retained.

Costs are recognised in the income statement in the periods in which the related revenues were recorded. If the correlation between costs and revenues is only possible in a generic and indirect way, the costs are recognised systematically and logically over several periods.

Costs that cannot be associated with the income are recognised immediately in the income statement.

c) Reclassifications among financial asset portfolios (amendment IAS 39)

On 13 October 2008, the IASB approved an amendment to IAS 39 and IFRS 7, approved with emergency procedures by the European Commission on 15 October 2008 with Regulation no. 1004/2008.

Based on this amendment, under specific conditions, financial instruments recorded at the time of acquisition among “Financial assets held for trading” or “Financial assets available for sale” may be reclassified to another accounting category. Before this amendment, the general rule envisaged that category transfers were not allowed, except for transfers between the “Financial assets available for sale” and “Investments held to maturity” categories. Based on the instructions in paragraphs 50D and 50E of the new version of IAS 39, the following reclassifications may be made:

- financial instruments, other than derivatives, previously classified as financial instruments held for trading. However, it is not possible to reclassify financial instruments in the category “Financial assets designated at fair value through profit or loss” after adoption of the “fair value option”. The new accounting category

- of destination is “Loans and receivables”. The condition to qualify for reclassification is that, on the transfer date, the financial instrument complies with the requirements anticipated for classification in the “Loans and receivables” portfolio and that the company no longer intends to trade the securities subject to reclassification, having achieved its intention of holding the financial instrument for the foreseeable future or until maturity;
- the non-derivative financial instruments classified in the category “Financial assets available for sale” to the accounting category “Loans and receivables”, if the corresponding financial instrument, on the reclassification date, met the definition for the “Loans and receivables” category and the company now has the intention and capacity to hold it for the foreseeable future or until maturity.

Any other non-derivative debt or equity instrument may be reclassified from the category “Financial assets held for trading” to the category “Assets available for sale” or from the category “Assets held for trading” to “Assets held to maturity” (only for debt instruments), whenever said instruments are no longer held for trading in the short term; however this is admissible in accordance with paragraph 50B in rare cases only.

The reclassified financial asset is recorded in the new category (“Loans and receivables”, “Investments held to maturity” or “Financial assets available for sale”) at its fair value, which represents the new cost or amortised cost as at its reclassification date.

Once transferred, the financial instruments follow the accounting valuation and recognition rules characteristic of the destination category, except in the cases specified below; therefore, for assets valued at amortised cost, the effective rate of return to be used starting from the date of the reclassification must be determined.

For reclassified assets, every subsequent positive change in the expected cash flow helps determine the effective interest rate as at the reclassification date and will be recorded throughout the remaining residual life of the instrument instead of modifying the asset’s carrying amount with a contra-entry in the income statement, as envisaged for assets not subject to reclassification.

Conversely, any subsequent decrease in the estimated cash flows from the reclassification date will follow the rules previously in force, i.e. they will be immediately recorded in the income statement if they present an impairment loss.

Profits and losses previously suspended in the shareholders’ equity reserve for financial assets available for sale, if referring to an instrument with a predetermined maturity, are amortised throughout the investment’s life, according to the amortised cost criterion; conversely, if the instrument does not have a predetermined maturity (e.g., perpetual instruments), they remain suspended in the reserve until the time of sale or of settlement.

In case of reclassification of the financial asset and until its settlement, it is necessary to provide an illustration of the consequential effects and of those that would have occurred in the absence of reclassification.

d) Business Combinations and Goodwill

A business combination consists in the joining of separate companies or business activities into a single entity required to prepare financial statements.

A combination may give rise to a participatory relationship between the Parent Company acquirer and the subsidiary acquired. Under these circumstances, the acquirer applies IFRS 3 in the consolidated financial statements, whereas in the separate financial statements it recognises the interest acquired as an investment in subsidiaries applying accounting standard IAS 27 “Consolidated and Separate Financial Statements”.

A combination may also anticipate acquisition of the net assets of another entity, including any goodwill, or also the acquisition of another entity’s capital (mergers, business transfers and acquisitions of business branches). A combination of this type does not translate into an investment relationship similar to that between a parent company and a subsidiary and therefore, in this case, accounting standard IFRS 3 also applies in the acquirer’s separate financial statements.

Business combinations are recorded using the acquisition method, based on which the identifiable assets acquired, the identifiable liabilities assumed, including potential liabilities, must be recognised at their respective fair values as at the acquisition date.

The excess consideration transferred with respect to the fair value of the identifiable net assets is recognised as goodwill and is allocated, as at the acquisition date, to the individual cash generating units, or to the groups of

cash generating units which should benefit from the synergies of the combination, regardless of the fact that other assets or liabilities of the acquiree are assigned to said units or groups of units.

If the consideration of the transfer is less than the fair value of the identifiable net assets, the difference is immediately recognised in the income statement as revenue under item “Other operating income”, after having made a new measurement to ascertain the correct identification process for all the assets acquired and liabilities assumed.

The consideration transferred in a business combination is equal to the fair value, as at the acquisition date, of the assets disposed, the liabilities incurred and the equity instruments issued by the acquirer in exchange for obtaining control over the acquiree. The consideration that the acquirer transfers in exchange for the acquiree includes any assets and liabilities resulting from an agreement on the potential consideration, to be recognised as at the acquisition date based on fair value. Modifications may be made to the consideration transferred if they derive from additional information on facts and circumstances that existed as at the acquisition date and are recognisable within the measurement period of the business combination (that is within twelve months from the date of acquisition, as specified below). Every other change deriving from events or circumstances subsequent to the acquisition, such as, for example, that recognised to the seller associated with the attainment of specific income performance, must be recognised in the income statement.

The identification of the fair value of the assets and liabilities must be finalised within a maximum twelve months from the acquisition date (measurement period).

The costs related to the acquisition, which include brokerage, legal, accounting, and professional consulting fees, general administrative costs, including those for maintaining an acquisitions office, are recorded in the income statement when incurred, except for the costs to issue equity securities and debt securities which are recognised based on the instructions of IAS 32 and IAS 39.

Transactions performed for the purpose of company reorganisation between two or more companies or business activities belonging to the same group are not considered business combinations. International accounting standards do not in fact regulate transactions under common control, recorded at the acquiree's pre-transaction carrying amounts in the acquirer's financial statements, whenever they do not exhibit a significant influence on future cash flows. This in compliance with the provisions of IAS 8§10 that, in the absence of a specific standard, requires the use of one's own judgment in applying an accounting standard to provide a relevant, reliable and prudent disclosure that reflects the economic substance of the transaction.

e) Method for determining the fair value of assets and liabilities

Fair value is the amount at which an asset (or a liability) may be exchanged in a transaction between independent counterparties possessing a reasonable degree of knowledge of market conditions and of the material facts associated with the subject matter of the trade.

Fair value is the price that would be paid in an ordinary transaction, i.e. in a transaction that involves market participants who have the will to trade, therefore precluding forced transactions.

Determination of the fair value of assets and liabilities is based on the going concern assumption for the Company, i.e. on the assumption that the Company will be fully operational and will neither liquidate nor appreciably reduce its operations nor will it conclude transactions under unfavourable terms. Fair value also reflects the credit rating of the instrument, insofar as it incorporates counterparty risk.

IFRS 13 defines a hierarchy of three levels of fair value based on the possibility of observing market values and parameters. On the basis of this distinction, the classification of fair value from an IFRS perspective is carried out in accordance with the principles presented below:

1. **Level 1** - The instruments are listed on markets deemed to be active (mark-to-market);
2. **Level 2** - The instruments are not listed, or are listed on markets deemed to be inactive: the adoption of an evaluation model (mark-to-model) is therefore required. For classification in Level 2, it is necessary that all the model input data that have a substantial effect on the overall instrument valuation can be obtained or deduced from the market and that said input data are representative of all the risk factors that influence the valuation of that instrument (interest rates, foreign exchange rates, credit spread, market volatility, etc.). The input data may

refer to the instrument itself or, if absent, to instruments deemed to be comparable (“comparable approach”). For certain types of instruments (for example shares), approaches such as significant transactions recently conducted on the instrument or on similar products are also included in the comparable approach method;

3. **Level 3** - The instruments are not listed, or are listed on markets deemed to be inactive: the adoption of an evaluation model (mark-to-model) is therefore required. For classification in Level 3, it is necessary that at least one of the model input data having a substantial effect on the overall valuation of the instrument cannot be obtained or deduced from the market, but is subject to estimation by the valuator (e.g. application of future cash flow estimation methods, repayment plans or correlations between underlying assets of options or structured products).

The hierarchy presented above is aligned with the amendments of IFRS 7 “Financial Instruments: disclosures”, approved with EC Regulation No. 1165 of 27 November 2009, which requires that disclosures be provided on the triple level of fair value, as described in section “A. 3 – Information on fair value” below.

Financial assets and liabilities held for trading, Financial assets designated at fair value through profit or loss, Financial assets available for sale

For these financial instruments, fair value is determined:

- through the use of prices acquired from the financial markets, in the case of instruments listed in active markets;
- through the use of internal valuation models, for other financial instruments.

Mark to Market

In determining fair value, whenever available the Company uses information based on market data obtained from independent sources, these being considered the best evidence of fair value. In this case, fair value is the market price of the financial instrument itself subject to valuation - that is without changes or recompositions of the instrument itself - inferred from the trade prices expressed by an active market. A market is considered active whenever the trade prices reflect normal market transactions, are properly and readily available through stock exchanges, listing services and brokers, and if said prices represent actual and regular market transactions.

The following are normally considered active markets:

- regulated markets for securities and derivatives, with the exception of the Luxembourg market;
- organised trading systems;
- certain electronic OTC trading circuits (e.g. Bloomberg), whenever specific conditions exist based on the presence of a certain number of contributors with executable proposals and characterised by bid - ask spreads, i.e. from the difference between the price at which the counterparty pledges to sell the securities (ask price) and the price at which it pledges to buy them (bid price), contained within a particular tolerance threshold;
- the secondary market for UCITS, expressed by the official NAV (Net Asset Value), based on which the issuing asset management company must liquidate the units. This NAV may be accordingly corrected to make allowance for the poor marketability of the fund, i.e. of the time interval elapsing between the date of the redemption request and the actual date of repayment, as well as to take into account any back-end fees.

Mark to Model

In the absence of market prices directly observable on markets considered active, it is necessary to resort to valuation techniques that maximise the use of information available on the market, based on the following valuation approaches:

1. *Comparable approach*: in this case, the instrument’s fair value is inferred from the prices observed on recent transactions which took place on similar instruments in active markets, duly adjusted to make allowance for differences in the instruments and in the market conditions;

2. *Model Valuation*: in the absence of observable transaction prices for the instrument subject to valuation or for similar instruments, a valuation model must be adopted; this model must be of proven reliability in estimating hypothetical “operational” prices and therefore must be widely accepted by market participants.

More specifically:

- debt securities are valued according to the discounted cash flow (DCF) method, duly corrected to make allowance for issuer risk;
- derivative contracts are valued according to multiple models, based on the input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which influence its corresponding valuation;
- unlisted equity securities are valued with reference to direct transactions on the same or similar securities observed in an appropriate interval with respect to the valuation date, with the market multiples method used for comparable companies and subordinately to financial, income and equity valuation methods.

Financial liabilities designated at fair value and determination of the bank's own creditworthiness

“Financial liabilities designated at fair value through profit or loss” include the liabilities issued by the Company, for which the “Fair Value Option” was adopted. In particular, the scope of the fair value option regards the following types of issues:

- fixed-rate plain vanilla and step-up or floating-rate bond issues;
- structured bond issues whose pay off is related to interest rate structures, inflation rates or similar indexes.

In these cases, adoption of the fair value option overcomes any accounting “mismatching” that would have otherwise occurred if the bond issue was valued at amortised cost and the derivative at fair value.

Unlike hedge accounting, the accounting rules for which require that only the changes in fair value attributable to the hedged risk be recognised for the hedged instrument, the fair value option implies the recognition of all fair value changes, regardless of the risk factor that generated them, including the issuer's credit risk.

The factors considered to be significant when setting the trading price for a hypothetical transaction on the secondary market must be considered for own bond issues.

More specifically, in determining the fair value of own issues subscribed by retail customers, changes in the issuer's own creditworthiness occurring after the issue date are not taken into consideration.

In calculating the fair value of bond issues within the scope of the EMTN programme, subscribed by institutional customers, in which transactions subsequent to the issue are affected by the change in the issuer's own credit spread, the measurement method is based on a discounted cash flow model, where the curve used for discounting is equal to the risk free market interest rate, increased by the curve of the issuer's credit rating recorded on the market on which the instruments are listed.

Due from and to banks and customers, Debt securities issued, Investments held to maturity

For the other securities recorded in the financial statements at amortised cost, and classified essentially among debt relationships with banks or customers, among outstanding securities or among investments held to maturity, a fair value was determined for disclosure purposes in the notes to the accounts. More specifically:

- for medium/long-term non-performing loans, the fair value is determined by discounting the contractual flows, based on a risk-free market rate, net of expected loss. For medium/long-term performing loans, the fair value is calculated in accordance with a risk-aversion approach: expected cash flows, duly adjusted for expected losses, are discounted based on a risk-free market rate, plus a component deemed to represent risk aversion to make allowance for factors other than expected loss;
- for on-demand assets and liabilities or having short-term or unspecified maturity, the carrying value is considered to be a good approximation of the fair value;
- for bond loan issues, measured in the financial statements at amortised cost, the valuation is performed by discounting the bond's cash flows based on the reference interest rate curve, duly corrected to make allowance for changes in the issuer's credit rating, wherever considered a relevant factor;

- for the debt securities classified in the “Investments held to maturity” portfolio or under “Due from banks or customers”, including after portfolio reclassifications, the fair value was determined through the use of prices conferred on active markets or through the use of valuation models, as described previously for financial assets and liabilities recorded in the financial statements at fair value.

f) *Methods for the determination of amortised cost*

The amortised cost of a financial asset or liability is the value at which the financial asset or liability was measured upon initial recognition net of reimbursements of capital, increased or decreased by overall amortisation, calculated using the effective interest method, of the differences between the initial value and the value at maturity, net of any impairment loss.

The effective interest rate is the rate at which the present value of a financial asset or liability is equal to the discounted contractual flow of future cash payments or those received until maturity or at the next price recalculation date. For the present value calculation, the effective interest rate is applied to the flow of the future collections or payments throughout the entire useful life of the financial asset or liability - or for a shorter period in the presence of certain conditions (for example revision of market rates).

After initial recognition, the amortised cost allows revenues and expenses to be allocated to increase or decrease the instrument value throughout its entire expected life via the amortisation process. The measurement of amortised cost differs depending on whether the financial assets/liabilities subject to valuation are at a fixed or floating rate and – in the latter case – depending on whether or not the rate variability is known beforehand. For fixed-rate instruments or with fixed rates for set periods, the future cash flows are quantified based on the known interest rate (fixed or floating) during the life of the loan facility. For floating-rate financial assets/liabilities whose variability is not known beforehand (for example because it is linked to an index), the cash flows are determined based on the last rate known. The repayment plan and the effective rate of return over the entire useful life of the instrument, i.e. until the maturity date, are recalculated on each interest adjustment date.

The adjustment is recognised as cost or income in the income statement.

The amortised cost valuation is performed for loans, investments held to maturity, debts, and debt securities issued.

Financial assets and liabilities traded under market conditions are initially recognised at their fair value, which normally corresponds to the amount disbursed or, for instruments value at amortised cost, the amount paid including directly attributable transaction costs and fees.

The internal or external marginal costs and income attributable to the issue, to the acquisition or to the disposal of a financial instrument which cannot be charged back to the customer are considered transaction costs. These fees, which must be directly attributable to the individual financial asset or liability, influence the original effective yield and render the effective interest rate associated with the transaction different from the contractual interest rate. Excluded are costs/income indistinctly relevant to more than one transaction and the components related to events that can occur during the life of the financial instrument, but that are not certain at the time of the initial definition, such as for example: fees for retrocession, for non-use or for early redemption.

The amortised cost valuation criteria does not apply to hedged financial assets/liabilities that anticipate the recognition of changes in fair value relative to the hedged risk in the income statement (limited to the hedged risk). The financial instrument is, however, again valued at amortised cost in case of termination of the hedge, when changes in fair value previously recognised are amortised, calculating a new effective interest rate with a yield that takes into consideration the value of the loan having adjusted the fair value of the hedged portion, until maturity of the originally scheduled hedge. Furthermore, as already mentioned in the paragraph regarding the valuation criteria for receivables, payables and securities issued, the valuation at amortised cost does not apply for financial assets/liabilities whose short duration entails a negligible discounting effect or for loans without a defined maturity or valid until cancelled.

g) Method for determining the impairment losses of financial assets

On every balance sheet date, all financial assets, except those designated at fair value through profit or loss, are subject to an impairment test to verify the existence of objective evidence of impairment that can imply that the carrying value of the assets is not entirely recoverable.

Impairment exists if there is objective evidence of a reduction in future cash flows, compared with those originally estimated, subsequent to specific events. The loss must be reliably quantifiable and be correlated with actual events, not merely expected events.

In particular, the objective evidence of impairment of an asset or a group of financial assets can also be attributed to the following negative events:

- significant financial difficulties of the issuer or debtor;
- breach of contract, such as a material breach or a payment default on interest or capital;
- the granting to the beneficiary of a facility that the Company had taken into consideration predominantly for economic or legal reasons relative to the financial difficulties of the beneficiary and that otherwise would not have been granted;
- the probability that the debtor may enter in bankruptcy proceedings or other financial reorganisation procedures;
- the loss of an active market for the financial asset under discussion due to financial difficulties of the issuer. However, the disappearance of an active market due to the fact that the company's instruments are no longer publicly traded is not evidence of a reduction of fair value;
- events that indicate an appreciable reduction in the issuer's future cash flows (in this case, the general conditions of the local or national economy of reference in which the issuer operates come into play).

Furthermore, for an equity instrument investment, objective evidence of impairment exists in correspondence with the following additional negative events:

- significant changes having a negative impact in the technological, economic or regulatory environment in which the issuer operates, such as to indicate that the investment therein cannot be recovered;
- an extended or significant decrease in fair value below the acquisition cost.

The impairment test is performed on an analytical basis for financial assets that present specific evidence of impairment, and collectively for financial assets for which analytical testing is not required or for which the analytical testing did not result in a write-down. The collective test is based on the identification of homogeneous risk categories of financial assets with reference to characteristics of the debtor/issuer, to the economic sector, to the geographical area, to the presence of any guarantees and other relevant factors.

Whenever an objective impairment is observed subsequent to one or more events occurring after initial recognition of the asset, the impairment must be calculated according to rules that are different for financial instruments valued at amortised cost and for assets carried at fair value, with any changes recognised to shareholders' equity. With reference to loans to customers and banks, reference should be made to comments already made in the section on Loans.

With reference to assets available for sale, the process for detecting impairment involves verifying the presence of impairment indicators and determining the write-down, if appropriate.

The amount of the impairment loss is determined with reference to the financial asset's fair value.

Method for determining the impairment losses of investments

On every balance sheet date, investments are subject to an impairment test to verify the existence of objective evidence of impairment that can imply that the investment's carrying value is not entirely recoverable. The process for detecting impairment involves verifying the presence of possible impairment indicators and determining the write-down, if appropriate.

The impairment indicators are essentially divided into two categories: qualitative indicators and quantitative indicators. Qualitative indicators include:

- posting of negative economic results, or in any case, a significant variance with respect to objectives from the budgets or multi-year plans communicated to the market;
- announcement/launch of bankruptcy proceedings or restructuring plans;
- downgrading of the rating of more than two notches;
- non-compliance with obligations for timely and full payment of debt securities issued;
- use of business policy tools aimed at managing serious crises or that allow businesses to undertake restructuring/reorganisation processes.

Quantitative indicators include:

- reduction in fair value below the carrying amount for a sustained amount or period of time;
- market capitalisation that is below the company's carrying amount for shareholders' equity, if the securities are traded on active markets, or carrying amount for the investment in the separate financial statements that is greater than the carrying amount in the consolidated financial statements of the net asset and goodwill of the investee company, or distribution by the latter of a dividend that is greater than its comprehensive income.

The presence of impairment indicators results in the recognition of a write-down that is equivalent to the amount by which the recoverable value is less than the carrying amount. Recoverable value is represented by the greater of fair value net of sales costs and value in use.

Value in use is the current value of expected cash flows from the asset. It reflects the estimated future cash flows of the asset, the estimate of possible changes in the amount and/or timing of cash flows, the time value of money, the price required to compensate for the asset's risk, and other factors that may influence the realisation by market operators of the asset's expected cash flows.

Impairment of other non-financial assets

Property and equipment and intangible assets with a finite useful life are subject to impairment testing if there is an indication that the carrying amount can no longer be recovered. The recoverable value is calculated in reference to the fair value of the property and equipment or intangible assets, net of disposal costs, or the value in use if it is determinable and is greater than the fair value.

To verify the existence of impairment in property, a test is conducted each year on the property value, by collecting information on its market value. If the analyses suggest impairment, a specific appraisal is conducted on the relative property.

For other equipment and intangible assets (other than those recognised following a merger), it is assumed that the carrying amount normally corresponds to the value in use, as it is determined by a depreciation/amortisation process estimated based on the effective contribution of the asset to the operating process and as the calculation of fair value can be extremely uncertain. Value in use may vary from the carrying amount in certain specific cases, for example due to damage, removal from operating processes, or other similar, non-recurring circumstances. In this case, a test is performed to ascertain if there is impairment.

Intangible assets recognised following a merger and in application of IFRS 3 are subject to an impairment test at every balance sheet date to verify the existence of objective evidence of impairment.

If there are indications of impairment on intangible assets with a finite useful life, represented by the value of the client relationship, a new valuation process is undertaken to verify the recoverability of the carrying amount. The recoverable value is calculated based on the value in use, determined using the current value of income margins generated by existing relationships at the valuation date over a period that expresses the residual estimated life of the relationships, using a discount rate that represents the time value of money and the specific risks of the asset.

Intangible assets with indefinite useful lives are represented by goodwill that, as it does not have independent cash flows, is annually subjected to a test on the adequacy of the carrying amount. The amount of any impairment is calculated based on the difference between the carrying amount of the CGU and its recoverable value, represented by the greater of fair value net of sales costs and value in use.

A.3 INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

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

On 15 October 2008, the European Commission approved Regulation No. 1004, which adopted the changes to IAS 39, in relation to the reclassification of financial instruments, and to IFRS 7, for relevant disclosure requirements. Based on this change, under specific conditions, financial instruments recorded at the time of purchase within the “Financial assets held for trading” category or the “Financial assets available for sale” category may now be reclassified to another accounting category as described in detail “Part A. 2.” (to which the reader is referred for further information).

Based on the cited regulatory changes, in October 2008 a nominal Euro 83.7 million of debt securities and unlisted UCITS units, held for trading, having a counter-value in the financial statements of Euro 144.8 million, were reclassified as financial instruments available for sale, and a nominal Euro 13.0 million of debt securities held for trading corresponding to a carrying amount of Euro 11.4 million were reclassified as financial instruments held to maturity.

This reclassification was expedient in consideration of the crisis characterising world financial markets, which would not have allowed the reasonable pursuit of the goals which had justified the financial instruments being classified as financial assets held for trading, forcing, in fact, their retention in the foreseeable future or until maturity. As allowed by the amendment to IAS 39, by virtue of the exceptional situation, the transfer was conducted essentially based on the prices as at 1 July 2008, having resolved upon the reclassification before 1 November 2008.

Furthermore, in accordance with the cited regulations, effective as of 8 November 2011, unlisted financial assets held by the Company for trading, with a nominal value of Euro 48.3 million corresponding to a carrying amount of Euro 42.5 million, were reclassified as loans, taking into consideration that the state of uncertainty which characterised the financial markets during the last quarter of that year would not have permitted the reasonable pursuit of the management objectives that had justified the recognition of the financial instruments under financial assets held for trading, resulting in the need to classify them as loans. As anticipated by IAS 39, the transfer was essentially conducted based on the prices as at 7 November 2011.

During the course of the year 2016, no further reclassifications were carried out. An illustration of the residual carrying amount as at 31 December 2016 is shown below.

(thousands of Euro)

Type of financial instrument	Source Portfolio	Destination Portfolio	Book value as at 31.12.2016	Fair value as at 31.12.2016	Income components in the absence of transfers (before tax)		Income components entered in the year (before tax)	
					Evaluation	Other	Evaluation	Other
Debt securities	HFT	AFS	1,734	1,734	138	175	(195)	508
UCITS units	HFT	AFS	64,971	64,971	(934)	3	(934)	3
Debt securities	HFT	HTM	698	558	45	19	-	-
Debt securities	HFT	LRO	-	-	-	-	-	-

The book value of the debt securities as at 31 December 2016 amounts to Euro 2.4 million (Euro 4.9 million as at 31 December 2015) and their fair value amounts to Euro 2.3 million (Euro 4.7 million as at 31 December 2015).

A.3.2 *Reclassified financial assets: effects on comprehensive income before transfer*

No further reclassifications of financial assets were made in 2016.

A.3.3 *The transfer of financial assets held for trading*

The 2008 crisis was expressly identified by the IASB as an unusual event. Banca Popolare - Volksbank therefore reclassified certain securities in that year, which were mostly bonds not listed on active markets that had originally been classified as trading assets but that had lost the required marketability conditions to maintain them in the “held for trading” category. As noted above, these assets were classified under the receivable categories, as financial assets available for sale. Certain financial assets that had been classified as “held for trading” were reclassified under the “Loans” category in 2011.

No further reclassifications of financial assets were made in 2016.

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

No further reclassifications of financial assets were made in 2016.

A.4 INFORMATION ON FAIR VALUE

QUALITATIVE INFORMATION

For more information on the methods adopted to measure the fair value of the assets and liabilities in order to make budgetary assessments and provide information in the notes to the accounts for each asset valued at cost, please refer to the paragraph on “Method for determining the fair value of assets and liabilities” in the part “A.2 – Information on the Main Items of the Financial Statements”, “17 - Other information”.

A.4.1 Fair value Levels 2 and 3: measurement techniques and inputs used

For assets and liabilities measured at fair value on a recurring basis, where no directly observable prices are available from active markets, the fair value is determined based on valuation models, or based on prices observed for financial instruments with similar characteristics. These instruments are those that belong to the fair value Levels 2 and 3.

In order to assess the fair value of Level 2 instruments, a discounting model for expected future flows is used that includes, firstly, the risk-free rate curve (in its different forms, or based on swap rates vs 6-month or 3-month Euribor rates and other inputs) that can be directly observed on the market.

More specifically, in the case of instruments denominated in Euro, three risk-free rate curves are used: one curve for simple discounting (partially based on Euribor 3-month or 3-month futures, in part on 6-month curve for the medium/long-term maturities), and two curves (one 3-month and one 6-month) to calculate the forwards in the securities at the indexed Euribor 3-month or 6-month rate.

The credit spread is also applied to the discount calculation, quantified based on directly observable prices on the market (though not the stock market) and provided by external contributors. If there are no prices available, they are quantified based on comparables or in line with similar securities in terms of duration, issuer’s credit quality, and the sector to which they belong.

The table below summarises the main types of instruments, showing the relative valuation models and the main inputs:

Financial instrument category	Product	Valuation model	Valuation model input
Debt securities	Treasury securities, corporate bonds	Discounting of expected flows using market parameters, corrected for issuer risk. For structured securities, the optional component is also valued.	Interest rate curves, credit spreads communicated by contributors, credit spreads from comparables
Unlisted equity securities	Shareholdings	Method of directly observed transactions on the same instrument, or if this is not available, on similar instruments. Alternatively, multiple market method of comparable companies. Alternatively, financial, income or asset valuation methods.	Figures related to prices provided by the contributors, most recent financial statements available
Investments in UCITS units	Hedge funds, private equity funds, real estate funds	NAV made available by the fund administrator or the asset management company.	n/a
OTC derivatives	Financial derivatives on interest rates - SWAP	Discounting of expected flows	Interest rate curves
	Financial derivatives on interest rates - Cap-floor	Black model	Volatility matrices, risk-free rates

Securities classified as Level 3 are usually structured securities; in the specific case of the owned portfolio held by the Bank, they are indexed CMS securities (constant maturity swap), inflation-linked structured securities, or securities where the credit spread cannot be quantified with the qualitative level mentioned above.

For CMS securities, the forward rates (implicit in the valuations) that could be, theoretically, directly observed on the market are used. However, the Bank believes that the quality of these forward rates cannot be compared to the quality of the Euribor 3-month or 6-month forward rates, widely used by the market in pricing similar indexed 3- or 6-month securities.

When pricing CMS securities, the Euribor forward rates are therefore used, despite the issues described above, without applying convexity adjustments, while for the rest (discount curve and credit spread), the same operating methods noted above for the Level 2 securities are used.

For inflation-linked securities, indexed as a minimum to the Euribor and inflation, the forward curves for the Euribor and inflation are used, based on the swap rate curve against inflation.

For Level 3 securities, the credit spread is defined on each occasion, referring to any external contributions or by converting the results of the creditworthiness analyses, based on the most recent financial statements available, into credit spreads.

The calculation of the Credit Value Adjustment (“CVA”) determines the future credit exposure, taking into account the probability that, in the future, the current value of the contract, if positive, may increase or, if negative, may turn into a credit position. This probability is linked to the volatility of the underlying market factors as well as the residual duration of the contract. The future credit exposure is determined with reference to all contracts, irrespective of the portfolio to which they are allocated - with fair value both positive and negative - multiplying the nominal value of each contract by a percentage established based on the contract type and the residual duration of the transactions.

As at 31 December 2016, the exposure at default (“EAD”) came to Euro 3.5 million. It refers to derivative trading contracts vis-à-vis 4 institutional counterparties. The notional value of the afore-mentioned contracts is equal to Euro 469.5 million. The contracts are mainly plain vanilla swaps and, to a much lesser extent, interest rate caps.

As regards properties held for investment purposes, the fair value is calculated primarily through external appraisals, whose reference point is represented by current prices for similar assets (value by square metre, prices of similar transactions).

The fair value calculated in this way is classified under fair value hierarchy Level 3.

A.4.2 Valuation processes and sensitivity

Valuation techniques are applied by the Investment Department (front office).

The Risk Management Office - hierarchically independent from the front-office - carries out a check of the prices expressed by the Investment Department at least monthly, using rate curves and fair value assessments provided by the external financial services provider.

The check substantially entails verifying the theoretical correctness of the valuation model selected and the independent repricing of the individual instruments.

The Risk Management Office also checks newly introduced valuation models, including in relation to the acquisition of new financial instruments.

The instruments used by the Risk Management Office include the ICVS function to construct the risk-free curves. The Risk Management Office also carries out a daily check of similar curves adopted by the Investment Department. The BVAL (Bloomberg VALuation) instrument is also used to directly verify these prices. These Bloomberg prices have the following characteristics:

- in the case of liquid securities, BVAL prices may be considered to be a weighted average of the existing prices provided by the various contributors (in addition to the stock market prices themselves of course, if it is a security listed on a regulated market);
- if the security is illiquid, Bloomberg uses the information contained in securities with similar characteristics, but that are liquid (and therefore with reliable prices) in order to correctly price the illiquid security. It effectively uses, where present, the few “liquid” prices of the security to check the historical performance of the spread

of the security with similar securities belonging to the same peer group (defined on a sector basis by duration and CDs): relying on simple linear regression and thereby reconstructing the spread and the price to the new date;

- on the other hand, if the security to price is completely, or almost, without any significant prices, the BVAL will make direct use of creditworthiness proxies of the security to infer either a par coupon curve (using issues with identical creditworthiness) or a spread curve (using the figures obtained in the previous step, or where possible, issues from the same issuer of the target security) with which to price the bond.

For structured securities that are highly complex (e.g., "delta CMS"), for which Level 2 prices are not available (such as prices offered by Bloomberg contributors) the Risk Management Office makes an estimate based on Montecarlo simulations in order to provide an adequate verification of all the market values.

For sensitivity analyses to be performed on inputs that are "not directly observable", relating to the valuations of Level 3 securities, based on the above with respect to indexed CMS securities and the scarcity of these exposures in relation to structured securities, sensitivity analyses on Level 3 debt instruments issued by unlisted parties were carried out.

In this case, the impact of changes in inputs that are not directly observable was quantified, represented by the credit spread of the issuer (which, conversely, can be determined quite efficiently by using similar securities or comparables directly observable on the market for more "liquid" issuers).

A.4.3 Fair value hierarchy

For purposes of providing disclosure on transfers between the levels provided in paragraphs A.4.5.1, A.4.5.2 and A.4.5.3 below, with respect to securities in place as at 31 December 2016, and which have a different level of fair value compared to that in place as at 31 December 2015, it was assumed that the transfer between levels was made with reference to the balances existing at the beginning of the reference period.

A.4.4 Other information

As at 31 December 2016, there was no information to report in accordance with IFRS 13, paragraphs 51, 93 (i), and 96 since:

- there are no assets designated at fair value based on highest and best use;
- the option to measure the fair value at the level of overall portfolio exposure to account for the offsetting of credit risk and market risk of a certain group of financial assets or financial liabilities was not used.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities designated at fair value on a recurring basis: breakdown by fair value levels

The recurring valuations refer to the assets or liabilities measured at fair value in the balance sheet on the basis of what is provided or permitted in accordance with international accounting standards. The only assets and liabilities designated at fair value on a recurring basis are those of a financial nature for the Company.

For this reason, the disclosure required by the IFRS 7, approved with EC. Reg. no. 1165 of 27 November 2009, the fair value hierarchy for financial asset and liability portfolios subject to measurement at fair value is provided below.

<i>(thousands of Euro)</i>		31.12.2016			31.12.2015		
Financial assets/liabilities measured at fair value		L1	L2	L3	L1	L2	L3
1.	Financial assets held for trading	1,351	12,945	98	1,158	37,824	112
2.	Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
3.	Financial assets available for sale	866,813	711,498	31,016	754,293	610,224	6,076
4.	Hedges	-	-	-	-	-	-
5.	Property and equipment	-	-	-	-	-	-
6.	Intangible assets	-	-	-	-	-	-
	Total	868,164	724,443	31,114	755,451	648,048	6,188
1.	Financial liabilities held for trading	294	1,976	-	233	2,897	-
2.	Financial liabilities designated at fair value through profit or loss	-	9,721	-	-	9,692	-
3.	Hedges	-	-	-	-	-	-
	Total	294	11,697	-	233	12,589	-

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

Financial assets measured at fair value on a recurring basis

Financial assets valued on the basis of prices drawn from active markets (Level 1) or determined based on parameters observable on the market (Level 2) represent 98.1% of the book value of financial assets carried at fair value on a recurring basis.

Instruments measured with significant use of parameters not observable on the market (Level 3) comprise a marginal portion, equal to 1.9%, and are represented by a limited number of securities classified in financial assets held for trading, mainly from Italian bank issuers, for which the fair value has been mainly inferred from information from outside contributors, from sources not publicly available, as well as by equity related investments of minority shares valued based on internal models (income, equity, or mixed methods) classified in financial assets available for sale. The fair value thus obtained for these instruments has been conservatively classified at Level 3.

Euro 4.4 million of financial assets held for trading consist of derivative instruments held for trading; these are over-the-counter (OTC) contracts measured using valuation models that make significant use of parameters that can be observed on the market or drawn from independent sources (Level 2). Only a residual amount, equivalent to Euro 98 thousand, is calculated through models that make limited use of market parameters (Level 3).

Financial liabilities measured at fair value on a recurring basis

Almost all financial liabilities held for trading are represented by derivatives held principally for trading, whose fair value is obtained through valuation techniques that make significant use of observable market parameters (Level 2).

Financial liabilities designated at fair value are represented by the Bank's bond issues hedged by derivatives, for which the fair value option was used. These instruments are valued using valuation models that make significant use of parameters observable on the market or drawn from independent sources.

Transfer between fair value levels (Level 1 and Level 2)

There were no transfers of assets or liabilities designated at fair value from Level 2 to Level 1 in 2016, or transfers of financial assets or liabilities designated at fair value from Level 1 to Level 2.

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

	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Financial assets available for sale	Hedges	Property and equipment	Intangible assets
1. Opening balance	112	-	6,076	-	-	-
2. Increases	-	-	25,455	-	-	-
2.1 Purchases	-	-	24,875	-	-	-
2.2 Profits allocated to:	-	-	519	-	-	-
2.2.1 Income Statement	-	-	31	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2 Shareholders' equity	X	X	488	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	-	-	61	-	-	-
3. Decreases	14	-	515	-	-	-
3.1 Sales	-	-	139	-	-	-
3.2 Reimbursements	11	-	-	-	-	-
3.3 Losses allocated to:	1	-	353	-	-	-
3.3.1 Income Statement	1	-	-	-	-	-
- of which capital losses	-	-	-	-	-	-
3.3.2 Shareholders' equity	X	X	353	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	2	-	23	-	-	-
4. Closing balance	98	-	31,016	-	-	-

A.4.5.3 Annual changes in liabilities designated at fair value on a recurring basis (Level 3)

At the balance sheet date, there are no financial liabilities designated at fair value in the Level 3 category.

A.4.5.4 Assets and liabilities not designated at fair value or designated at fair value on a non-recurring basis: breakdown by fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis (thousands of Euro)	31.12.2016				31.12.2015			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Investments held	260,924	248,562	19,334	558	170,426	158,391	19,877	607
to maturity	44,804	-	44,804	-	39,420	-	39,420	-
2. Due from banks	41,917	-	41,917	-	44,804	-	44,804	-
3. Loans to customers	6,727,223	-	6,984,945	-	6,447,871	-	6,762,580	-
4. Property and equipment held for investment	1,793	-	-	-	1,809	-	-	-
Total	6,664,910	158,391	6,827,261	607	5,218,346	-	5,517,743	-
5. Non-current assets and groups of assets held for sale	-	-	-	-	-	-	-	-
Total	7,031,857	248,562	7,046,196	558	6,664,910	158,391	6,827,261	607
1. Due to banks	1,085,006	-	994,670	-	838,463	-	826,200	-
2. Due to customers	6,001,786	-	5,462,467	-	5,207,990	-	4,822,730	-
3. Debt securities issued	1,099,040	-	1,049,047	43,324	1,570,687	-	1,470,745	93,956
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	8,185,832	-	7,506,184	43,324	7,617,140	-	7,119,675	93,956

Key: BV = Book value; L1 = Level 1; L2 = Level 2; L3 = Level 3

Assets and liabilities not designated at fair value

For the methods adopted to measure fair value and the levels of the financial assets and liabilities designated at cost and for which the fair value is requested for disclosure purposes, please refer to the paragraph on “Method for determining the fair value of assets and liabilities” in part “A.2 – Information on the Main Items of the Financial Statements”, “17 - Other information”.

Assets and liabilities measured at fair value on a non-recurring basis

There were no assets or liabilities designated at fair value on a non-recurring basis as at 31 December 2016.

A.5 DISCLOSURE ON “DAY ONE PROFIT/LOSS”

According to IFRS 7, paragraph 28, evidence of the amount of the “Day One Profit or Loss” recognised in the income statement as at 31 December 2016, as well as a reconciliation with respect to the opening balance, must be provided. “Day One Profit or Loss” is understood to be the difference between the fair value upon the initial recognition of a financial instrument acquired or issued (transaction price) and the amount determined on that date using a valuation technique.

It is noted that no accounting events are subject to disclosure in this section.

PART B INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 CASH AND CASH EQUIVALENTS – ITEM 10

1.1 Cash and cash equivalents: breakdown

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
a) Cash	59,171	62,622
b) Demand deposits at Central Banks	-	-
Total	59,171	62,622

The item is represented by the cash on hand.

Section 2 FINANCIAL ASSETS HELD FOR TRADING – ITEM 20

2.1 Financial assets held for trading: breakdown by type

<i>(thousands of Euro)</i>	31.12.2016			31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	-	9,856	90	-	34,687	103
1.1 Structured securities	-	2,384	-	-	1,036	-
1.2 Other debt securities	-	7,472	90	-	33,651	103
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	27	8	-	27	9
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	-	9,883	98	-	34,714	112
B. Derivatives						
1. Financial derivatives	1,351	3,062	-	1,158	3,110	-
1.1 held for trading	1,351	192	-	1,158	308	-
1.2 related to the fair value option	-	2,870	-	-	2,802	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 related to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	1,351	3,062	-	1,158	3,110	-
Total (A+B)	1,351	12,945	98	1,158	37,824	112

Cash assets are classified as listed or unlisted depending on whether they relate to instruments with or without a price on an active market, as illustrated in Part A - Accounting Policies.

They are included under listed derivatives only where the transactions are negotiated on organised markets.

2.2 Financial assets held for trading: breakdown by debtor/issuer

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
A. CASH ASSETS		
1. Debt securities	9,946	34,790
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	2,527	1,210
d) Other issuers	7,419	33,580
2. Equity securities	-	-
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. UCITS units	35	36
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	9,981	34,826
B. DERIVATIVES		
a) Banks	4,205	4,215
b) Customers	208	53
Total B	4,413	4,268
Total (A+B)	14,394	39,094

Section 3 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 30

3.1 Financial assets designated at fair value through profit or loss: breakdown by type

At the balance sheet date, as in the previous year, there were no financial assets designated at fair value through profit or loss.

3.2 Financial assets designated at fair value through profit or loss: breakdown by debtor/issuer

At the balance sheet date, as in the previous year, there were no financial assets designated at fair value through profit or loss.

3.3 Financial assets designated at fair value through profit or loss: annual changes

At the balance sheet date, as in the previous year, there were no financial assets designated at fair value through profit or loss.

Section 4 FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

4.1 Financial assets available for sale: breakdown by type

(thousands of Euro)	31.12.2016			31.12.2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	866,807	396,762	31,016	754,293	419,857	6,076
1.1 Structured securities	-	19,901	-	-	32,723	-
1.2 Other debt securities	866,807	376,861	31,016	754,293	387,134	6,076
2. Equity securities	6	7,027	16,392	-	7,064	16,593
2.1 Designated at fair value	6	7,027	-	-	7,064	16,593
2.2 Carried at cost	-	-	16,392	-	-	-
3. UCITS units	-	307,709	-	-	183,303	-
4. Loans	-	-	-	-	-	-
Total	866,813	711,498	47,408	754,293	610,224	22,669

The increase in the item “Debt securities – Other debt securities” for Level 1 can be mainly attributed to the purchase of listed Italian government securities (Treasury Credit Certificates, Long-Term Treasury Bonds, and Zero Coupon Bonds).

The increase in the item “Debt securities – Other debt securities” for Level 2 can mainly be attributed to the purchase of bonds issued by EU area banks.

The item “Equity securities” consists of investments representing the voting rights of less than 20% of the share capital of companies that cannot be classified as controlling interests, associated or joint control, and which do not represent a strategic investment for the Bank.

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

(thousands of Euro)	31.12.2016	31.12.2015
1. Debt securities	1,294,586	1,180,226
a) Governments and central banks	871,890	759,377
b) Other public entities	141	212
c) Banks	321,416	368,090
d) Other issuers	101,139	52,547
2. Equity securities	23,424	23,657
a) Banks	10,704	9,582
b) Other issuers:	12,720	14,075
- Insurance companies	1,751	1,751
- Financial companies	1,765	1,807
- Non-financial companies	9,204	10,517
- Other	-	-
3. UCITS units	307,709	183,303
4. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	1,625,719	1,387,186

4.3 Financial assets available for sale subject to micro-hedging

At the balance sheet date, as in the previous year, there were no financial assets available for sale subject to micro-hedging.

Results of impairment test on financial assets available for sale

With reference to the values as at 31 December 2016, an impairment test was performed to recognise any impairment losses in the income statement, in conformity with IAS 36 and with the criteria described in “Part A – Accounting policies” of these Notes to the Accounts.

The test is performed to verify the presence of impairment indicators and determine any write-downs. Impairment indicators can essentially be subdivided into two categories: indicators deriving from internal factors inherent to the company issuing the instruments subject to valuation, and hence qualitative, and external indicators deriving from the market value of the instrument (for the case of listed equity securities). The presence of an internal impairment indicator for the issuer and of a trading price significantly lower than the carrying amount for a significant period implies the recognition of impairment. When deemed necessary, the impairment test was also corroborated by specific analysis results relative to the security and at the investment.

The continued uncertainty surrounding financial markets and the intensification of the financial crisis means that the adequacy of the impairment indicators has to be monitored continuously. In order to draft these financial statements, an attentive evaluation of the financial instruments classified as available for sale (AFS) was made in order to determine whether there was any impairment.

For debt securities, the impairment indicator is the specific issue rating. All debt securities are from issuers with investment-grade ratings and are all listed instruments. Overall, the exposure in terms of debt securities as at 31 December 2016 amounted to Euro 1,294.6 million. There were no impairment indicators for these specific instruments.

For the security classified in the AFS category for the equity investment held by the Voluntary Programme of the Inter-Bank Deposit Protection Fund, note the following. The security was recorded on the initial recognition date at its fair value, corresponding to the amount of the payment made to the Voluntary Programme and equivalent to Euro 1.5 million. For the value as at 31 December 2016, the Voluntary Programme requested an assessment of the shareholding by an independent company. The expert's report identified the economic value of the investment held by the Voluntary Programme by applying the DDM methodology with the excess capital variant. The expert also applied the market multiples method, solely for comparison purposes. The economic value thus determined was considered its value in use. The difference between this value and the higher carrying amount, equivalent to Euro 0.4 million, was considered impairment and charged to the income statement.

With reference to impairment of UCITS units and securities, the valuation policy set thresholds for significance and duration parameters, identified as a significant reduction in fair value of more than 50% compared to its carrying amount if this difference is built up over one financial year only, or a reduction in fair value of between 30% and 50% over a three-year time period, normalised for volatility. Overall, the exposure in terms of debt securities as at 31 December 2016 amounted to Euro 307.7 million.

Equity securities are mainly made up of unlisted equity investments for which no recent transactions are available. Considering the objective complexity of valuing them - apart from listed equity investments where it is possible to identify the fair value - the best indication of fair value of these investments is usually the purchase cost. In this context where fair value is calculated on a prudent basis, the check for impairment is based on the examination of information from the most recent financial statements available, performance indicators and other company information available that can provide evidence of any possible impairment. Overall, the exposure in terms of debt securities as at 31 December 2016 amounted to Euro 23.4 million.

There was no evidence of impairment on other equity securities as at 31 December 2016.

Section 5 INVESTMENTS HELD TO MATURITY – ITEM 50

5.1 Investments held to maturity: breakdown by type

(thousands of Euro)	31.12.2016				31.12.2015			
	BV	FV			BV	FV		
		L1	L2	L3		L1	L2	L3
1. Debt securities	260,924	248,562	19,334	558	170,426	158,391	19,877	607
- Structured	-	-	-	-	-	-	-	-
- Other	260,924	248,562	19,334	558	170,426	158,391	19,877	607
2. Loans	-	-	-	-	-	-	-	-
Total	260,924	248,562	19,334	558	170,426	158,391	19,877	607

Key: FV = Fair value; BV = Book value; L1 = Level 1; L2 = Level 2; L3 = Level 3

The item “Debt securities – other securities” consists of purchases of long-term treasury bonds and treasury credit certificates.

5.2 Investments held to maturity: breakdown by debtor/issuer

(thousands of Euro)	31.12.2016	31.12.2015
1. Debt securities	260,924	170,426
a) Governments and central banks	241,052	149,942
b) Other public entities	-	-
c) Banks	12,072	12,076
d) Other issuers	7,800	8,408
2. Loans	-	-
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	260,924	170,426
Total fair value	268,454	178,875

5.3 Investments held to maturity subject to micro-hedging

At the balance sheet date, as in the previous year, there are no investments held to maturity subject to micro-hedging.

Results of impairment tests for investments held to maturity

With reference to the values as at 31 December 2016, an impairment test was performed to recognise any impairment losses in the income statement, based on the criteria described in “Part A – Accounting policies” of these Notes to the Accounts.

This category comprises a single financial instrument, relating to a senior tranche of a securitisation for residential properties, whose book value was Euro 0.7 million as at 31 December 2016, as well as debt securities.

The tranche of the securitisation is rated by the three biggest ratings agencies: Standard & Poor's, Moody's and Fitch, therefore the impairment indicator was identified as the impairment of the specific issue rating. The issuer rating for the purpose of checking impairment was calculated using the median value of the ratings assigned by the reference agencies (Moody's, Standard & Poor's, Fitch). Instead, the values of the issuer probability of default (PD) emerge from the application of an internal hybrid model and Bloomberg. The issue had a weighted average life of 5.2 years at the reference date. No elements were detected that suggested impairment, considering also that the figures for the pool factor (0.27 as at December 2016) and loan to value were still positive.

Other instruments are represented by long-term treasury bonds issued by the Italian State and debit securities issued by Cassa Depositi e Prestiti and Banca Monte dei Paschi di Siena e Cassa del Trentino, in relation to which no evidence of impairment was found.

Section 6 DUE FROM BANKS – ITEM 60

6.1 Due from banks: breakdown by type

(thousands of Euro)	31.12.2016				31.12.2015			
	BV	Fair value (*)			BV	Fair value (*)		
		L1	L2	L3		L1	L2	L3
A. Due from Central Banks	31,045	-	31,045	-	36,717	-	36,717	-
1. Fixed-term deposits	-	X	X	X	18,394	X	X	X
2. Compulsory reserve	31,045	X	X	X	18,323	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Due from banks	10,872	-	10,872	-	8,087	-	8,087	-
1. Loans	10,872	X	10,872	-	8,087	X	8,087	-
1.1 Current accounts and demand deposits	8,822	X	X	X	3,072	X	X	X
1.2 Fixed-term deposits	50	X	X	X	50	X	X	X
1.3 Other loans	2,000	X	X	X	4,965	X	X	X
- Repurchase agreements	-	X	X	X	-	X	X	X
- Financial leasing	-	X	X	X	-	X	X	X
- Other	2,000	X	X	X	4,965	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	-	X	X	X	-	X	X	X
Total	41,917	-	41,917	-	44,804	-	44,804	-

Key: FV = Fair value; BV = Book value; L1 = Level 1; L2 = Level 2; L3 = Level 3

(*) As regards the determination of the fair value level, please refer to "Part A - Information on the Main Items of the Financial Statements, 17 - Other information".

Considering the short-term expiry of the amount due from banks, the best fair value measure is given by the book value. As at 31 December 2016, there were no impaired assets from banks.

This category includes unlisted financial assets on an active market (Level 2 and Level 3) held at banks (current accounts, guarantee deposits, debt securities etc.) classified in the "loans and receivables" portfolio. Operating receivables related to the provision of financial services and assets sold that do not meet the conditions of IAS 39 to be derecognised from the financial statements ("sold and not derecognised") and impaired assets are included in the category.

6.2 *Due from banks subject to micro-hedging*

At the balance sheet date, as in the previous year, there are no loans to banks subject to micro-hedging.

6.3 *Financial leasing*

At the balance sheet date, as in the previous year, there are no loans to banks associated with financial lease transactions.

Section 7 LOANS TO CUSTOMERS - ITEM 70

7.1 Due from banks: breakdown by type

	31.12.2015									
	31.12.2016					31.12.2015				
	Book value		Fair value		L3	Book value		Fair value		L3
Not impaired	Impaired	L1	L2	Not impaired		Impaired	L1	L2		
Loans	5,893,608	668,926	-	6,984,945	-	5,669,777	627,644	-	6,762,580	-
1. Current accounts	1,149,021	-	X	X	X	1,285,476	-	X	X	X
2. Repurchase agreements	-	303,933	-	X	X	3,288	-	X	X	X
3. Mortgages	4,121,785	-	X	X	X	3,749,275	-	X	X	X
4. Credit cards, personal loans and loans on salary	111,530	-	X	X	X	107,502	-	X	X	X
5. Financial leasing	-	-	X	X	X	-	-	X	X	X
6. Factoring	-	-	X	X	X	-	-	X	X	X
7. Other loans	511,272	-	X	X	X	524,236	-	X	X	X
Debt securities	164,689	36,722	-	-	-	150,450	28,945	-	-	-
8. Structured securities	-	-	-	-	-	-	-	-	-	-
9. Other debt securities	164,689	-	X	X	X	150,450	-	X	X	X
Total	6,058,297	668,926	-	6,984,945	-	5,820,227	627,644	-	6,762,580	-

Loans disbursed with the Bank's own funds and the portion of loans provided by public entities with related risk borne by the Bank amount to Euro 151.7 million, 104.7 million of which by public entities.

7.2 Loans to customers: breakdown by debtor/issuer

<i>(thousands of Euro)</i>	31.12.2016			31.12.2015		
	Not impaired	Impaired		Not impaired	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities:	164,689	-	-	150,450	-	-
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	164,689	-	-	150,450	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- Insurance	164,689	-	-	150,450	-	-
- other	-	-	-	-	-	-
2. Loans to:	5,893,608	-	668,926	5,669,777	-	627,644
a) Governments	-	-	-	-	-	-
b) Other public entities	25,506	-	-	13,005	-	-
c) Other entities	5,868,102	-	668,926	5,656,772	-	627,644
- non-financial companies	3,539,215	-	546,045	3,419,355	-	508,035
- financial companies	95,652	-	5,788	88,015	-	9,369
- Insurance	142	-	-	151	-	-
- Other	2,233,093	-	117,093	2,149,251	-	110,240
Total	6,058,297	-	668,926	5,820,227	-	627,644

7.3 Loans to customers: assets subject to micro-hedging

At the balance sheet date, as in the previous year, there are no loans to customers subject to micro-hedging.

7.4 Financial leasing

At the balance sheet date, as in the previous year, there are no loans deriving from financial lease transactions.

Section 8 HEDGES – ITEM 80

8.1 Hedges: breakdown by type and level

At the balance sheet date, as in the previous year, there are no hedges.

8.2 Hedges: breakdown by portfolios hedged and by hedge type

At the balance sheet date, as in the previous year, there are no hedges.

Section 9 VALUE ADJUSTMENTS OF FINANCIAL ASSETS SUBJECT TO HEDGING – ITEM 90

9.1 Value adjustments of hedged assets: breakdown by portfolios hedged

At the balance sheet date, as in the previous year, there were no financial assets subject to macro-hedging.

9.2 Assets subject to macro-hedging for interest rate risk

At the balance sheet date, as in the previous year, there were no financial assets subject to macro-hedging of interest rate risk.

Section 10 INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL – ITEM 100

10.1 Investments in associates and companies subject to joint control: information on investment relationships

Company Name	Registered office	% investment	% voting rights
A. Wholly-owned subsidiaries			
1. Voba Invest S.r.l. in liquidation	Bolzano	100.00%	100.00%
2. Valpolicella Alta Società Agricola S.r.l.	Bolzano	100.00%	100.00%
B. Companies subject to joint control			
C. Companies subject to significant influence			
1. Casa di cura Villa S. Anna S.r.l.	Merano	35.00%	35.00%
2. Quartiere Brizzi S.r.l.	Chienes	48.50%	48.50%
3. Tre S.r.l.	Trento	30.00%	30.00%

10.2 Significant investments: book value, fair value and dividends paid

As in the previous year, the Company did not hold any significant investments at the balance sheet date.

10.3 Significant investments: accounting information

As in the previous year, the Company did not hold any significant investments at the balance sheet date.

10.4 Minor investments: accounting information

Company Name	Book value of investments	Total assets	Total liabilities	Total revenues	Net current operating profit (loss) after tax	Income (loss) after tax from discontinued operations	Net income (loss) for the year (1)	Other income components after tax (2)	Comprehensive income (3) = (1)+(2)
A. Wholly-owned subsidiaries									
1. Voba Invest S.r.l. in liquidation	2,260	3,895	1,635	2,858	2,537	-	2,537	-	2,537
2. Valpolicella Alta Società Agricola S.r.l.	3,127	4,331	4,314	226	(141)	-	(141)	-	(141)
B. Companies subject to joint control									
C. Companies subject to significant influence									
1. Casa di cura Villa S. Anna (*)	511	7,572	5,885	5,391	121	-	121	-	121
2. Quartiere Brizzi S.r.l. (*)	850	7,489	7,466	326	(28)	-	(28)	-	(28)
3. Tre S.r.l. (*)	165	367	285	1	(2)	-	(2)	-	(2)

(*) The figures for the investee companies refer to the most recent financial statements available.

10.5 Investments: annual changes

(thousands of Euro)	31.12.2016	31.12.2015
A. Opening balance	4,769	4,626
B. Increases	2,285	143
B.1 Purchases	-	-
B.2 Recoveries	2,260	143
B.3 Revaluations	25	-
B.4 Other changes	-	-
C. Decreases	141	-
C.1 Sales	-	-
C.2 Adjustments	141	-
C.3 Other changes	-	-
D. Closing balance	6,913	4,769
E. Total revaluations	235	210
F. Total adjustments	2,517	2,376

(*) The figures for the investee companies refer to the most recent financial statements available.

The item B.2 "Recoveries" refers to the change in equity investments due to the recognition of the profit reported by the investee companies, recognised at equity.

Results of impairment tests on the investments

As described in the "Part A – Accounting Policies", the investments were subject to impairment testing to evaluate the recoverability of the carrying amount.

In identifying potential signs of impairment, particular attention was given to the analysis of economic results after the date control was acquired, as well as, when available, the prospective future profitability.

In order to detect any impairment, the carrying amount was compared with the recoverable value of the equity investment. Based on IAS 36, the recoverable value is represented by the greater of the fair value net of selling costs and the value in use.

Based on the above, the impairment test on investments as at 31 December 2016 did not result in the need to make adjustments.

10.6 Commitments in reference to investments in companies subject to joint control

At the balance sheet date, as in previous financial years, there are no commitments in reference to investments in subsidiaries jointly controlled.

10.7 Commitments in reference to investments in companies subject to significant influence

At the balance sheet date, as in the previous financial year, there are no commitments in reference to investments in companies subject to significant influence.

10.8 Significant restrictions

At the balance sheet date, as in the previous year, there are no significant restrictions in reference to investments.

10.9 Other information

For the majority of equity investments, the timing of availability of year-end financial statements is not comparable with the close of the financial year of Banca Popolare - Volksbank. The application of the equity method refers to the latest accounting reports available, represented, in the majority of cases, by the half-yearly financial report, or, if not available, the financial statements from the previous year.

If the accounting reports of the investee company used in applying the equity method relate to a different date from the reference date of the financial statements of Banca Popolare - Volksbank, adjustments are made which take account of the known effects of transactions or significant events that occur between the date of the accounting position and the reference date of the financial statements.

Section 11 PROPERTY AND EQUIPMENT – ITEM 110

11.1 Property and equipment for business use: breakdown of assets carried at cost

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
1 Assets owned	140,683	143,789
a) Land	38,323	40,056
b) Buildings	91,908	95,603
c) Movable assets	2,588	2,475
d) Electronic systems	4,973	3,125
e) Other	2,891	2,530
2 Assets acquired under finance lease	-	-
a) Land	-	-
b) Buildings	-	-
c) Movable assets	-	-
d) Electronic systems	-	-
e) Other	-	-
Total	140,683	143,789

11.2 Property and equipment held for investment purposes: breakdown of assets carried at cost

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
Assets owned	1,793	1,802
a) Land	185	185
b) Buildings	1,608	1,617
Assets acquired under finance lease	-	-
a) Land	-	-
b) Buildings	-	-
Total	1,793	1,802

11.3 Property and equipment for business use: breakdown of revalued assets

At the balance sheet date, as in the previous financial year, there was no revalued property and equipment for business use.

11.4 Property and equipment held for investment purposes: breakdown of assets measured at fair value

At the balance sheet date, as in the previous financial year, there was no property and equipment held for investment purposes measured at fair value.

11.5 Property and equipment for business use: annual changes

<i>(thousands of Euro)</i>		Land	Buildings	Movable assets	Electronic systems	Other	Total
A.	Gross opening balance	40,241	138,200	42,268	30,165	42,250	293,124
A.1	Net total impairment	-	40,980	39,793	27,040	39,720	147,533
A.2	Net opening balance	40,241	97,220	2,475	3,125	2,530	145,591
B.	Increases:	-	1,416	626	3,470	1,441	6,953
B.1	Purchases	-	306	626	3,470	1,441	5,843
B.2	Expenditure for capitalised improvements	-	1,110	-	-	-	1,110
B.3	Recoveries	-	-	-	-	-	-
B.4	Positive changes in fair value charged to:						
	a) Shareholders' equity	-	-	-	-	-	-
	b) Income statement	-	-	-	-	-	-
B.5	Positive exchange differences	-	-	-	-	-	-
B.6	Transfers from properties held for investment purposes	-	-	-	-	-	-
B.7	Other changes	-	-	-	-	-	-
B.8	Business combinations	-	-	-	-	-	-
C.	Decreases	1,733	5,120	513	1,622	1,080	10,068
C.1	Sales	1,733	1,018	-	-	2	2,753
C.2	Amortisation	-	4,102	513	1,622	1,078	7,315
C.3	Value adjustments for impairment charged to:						
	a) shareholders' equity	-	-	-	-	-	-
	b) income statement	-	-	-	-	-	-
C.4	Negative changes in fair value charged to:						
	a) shareholders' equity	-	-	-	-	-	-
	b) income statement	-	-	-	-	-	-
C.5	Negative exchange differences	-	-	-	-	-	-
C.6	Transfers to:						
	a) property and equipment held for investment	-	-	-	-	-	-
	b) assets held for sale	-	-	-	-	-	-
C.7	Other changes	-	-	-	-	-	-
C.8	Business combinations	-	-	-	-	-	-
D.	Net closing balance	38,508	93,516	2,588	4,973	2,891	142,476
D.1	Net total impairment	-	40,980	40,306	27,040	40,251	148,577
D.2	Gross closing balance	38,508	134,496	42,894	32,013	43,142	291,053
E.	Valuation at cost	-	-	-	-	-	-

11.6 Property and equipment held for investment purposes: annual changes

<i>(thousands of Euro)</i>	Land	Buildings
A. Gross opening balance	185	1,624
A.1 Net total impairment	-	7
A.2 Net opening balance	185	1,617
B. Increases:	-	-
B.1 Purchases	-	-
B.2 Expenditure for capitalised improvements	-	-
B.3 Recoveries	-	-
B.4 Positive changes in fair value charged to:		
a) Shareholders' equity	-	-
b) Income statement	-	-
B.5 Positive exchange differences	-	-
B.6 Transfers from properties held for investment purposes	-	-
B.7 Other changes	-	-
B.8 Business combinations	-	-
C. Decreases	-	9
C.1 Sales	-	-
C.2 Amortisation	-	9
C.3 Value adjustments for impairment charged to:		
a) shareholders' equity	-	-
b) income statement	-	-
C.4 Negative changes in fair value charged to:		
a) shareholders' equity	-	-
b) income statement	-	-
C.5 Negative exchange differences	-	-
C.6 Transfers to:	-	-
a) property and equipment held for investment	-	-
b) assets held for sale	-	-
C.7 Other changes	-	-
C.8 Business combinations	-	-
D. Net closing balance	185	1,608
D.1 Net total impairment	-	9
D.2 Gross closing balance	185	1,617
E. Valuation at cost	-	-

11.7 Commitments for the purchase of property and equipment (IAS 16/74.c)

At the balance sheet date, as in the previous financial year, there were no commitments for the purchase of property and equipment.

Section 12 INTANGIBLE ASSETS – ITEM 120

12.1 Intangible assets: breakdown by type of asset

(thousands of Euro)		31.12.2016		31.12.2015	
		Definite life	Indefinite life	Definite life	Indefinite life
A.1	Goodwill	X	99,602	X	99,602
A.2	Other intangible assets	20,768	-	22,335	-
A.2.1	Assets carried at cost:	20,768	-	22,335	-
	a) Internally generated intangible assets	-	-	-	-
	b) Other assets	20,768	-	22,335	-
A.2.2	Assets measured at fair value:	-	-	-	-
	a) Internally generated intangible assets	-	-	-	-
	b) Other assets	-	-	-	-
Total		20,768	99,602	22,335	99,602

Information on intangible assets and goodwill

The application of the IFRS 3 accounting standard in recording acquisition transactions may result in the recognition of intangible assets and goodwill. For Banca Popolare - Volksbank, the acquisition, on 25 February 2008, of the business unit consisting of 6 branches of Banca Intesa Group, as well as the merger, on 1 April 2015, with Banca Popolare di Marostica Group, resulted in the recognition of intangible assets and goodwill.

The table below summarises the values of the intangible assets and goodwill recognised in the financial statements

CGU	31.12.2015	Amort./Depr.	Other changes	31.12.2016
Client relationship former IntesaSanpaolo BU	373	-373	-	-
Client relationship former Popolare Marostica Group	21,358	-971	-	20,386
Goodwill	99,601	-	-	99,601
Other	604	-504	-	383
Total	121,937	-1,848	-	120,370

with the relative changes over the year, broken down by cash generating unit (CGU).

For intangible assets with finite useful lives, represented by the customer relationship, and software, the amortisation for the year was charged to the income statement (included in item "210. Net adjustments to/recoveries on intangible assets") and amounts to a total of Euro 1.8 million prior to the tax effect. Note, in particular, that the customer relationship for the business unit consisting of branches of the former IntesaSanpaolo was amortised over a period of 8 years, reaching full amortisation in 2016, while the client relationship recognised with the merger of Banca Popolare di Marostica Group was amortised over a period of 22 years.

IAS 36 envisages that intangible assets with finite useful lives and goodwill are subject to impairment testing at least annually. Furthermore, for intangible assets with finite useful lives, the impairment test must be performed each time there is an indicator of loss in value. The impairment test has the objective of determining if the recoverable value is equal to or greater than the carrying amount. IAS 36 specifies that the recoverable value is represented by the greater of value in use and fair value net of sales costs.

In addition, IAS 36 states that, in determining the value in use of intangible assets subject to impairment testing, reference must be made to cash flows for the intangible assets in its current condition on the date of the impairment test, without distinguishing between cash flows for the asset that was originally recognised in applying IFRS 3 and the cash flows for the asset on the impairment test date, as it would be difficult to separate the cash flows at the different times, especially in cases following significant turnover in volumes, customers, contracts, etc.

This concept is also replicable for determining, for purposes of impairment testing on goodwill, the value in use of the CGU, whose cash flows must be considered in reference to all assets and liabilities included in the CGU, and not only for assets and liabilities against which the goodwill was recognised when IFRS 3 was applied.

With regard to the impairment testing for the 2016 financial statements, as for previous years, in consideration of the volatility in financial markets and the values derived from the markets, the reference value for calculating the recoverable value was the value in use.

Finally, note that the methodologies and assumptions underlying the impairment procedure for intangible assets and goodwill, defined by management, were approved by the Board of Directors prior to the approval of the 2016 financial statements.

Impairment testing for goodwill

Identification of the cash generating unit (CGU)

For Banca Popolare - Volksbank, the only intangible asset with finite useful life is goodwill, which does not generate cash flows independently, rather as part of all the other business assets. As previously stated, the impairment test was developed by estimating the value in use, as permitted by IAS 36.

Firstly, the cash generating unit is identified, defined by IAS 36 as the independent organisational unit from a management perspective that is able to generate cash flows essentially separated from those produced by other operating areas, but interrelated within the organisational unit that generates them.

IAS 36 specifies that the impairment test for goodwill requires the identification of the management reporting level that business management uses to identify the governance activities and monitor the trends in results. Hence, the definition of the significant reporting level for purposes of the impairment test depends on the relevant organisational structure in order to attribute management responsibilities as part of defining the guidelines for operating activities and resulting monitoring.

Consistent with the approach adopted for recognising goodwill, the recoverable value for the impairment test includes the valuation of all synergies that Banca Popolare - Volksbank will obtain from integrating the assets acquired in the business combination that generated the goodwill.

The management organisational and governance model of Banca Popolare - Volksbank envisages that:

- management decisions are highly centralised in general management;
- strategies, identification of new products or services, and sales initiatives are outlined and addressed centrally and applied indistinctly to all the regional sales departments;
- planning processes and reporting systems are managed at the business level, without being broken down into operating segments;
- financial risk management is highly centralised, ensuring consistency between capital allocation policies and financial risks assumed at the business level;
- there are no distinct operating divisions or operating segments for homogeneous markets or sectors or based on similar economic characteristics and degree of development.

As a result of the highly centralised structure, revenue flows are governed by business policies that are formulated centrally, based on balanced growth of the entire Bank entity.

Additionally, the individual business departments (Loans, Workout, Operations, Finance, Human Resources, Veneto Market Centre and Alto Adige Market Centre) have cash flows that are closely correlated to the policies formulated by Bank management and the Board of Directors. These policies are defined and implemented consistent with a single management design, which aims to achieve centralised governance and to ensure organic and balanced growth of all the individual structures, to obtain the overall growth of the business. Growth strategies of business initiatives, identification and development of new products and services, processes to define the limits of financial risk assumed, and planning and executing sales initiatives are centrally mapped out and managed. Sales departments then guide their respective network structures in these defined initiatives, implementing them in the specific regional entities.

Hence, a single business governance activity must follow, which is based on an integrated and uniform system of activating the governance processes and processes for controlling and monitoring results obtained, and, therefore, the reference CGU to which goodwill is allocated is the entire banking business.

Criteria for estimating value in use

As is known, the valuations for financial statement purposes, in particular when they express entity-specific valuations, such as in the case of value in use, are conventional measurements, in the sense that they satisfy the requirements of accounting standards. Thus, value in use, as determined for purposes of testing goodwill impairment, differs both in respect to the configuration of the fair value, and in respect to other value configurations. The value in use is identified by IAS 36 as the current value of the expected cash flows from the asset.

The CGU's value in use is calculated by estimating the current value of future cash flows that are expected to be generated by the CGU. These cash flows are estimated using the latest available business plan, approved by the Board of Directors in the second half of the year. Hence, the development of the estimation methodology is based and depends on the assumption that the business plan reflects realistic assumptions on the banking activity's business prospects.

The analytic forecast period includes a time horizon of five years. The cash flow of the last year of the analytic forecast is then projected in perpetuity using an appropriate growth rate, "g", to calculate the terminal value.

In determining the value in use, cash flows must be discounted at a rate that reflects current estimates of the time value of money and the specific risks of the asset. In particular, discount rates incorporate current market values in reference to the risk-free rate as well as a risk premium correlated to the equity component, observed over a period of time that is long enough to reflect market conditions and differentiated economic cycles, as well as in reference to an observable sample of comparable listed banks.

Estimating cash flows

In calculating the value in use as part of impairment testing for the 2016 financial statements, uncertainties that characterise the future macroeconomic scenario and trends in financial markets make it particularly difficult to define the expected cash flows from operations and the relevant growth rate to determine the terminal value of the CGU.

The macroeconomic context defined for the 2017-2021 timeframe is based on a reference scenario for the economy of moderate expansion during that period. The Italian economy recorded growth of 0.8% in 2016, which is essentially in line with forecasts for a slight recovery that were formulated last year. Various developments underway could facilitate a recovery in 2017, investments in machinery, equipment, and vehicles, investments in construction, and continued expansionary financial and economic policies.

With regard to the banking sector, it should first be noted that in 2016, loans to families maintained growth levels that were seen in 2015 (+0.7%), while loans to the non-financial sector improved (+0.3%), against a drop of -0.3% in 2015. Loans to families and businesses are expected to show higher growth in 2018, when, on average, the overall volume is finally expected to increase by 1.7% and 1.0%, respectively. From 2017 and in subsequent years, forecasts for positive performance in demand for investments are confirmed.

With regard to bank funding, trends observed in 2016 confirmed the positive results seen in the previous year, although with a slight decline, in particular in growth in deposits and the reduction in bonds. In reference to deposits, the favourable dynamic of the demand component continued, while term deposits decreased.

The abundant available liquidity, which is also expected in 2017, will support the containment of the funding cost, which is expected to drop slightly in 2018. At the same time, the recomposition of banks' liabilities toward deposits will continue, with the gradual repayment of bonds placed with retail customers.

In reference to loan rates, the decreasing trend continued in 2016. Rates on new loans to businesses reached historic lows, despite the persistence of credit risk at historically high levels. Similarly, in reference to the average cost of funding, in 2017, values lower than the previous year are expected, including as a result of the recomposition of the aggregate toward less expensive forms.

Hence, in 2017-2018, the spread between lending and deposit rates will remain at 2016 year-end levels, on an average annual basis. Subsequently, there will be a gradual resurgence of lending rates, consistent with Euribor rate projections, together with slower adjustments to deposit rates, which will allow the spread to increase.

As previously noted, financial valuation criteria, such as those used to estimate value in use, envisage that the value of a business at the end of the analytic forecast period for cash flows (“terminal value”) is generally determined by capitalising to infinity the “standard” cash flow achieved, at an appropriate rate “g”.

For purposes of developing the method, a minimum level of prudential requirements was assumed, calculated in reference to, amongst other things, the minimum SREP thresholds indicated by the supervisory authority for a sample of listed Italian banks and subject to European supervision, as well as assuming the theoretical issue of Tier 2 instruments.

For the impairment test as at 31 December 2016, consistent with those of previous years, the forecasted long-term inflation rate was used as the long-term growth rate.

Discount rates for cash flows

In determining the value in use, cash flows must be discounted at a rate that reflects current market valuations, the time value of money, and specific risks of the asset.

In practice, current market conditions require the determination of all parameters based on the most recently updated information on the estimation date, in order to best account for current market valuations.

The long-term forecast of cash flows used in estimating value in use is particularly important. In fact, goodwill has, by definition, an indefinite useful life and, thus, expected cash flows from goodwill are normally projected in perpetuity. Hence, the long-term forecast will be reflected in all parameters of the discount rate through an appropriate choice of each of these parameters, so that they express “normal” conditions in the long term.

In the specific case of a bank, the discount rate is estimated considering the cost of own capital (Ke), consistent with the methods of determining cash flows that, as previously described, include cash flows generated by financial assets and liabilities. It is established practice that this is determined using the Capital Asset Pricing Model (CAPM). According to this model, the cost of capital is calculated as the sum of returns on risk-free investments plus a risk premium, which, in turn, is dependent on the specific risk of the asset (intended as both the risk of the operating sector - in this case, banking - as well as “country risk”).

The cost of capital is determined net of taxes, consistent with the cash flows being discounted.

Since the cash flows were determined in nominal terms, the discount rates were also determined in nominal terms, that is, incorporating inflation forecasts.

For the individual components that contribute to calculating the discount rates, the risk-free component:

- was identified based on the gross annual yield of the 10-year BTP Italia benchmark recorded on 31 December 2015 for the impairment test developed for the 2015 financial statements;
- was identified based on the gross annual yield in the last 12 months of the 10-year BTP Italia benchmark recorded on 30 December 2016 for the impairment test developed for the 2016 financial statements.

The equity risk premium, or the premium for the business risk, represented by the difference between equity market yields and yields on a risk-free investment determined in reference to a sufficiently long period of time, was determined to be 5.7%, compared to 6.0% for the previous year.

The Beta ratio, which indicates the risk of a specific equity security compared to the stock market as a whole, was estimated in this case based on the average historical 5-year Betas of a sample of listed Italian cooperative banks. In this case, it was estimated based on the average historical 5-year betas, recorded as at 31 December 2015, of a sample consisting of listed Italian cooperative banks.

The table below summarises the relevant parameters used in determining the value in use.

Goodwill CGU	Risk-free	Beta	Risk premium	Ke	G
31.12.2016	1.46%	1.34	5.7%	9.07%	1.5%
31.12.2015	1.60%	1.20	6.0%	8.79%	1.5%

Results of the impairment test

The results of the impairment test show that, as at 31 December 2016, just as at 31 December 2015, the value in use of the goodwill CGU is higher than the carrying amounts. Hence, no write-downs were recognised.

The value in use calculated for the impairment test is greater than the values expressed in determining the withdrawal value following the transformation into a joint-stock company. For this reason, it is necessary to point out that the “fundamental” valuation, calculated at the reference date and developed as a function of the economic benefits offered by said asset and the relative risks, represented by the value in use, shows characteristics that differentiate it from other valuations, such as, for example, those generated for determining the withdrawal price or to determine fair value.

Furthermore, in developing the valuation model, particularly in choosing the financial parameters, the cost of capital was determined based on market parameters, analytically considering various risk factors. Specifically, the cost of capital was estimated at 9.07% for 2016, an increase over the value of 8.79% used in 2015.

Parameters and information used to verify the recoverability of intangible values with indefinite lives, including goodwill, are heavily influenced by the macroeconomic scenario and dynamics in financial markets that could result in unforeseen changes. If the macroeconomic scenario in the future were worse than assumed, it could have effects on the cash flow forecasts and on the key assumptions adopted in the business plan, as well as on the process for estimating valuation parameters, which could then result in financial results in upcoming years that are different than those expected in these financial statements.

Sensitivity analyses

Since the value in use is calculated using estimates and assumptions that may include elements of uncertainty, sensitivity analyses were performed that aimed to verify the susceptibility of the results obtained to changes in certain base parameters and assumptions, as required by IAS/IFRS standards and considering the recommendations contained in Bank of Italy, Consob, and ISVAP Document no. 4 of 3 March 2010.

In particular, the impact on the value in use of an increase in the cost of capital up to 25 bps and a change in the CET 1 ratio of 50 bps was verified.

The following table shows the results of the sensitivity analyses.

		Cost of capital		
		8.82%	9.07%	9.32%
	10.44%	894.8	864.4	835.2
CET 1 ratio	9.94%	922.9	891.9	863.1
	9.44%	950.9	919.5	890.2

Based on the table above, changes in Ke of 25 bps would result in a change in the value in use between -3.2% and +3.1%. Similarly, a decrease in the CET 1 target ratio of 50 bps would result in a change in the value in use between -3.3% and +3.5%. Note that the increase in the cost of capital (with respect to the starting value of 9.07%) needed for the value in use to equate to the carrying amount of shareholders' equity is 27 bps (cost of capital equivalent to 9.34%). At the same time, applying an increase in the CET 1 level of 25 bps and in the Ke of 25 bps would result in a value in use of Euro 835.9, which is Euro 25.5 million less than the estimated value in use.

Impairment testing of intangible assets with finite lives

Client relationship

The intangible asset "client relationship", booked for the first time in the financial statements of Banca Popolare - Volksbank as at 31 December 2015 due to the merger with Banca Popolare di Marostica Group, is considered to have a "finite life".

The customers taken as a reference for the valuation of the client relationship concerned solely the relations established before the acquisition date. Therefore, the intangible asset is linked to the status quo before the acquisition date and its fair value is of a limited duration, following the duration observed for relations between the company acquired and its customers. The capacity to generate new relationships, which cannot be separated and transferred to third parties unless the company is being transferred as a whole, is not valued in any way. This capacity to generate new relationships will therefore constitute indistinct goodwill. The client relationship was determined by valuing the following components:

- indirect funding (administered funding net of own securities, managed funding, insurance products);
- core deposits (ordinary free savings deposits, ordinary current accounts).

The client relationship was valued by discounting the net future economic flows related to it.

The value of this asset was calculated with reference to 1 April 2015, the effective date of the merger. The process for calculating the value of this asset was completed prior to the resolution to approve the draft financial statements. The impairment tests relating to this asset are primarily based on an analysis of the main indicators of the value of the asset itself, nonetheless monitored during the year (including the trend in the volumes of core deposits and indirect funding, the evolution of the likelihood of the closure of relations ("lifting curve"), evolution of the interest rate curve, changes in profitability, the level of operating expenses, and cost of capital).

No changes were observed in 2016 in the aforementioned parameters that required an impairment test with respect to the figure determined as at 31 December 2015. Thus, these in-depth analyses did not lead to the identification of impairment indicators for the client relationship intangible asset.

12.2 Intangible assets: annual changes

<i>(thousands of Euro)</i>		Goodwill	Other intangible assets: internally generated		Other intangible assets:	Total	
		DEF	INDEF		DEF	INDEF	
A.	Gross opening balance	99,602	-	-	29,093	-	128,695
A.1	Net total impairment	-	-	-	6,758	-	6,758
A.2	Net opening balance	99,602	-	-	22,335	-	121,937
B.	Increases	-	-	-	281	-	281
B.1	Purchases	-	-	-	281	-	281
B.2	Increases in internal intangible assets	X	-	-	-	-	-
B.3	Recoveries	X	-	-	-	-	-
B.4	Positive changes in fair value	-	-	-	-	-	-
	- to shareholders' equity	X	-	-	-	-	-
	- to income statement	X	-	-	-	-	-
B.5	Positive exchange differences	-	-	-	-	-	-
B.6	Other changes	-	-	-	-	-	-
B.7	Business combinations	-	-	-	-	-	-
C.	Decreases	-	-	-	1,848	-	1,848
C.1	Sales	-	-	-	-	-	-
C.2	Adjustments	-	-	-	1,848	-	1,848
	- Amortisation	X	-	-	1,848	-	1,848
	- Write-downs	-	-	-	-	-	-
C.3	Negative changes in fair value	-	-	-	-	-	-
	- to shareholders' equity	X	-	-	-	-	-
	- to income statement	X	-	-	-	-	-
C.4	Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5	Negative exchange differences	-	-	-	-	-	-
C.6	Other changes	-	-	-	-	-	-
D.	Net closing balance	99,602	-	-	20,768	-	120,370
D.1	Total net value adjustments	-	-	-	8,607	-	8,607
E.	Gross closing balance	99,602	-	-	29,375	-	128,977
F.	Valuation at cost	-	-	-	-	-	-

Key: DEF. = defined useful lives; INDEF. = indefinite useful lives

12.3 Other information

At the balance sheet date, as in the previous financial year, no commitments are reported in relation to intangible assets.

Section 13 TAX ASSETS AND TAX LIABILITIES – ITEM 130 UNDER ASSETS AND ITEM 80 UNDER LIABILITIES

13.1 Deferred tax assets: breakdown

IRES (thousands of Euro)	31.12.2016		31.12.2015	
	amount of timing differences	tax effect	amount of timing differences	tax effect
- Losses on impairment of loans	242,359	66,649	281,046	77,288
- Provisions for risks and charges	17,142	4,714	20,354	5,597
- Administrative expenses	-	-	-	-
Revaluation of fixtures and fittings (Italian Law 266, 23/12/05)	-	-	-	-
Valuation of AFS securities	14,137	3,888	8,171	2,247
Components directly recorded in the OCI statement	1,414	389	692	190
Amortisation of prepaid tax on post-2008 purchases	2,397	659	2,944	810
Goodwill from Banca di Treviso (written off by BPM)	7,904	2,173	-	-
Goodwill from merger of BMP+BTM written off	59,210	16,283	-	-
Client relationship from merger of BMP+BTM written off	971	267	-	-
2016 IRES tax loss	31,045	8,537	-	-
Carry forward of ACE (aid for economic growth) to subsequent years	6,691	1,840	-	-
2015 tax loss for BPM+BTM	19,174	5,273	-	-
- Write-down of buildings (non-deemed cost)	-	-	-	-
- Other	3,713	1,021	12,334	3,392
Total	406,157	111,693	325,541	89,524

IRAP (thousands of Euro)	31.12.2016		31.12.2015	
	amount of timing differences	tax effect	amount of timing differences	tax effect
- Impairments and losses on loans	131,248	6,694	138,156	6,958
- Provisions for risks and charges	17,142	874	20,354	1,025
- Revaluation of fixtures and fittings (Italian Law 266, 23/12/05)	-	-	-	-
Valuation of AFS securities	14,137	712	8,171	412
Write-down of buildings (non-deemed cost)	-	-	-	-
Goodwill from Banca di Treviso (written off by BPM)	7,904	403	-	-
Goodwill from merger of BMP+BTM written off	59,210	3,020	-	-
Client relationship from merger of BMP+BTM written off	874	45	-	-
Reversals of loans limited to net negative value	6,908	352	-	-
- Other	5,089	259	11,740	591
Total	242,512	12,359	178,421	8,986

Deferred tax assets, accounted for with reference to deductible temporary differences, amounted to Euro 124.1 million and refer, for Euro 119.1 million, to taxes recorded as a contra-entry in the income statement and, for Euro 5.0 million, to taxes booked as a contra-item in shareholders' equity.

The former refer mainly to taxes for losses carried forward, to the portion not offset by benefits connected to deductibility in future years of adjustments to loans and allocations to provisions for risks and charges, as well as to the benefit deriving from the realignment of the tax value of goodwill, of trademarks and of other intangible assets pursuant to art. 15, paragraph 10 of Italian Law Decree no. 185/2008 and Italian Law Decree no. 98/11. Deferred tax assets as a contra-entry in shareholders' equity relate almost exclusively to taxes on negative valuation reserves relating to financial assets available for sale.

13.2 Deferred tax liabilities: breakdown

IRES (thousands of Euro)	31.12.2016		31.12.2015	
	amount of timing differences	tax effect	amount of timing differences	tax effect
- Land depreciation	2,510	690	2,510	690
- Revaluation of property at deemed cost	57,592	15,838	59,109	16,255
- Valuation of AFS securities	7,387	2,031	8,770	2,412
Components directly recorded in the OCI statement	-	-	-	-
- Revaluation of investments - AFS PEX	65	18	66	18
- Goodwill amortisation	20,891	5,745	18,724	5,149
- Client relationship	-	-	21,358	5,873
Contribution to Voluntary Programme of Inter-Bank Deposit Protection Fund	1,153	317	-	-
Gain on sale of buildings	2,223	611	-	-
Other	89	25	89	24
Total	91,910	25,275	110,626	30,421

IRAP (thousands of Euro)	31.12.2016		31.12.2015	
	amount of timing differences	tax effect	amount of timing differences	tax effect
- Land depreciation	2,510	128	2,510	126
- Revaluation of property at deemed cost	57,592	2,937	59,109	2,977
- Valuation of AFS securities	7,387	372	8,770	442
- Revaluation of investments AFS PEX (*)	1,302	66	-	-
Goodwill amortisation	20,765	1,059	18,598	937
Client relationship from PPA of BPM+BTV merger	-	-	-	-
Contribution to Voluntary Programme of Inter-Bank Deposit Protection Fund	1,529	78	-	-
Other	1,782	91	24,537	1,236
Total	92,867	4,731	113,524	5,718

Deferred tax liabilities amounted to Euro 30.0 million and were booked as a contra-entry in the income statement for Euro 27.5 million, and as a contra-entry in shareholders' equity for Euro 2.5 million.

13.3 Changes in prepaid taxes (with contra-entry in the income statement)

(thousands of Euro)	IRES	IRAP	31.12.2016	31.12.2015
1. Initial amount			95,661	26,989
2. Increases	28,254	3,822	32,076	71,589
2.1 Deferred tax assets recognised during the year	28,254	3,822	32,076	7,469
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) recoveries	-	-	-	-
d) Other	28,254	3,822	32,076	7,469
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
2.4 Business combinations	-	-	-	64,120
3. Decreases	7,924	750	8,674	2,917
3.1 Deferred tax assets cancelled during the year	5,916	734	6,650	2,917
a) Reversals	5,916	734	6,650	2,917
b) write-downs for uncollectible amounts	-	-	-	-
c) change of accounting standards	-	-	-	-
d) Other	-	-	-	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	2,008	16	2,024	-
a) conversion into tax credits under Italian Law no. 214/2011	-	-	-	-
b) other	2,008	16	2,024	-
4. Final amount			119,063	95,661

As at 31 December 2016, sub-item 2. "Increases: - d) other" mainly includes prepaid taxes related to tax relief on goodwill resulting from the merger with Banca Popolare di Marostica Group for Euro 16.3 million, the loss for the year relative to IRES for Euro 8.5 million, and prepaid taxes for the tax relief on goodwill for Euro 3.0 million relative to IRAP.

13.3.1 Changes in prepaid taxes pursuant to Law 214/2011 (with corresponding entry in the income statement)

<i>(thousands of Euro)</i>	IRES	IRAP	31.12.2016	31.12.2015
1. Initial amount	79,255	7,356	86,611	25,055
2. Increases	3,491	445	3,936	61,556
Of which business combinations	-	-	-	55,316
3. Decreases	10,756	352	11,108	-
3.1 Reversals	3,491	352	3,843	-
3.2 Conversion into tax credits	-	-	-	-
a) deriving from losses for the year	-	-	-	-
b) deriving from tax losses	-	-	-	-
3.3 Other decreases	7,265	-	7,265	-
4. Final amount			79,439	86,611

The balances shown include amounts resulting from changes in the 2016 tax declarations for 2015 income of the Banca Popolare di Marostica Group.

13.4 Changes in deferred taxes (with contra-entry in the income statement)

<i>(thousands of Euro)</i>	IRES	IRAP	31.12.2016	31.12.2015
1. Initial amount		33,201	24,136	23,869
2. Increases	1,628	239	1,867	11,169
2.1 Deferred tax liabilities recognised during the year	1,628	239	1,867	9,467
a) relating to previous years	-	-	-	9,467
b) due to change in accounting standards	-	-	-	-
c) other	1,628	239	1,867	-
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
2.4 Business combinations	-	-	-	1,702
3. Decreases	6,394	1,155	7,549	2,104
3.1 Deferred tax liabilities cancelled during the year	6,394	1,155	7,549	2,104
a) reversals	521	76	597	2,104
b) due to change in accounting standards	-	-	-	-
c) other	5,873	1,079	6,952	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
4. Final amount			27,519	33,201

13.5 Changes in prepaid taxes (with corresponding entry under shareholders' equity)

<i>(thousands of Euro)</i>	IRES	IRAP	31.12.2016	31.12.2015
1. Initial amount			2,849	781
2. Increases	1,843	301	2,144	2,525
2.1 Deferred tax assets recognised during the year	1,843	301	2,144	2,458
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) other	1,843	301	2,144	2,458
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
2.4 Business combinations	-	-	-	67
3. Decreases	4	-	4	457
3.1 Deferred tax assets cancelled during the year	4	-	4	457
a) reversals	-	-	-	457
b) write-downs for uncollectible amounts	-	-	-	-
c) due to change in accounting standards	-	-	-	-
d) other	4	-	4	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
4. Final amount			4,989	2,849

The change in prepaid taxes against shareholders' equity refers entirely to the change recognised in the financial year of the valuation reserves of assets available for sale.

13.6 Changes to deferred taxes (with contra-entry under shareholders' equity)

<i>(thousands of Euro)</i>	IRES	IRAP	31.12.2016	31.12.2015
1. Initial amount			2,939	1,965
2. Increases	-	-	-	974
2.1 Deferred tax liabilities recognised during the year	-	-	-	974
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) other	-	-	-	974
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
2.4 Business combinations	-	-	-	-
3. Decreases	381	71	452	-
3.1 Deferred tax liabilities cancelled during the year	381	71	452	-
a) reversals	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) other	381	71	452	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
4. Final amount			2,487	2,939

13.7 Other information

Breakdown of current tax assets

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
1. Advance payment of IRES – IRAP – VAT taxes	3,496	27,454
2. Advance payment of stamp duty, withholding tax on interest	17,810	17,669
3. Withholding tax paid	2,264	2,900
4. Other current tax assets	36,373	17,947
Total	59,943	65,970

Breakdown of current tax liabilities

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
1. Liabilities for direct taxes	1,505	10,199
2. Indirect taxes	42	63
3. Withholding tax at source to be paid	-	-
4. Other current tax liabilities	298	5,074
Total	1,845	15,336

Probability test on deferred taxes

IAS 12 requires deferred tax assets and deferred tax liabilities to be recognised according to the following criteria:

- taxable temporary differences: a deferred tax liability must be recognised for all taxable temporary differences;
- deductible temporary differences: a deferred tax asset must be recognised for all deductible temporary differences, if it is likely that taxable income will be generated against which the deductible temporary difference will be used. Prepaid taxes not accounted for in the past - as there was no reason for their recognition - must be recorded in the year in which the conditions manifest themselves.

The amount of prepaid taxes recorded in financial statements must, therefore be subject to testing each year, to verify whether is a reasonable certainty of achieving future taxable income and therefore, the possibility of recovering the prepaid taxes.

Considering the amount of prepaid taxes recorded, an analysis was conducted to verify whether the forecasts of future profitability are such as to guarantee their re-absorption and therefore justify their recognition and maintenance in financial statements (“probability test”).

In particular, for prepaid taxes deriving from deductible temporary differences relating to write-downs and losses on loans (“qualified prepaid taxes” and “qualified temporary differences”) it is important to note the establishment, effective from the tax period ended as at 31 December 2011, of the conversion to tax credits of prepaid taxes (IRES) booked in financial statements against tax losses deriving from the deferred deduction of qualified temporary differences (art. 2, paragraph 56-bis, Italian Law Decree no. 225 of 29 December 2010, introduced in art. 9 of Italian Law Decree no. 201 of 6 December 2011).

Effective from the 2013 tax period, a similar conversion is established, if the IRAP return shows a negative net value of production, in relation to prepaid taxes (IRAP) that refer to qualified temporary differences that contributed to the calculation of the negative net value of production, (art. 2, paragraph 56-bis.1 of Italian Law Decree no. 225 of 29 December 2010, introduced in Italian Law no. 147/2013).

This convertibility - which augments that already envisaged in the case in which the individual financial statements show an operating loss (art. 2, paragraphs 55 and 56, Law Decree no. 225/2010, as recently amended by Law no. 147/2013 - is suitable to ensure the recovery of qualified prepaid taxes in any situation, regardless of the company’s future profitability. In fact, if, in a given year, excess qualified temporary differences are verified with respect to taxable income or the net value of production, the recovery of the associated prepaid taxes would not

result in a reduction of current taxes, but, nonetheless, through the recognition of prepaid taxes on the tax loss or on the negative net value of production, convertible to tax credits pursuant to art. 2, paragraph 56-bis and 56-bis.1, of Law Decree no. 225/2010.

The convertibility of prepaid taxes on tax losses and the negative net value of production that are determined by qualified temporary differences therefore constitutes a sufficient basis for the recognition of qualified prepaid taxes in the financial statements, implying the passing of the associated probability test.

This approach is, however, confirmed in the joint Bank of Italy, Consob and ISVAP document no. 5 of 15 May 2012 (issued as part of the coordination round-table regarding the application of IAS/IFRS), relating to the accounting treatment of prepaid taxes deriving from Law 214/2011”, and in the subsequent IAS ABI document no. 112 of 31 May 2012 (“Tax credits deriving from the transformation of deferred tax assets: clarifications of the Bank of Italy, Consob and ISVAP regarding the application of IAS/IFRS”).

The verification therefore concerned:

- the identification of prepaid taxes, other than those relating to write-downs and losses on loans, goodwill and other intangible assets with an indefinite life (“unqualified prepaid taxes”), booked to the financial statements;
- the analysis of these unqualified prepaid taxes and the deferred taxes recorded in the consolidated financial statements, distinguishing them by origin type and, therefore, by forecast timing of re-absorption;
- the provisional qualification of the Bank’s future profitability, aimed at verifying the ability to absorb the prepaid taxes pursuant to previous points a).

The detailed analysis pursuant to points b) and c) was not necessary for prepaid taxes (and, subsequently, deferred taxes) recorded in the financial statements for IRAP purposes, given that almost all of them had certain prospects of use pursuant to art. 2, paragraph 56 bis.1 of Law Decree no. 225/2010 and “unqualified” prepaid IRAP taxes were of a negligible amount.

The analysis conducted showed a forecasted taxable base sufficiently able to absorb deferred taxes recorded in the financial statements as at 31 December 2016.

Unused tax losses

Deferred tax assets are recognised in the 2016 financial statements resulting from tax losses carried forward for Euro 20.3 million, of which Euro 19.2 million refers to Banca Popolare di Marostica Group for 2015 and Euro 1.1 million to Banca di Treviso for 2010.

As at 31 December 2016, prepaid taxes of Euro 5.8 million were recognised against more than Euro 20.3 million in previous tax losses accumulated by Banca Popolare di Marostica Group (mainly deriving from impairments on loans), which can be used without any time limits.

Analyses conducted on profit forecasts included in the 2017-2021 Business Plan confirm the ability of the tax consolidation to use losses against the DTA provisions.

The tax losses posted by the Bank in 2016 amounts to Euro 31.0 million, of which Euro 12.7 million constitute deferred tax assets for reversals of previous impairments on loans and may be converted into tax credits for 2016 tax declarations. Hence, the residual tax loss to be reported amounts to Euro 18.4 million. Therefore, total tax losses reportable as at 31 December 2016 are Euro 38.6 million, of which Euro 20.3 million for Banca Popolare di Marostica Group, generated prior to the merger, and the remaining Euro 18.3 million relative to the Bank. The total amount of tax losses reportable as at 31 December 2016 is Euro 51.3 million, prior to the partial conversion for the 2016 tax declaration, which is Euro 12.7 million, as noted above.

In 2016, deferred tax assets for the tax losses of Banca Popolare di Marostica Group were absorbed for Euro 6.1 million.

Section 14 NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 140 UNDER ASSETS AND ITEM 90 UNDER LIABILITIES

14.1 *Non-current assets and groups of assets held for sale: breakdown by type of asset*

At the balance sheet date, as in the previous year, there were no non-current assets and groups of assets held for sale.

14.2 *Other information*

At the balance sheet date, as in the previous year, there is no other information to be reported.

14.3 *Disclosure regarding investments in companies subject to significant influence not carried at equity*

At the balance sheet date, as in the previous year, there is no other information to be reported.

Section 15 OTHER ASSETS – ITEM 150

15.1 *Other assets: breakdown*

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
1. Unprocessed transactions with branches	4,047	275
2. Deposits	97	143
3. Work in progress	85,557	99,283
4. Various outstanding items (items waiting final allocation)	22,348	5,117
5. Income accrued and due to be received	18,979	18,755
6. Cash items in hand	44	312
7. Accruals and deferrals not reported	727	832
8. Expenditures on third party assets	1,184	1,827
Total	132,983	126,544

LIABILITIES

Section 1 DUE TO BANKS – ITEM 10

1.1 Due to banks: breakdown by type

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
1. Due to central banks	800,003	599,579
2. Due to banks	285,003	238,884
2.1 Current accounts and demand deposits	84,811	52,040
2.2 Fixed-term deposits	69,850	77,469
2.3 Loans	129,827	108,619
2.3.1 Reverse repurchase agreements	-	-
2.3.2 Other	129,827	108,619
2.4 Liabilities for commitments to repurchase own equity instruments	-	-
2.5 Other payables	515	756
Total	1,085,006	838,463
Fair value - Level 1	-	-
Fair value - Level 2	994,670	826,200
Fair value - Level 3	-	-
Total fair value	994,670	826,200

Repurchase agreements (borrowing) in respect of assets transferred and not derecognised from the financial statements are detailed in Part E.

1.2 Detail of item 10 “Due to banks”: subordinated debt

At the balance sheet date, as in the previous year, there is no subordinated debt due to banks.

1.3 Detail of item 10 “Due to banks”: structured debt

At the balance sheet date, as in the previous year, there is no structured debt due to banks.

1.4 Due to banks subject to micro-hedging

At the balance sheet date, as in the previous year, there are no amounts due to banks subject to micro-hedging.

1.5 Finance lease payables

At the balance sheet date, as in the previous year, there are no finance lease payables.

Section 2 DUE TO CUSTOMERS – ITEM 20

2.1 Due to customers: breakdown by type

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
1. Current accounts and demand deposits	5,019,249	4,245,677
2. Fixed-term deposits	164,463	403,297
3. Loans	174,002	78,969
3.1 Reverse repurchase agreements	174,002	78,969
3.2 Other	-	-
4. Liabilities for commitments to repurchase own equity instruments	-	-
5. Other payables	644,072	480,047
Total	6,001,786	5,207,990
<i>Fair value - Level 1</i>	-	-
<i>Fair value - Level 2</i>	5,462,467	4,822,730
<i>Fair value - Level 3</i>	-	-
Total fair value	5,462,467	4,822,730

2.2 Detail of item 20 “Due to customers”: subordinated debt

At the balance sheet date, as in the previous year, there is no subordinated debt due to customers.

2.3 Detail of item 20 “Due to customers”: structured debt

At the balance sheet date, as in the previous year, there is no structured debt due to customers.

2.4 Due to customers subject to micro-hedging

At the balance sheet date, as in the previous year, there are no amounts due to customers subject to micro-hedging.

2.5 Finance lease payables

At the balance sheet date, as in the previous year, there are no debts payable to customers associated with financial lease transactions.

Section 3 DEBT SECURITIES ISSUED – ITEM 30

3.1 Debt securities issued: breakdown by type

(thousands of Euro)	31.12.2016				31.12.2015			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,055,493	-	1,049,047	-	1,476,275	-	1,470,745	-
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	1,055,493	-	1,049,047	-	1,476,275	-	1,470,745	-
2. Other securities	43,547	-	-	43,324	94,412	-	-	93,956
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Other	43,547	-	-	43,324	94,412	-	-	93,956
Total	1,099,040	-	1,049,047	43,324	1,570,687	-	1,470,745	93,956

3.2 Detail of item 30 “Debt securities issued”: subordinated securities

At the balance sheet date, as in the previous year, no subordinated debt securities were issued.

3.3 Debt securities issued subject to micro-hedging

At the balance sheet date, as in the previous year, no debt securities issued were subject to micro-hedging.

Section 4 FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

4.1 Financial liabilities held for trading: breakdown by type

(thousands of Euro)	31.12.2016				31.12.2015					
	NV	FV			FV (*)	NV	FV			FV (**)
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	X	-	-	-	-	X	X
3.1.2 Other bonds	-	-	-	X	-	-	-	-	X	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	X	-	-	-	-	X	X
3.2.2 Other	-	-	-	X	-	-	-	-	X	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	-	294	1,976	-	-	-	232	2,898	-	-
1.1 Held for trading	X	294	1,958	-	X	X	232	2,875	-	X
1.2 Related to the fair value option	X	-	18	-	X	X	-	23	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Held for trading	X	-	-	-	X	X	-	-	-	X
2.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	X	294	1,976	-	X	X	232	2,898	-	X
Total (A+B)	X	294	1,976	-	X	X	232	2,898	-	X

(*) Fair value calculated excluding value adjustments due to change in issuer credit rating compared to the date of issue.

Key:

FV fair value

FV* fair value calculated excluding value adjustments due to change in issuer credit rating compared to the date of issue

NV face value or notional value

L1 Level 1

L2 Level 2

L3 Level 3

4.2 Detail of item 40 “Financial liabilities held for trading”: subordinated liabilities

At the balance sheet date, as in the previous financial year, there are no subordinated financial liabilities held for trading.

4.3 Detail of item 40 “Financial liabilities held for trading”: structured debt

At the balance sheet date, as in the previous financial year, there are no financial liabilities relative to structured debt held for trading.

Section 5 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 50

5.1 Financial liabilities designated at fair value through profit or loss: breakdown by type

(thousands of Euro)	31.12.2016					31.12.2015				
	NV	FV			FV (*)	NV	FV			FV (*)
		L1	L2	L3			L1	L2	L3	
1. Due to banks	1,000	-	1,096	-	1,096	1,000	-	1,139	-	1,139
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	1,000	-	1,096	-	X	1,000	-	1,139	-	X
2. Due to customers	-	-	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
3. Debt securities	8,680	-	8,625	-	8,631	7,598	-	8,553	-	8,553
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	8,680	-	8,625	-	X	7,598	-	8,553	-	X
Total	9,680	-	9,721	-	9,727	8,598	-	9,692	-	9,692

Key:

FV fair value

FV* fair value calculated excluding value adjustments due to change in issuer credit rating compared to the date of issue

NV face value or notional value

L1 Level 1

L2 Level 2

L3 Level 3

Financial liabilities designated at fair value through profit or loss refer to the plain vanilla, flat-rate bond issues or bond issues indexed to inflation rates, or to interest rate structures, placed with customers and on the Euromarket and hedged via derivative instruments.

The use of the fair value option responds to the need to eliminate or significantly reduce the accounting mismatch that would occur if the bond issues were valued at amortised cost and the derivatives linked to fair value, as an alternative to the hedge accounting method.

5.2 Detail of item 50 “Financial liabilities designated at fair value through profit or loss”: subordinated liabilities

At the balance sheet date, there are no subordinated financial liabilities designated at fair value through profit or loss.

Section 6 HEDGES – ITEM 60

6.1 Hedges: breakdown by type and hierarchy level

At the balance sheet date, as in the previous financial year, there are no hedges.

6.2 Hedges: breakdown by portfolios hedged and by hedge type

At the balance sheet date, as in the previous financial year, there are no hedges.

Section 7 VALUE ADJUSTMENTS OF MACRO-HEDGED FINANCIAL LIABILITIES – ITEM 70

7.1 Value adjustments of hedged financial liabilities

At the balance sheet date, as in the previous financial year, there are no macro-hedged financial liabilities.

7.2 Financial liabilities macro-hedged against interest rate risk: breakdown

At the balance sheet date, as in the previous financial year, there are no macro-hedged financial liabilities.

Section 8 TAX LIABILITIES – ITEM 80

For the relevant information, please refer to Section 13 of assets.

Section 9 LIABILITIES RELATED TO ASSETS HELD FOR SALE – ITEM 90

At the balance sheet date, as in the previous financial year, there are no financial liabilities related to assets held for sale.

Section 10 OTHER LIABILITIES - ITEM 100

10.1 Other liabilities: breakdown

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
1. Adjustments of non-liquid items related to securities portfolios	11,188	68,513
2. Unprocessed transactions with branches	-	-
3. Amounts available to third parties (banks, suppliers etc.)	35,627	35,389
4. Amounts available to customers	76,884	50,794
5. Items in progress (credit transfers etc.)	49,037	5,688
6. Other items due to various creditors	2,869	42,022
7. Provisions for risks and charges for guarantees and commitments	1,176	751
8. Accruals and deferrals not reported	-	-
9. Withholding tax and taxes due	10,547	11,688
Total	187,328	214,845

Section 11 EMPLOYEE TERMINATION INDEMNITIES – ITEM 110

11.1 Employee termination indemnities: annual changes

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
A. Opening balance	21,260	20,189
B. Increases	1,066	5,028
B1. Provisions during the year	389	236
B2. Other increases	677	616
B3. Business combinations	-	4,176
C. Decreases	1,802	3,957
C1. Amounts paid	1,802	1,613
C2. Other decreases	-	2,344
C3. Business combinations	-	-
D. Closing balance	20,524	21,260

Sub-item C.1 refers to uses of the provision as at 31 December 2016.

11.2 Other information

As described in Part A – Accounting policies, following the supplementary pension reform, the employee termination indemnities recorded in this financial statement item pertain only to the portion accrued up until 31 December 2006.

The provision therefore does not include the portions which, as a result of the cited reform, are paid in the form of complementary pension plans or also to the Treasury fund at INPS (National Social Security Institute). In this case, the portions of the employee termination indemnities maturing from 1 January 2007 constitute a “defined contribution plan” and are recognised among staff expenses in the sub-item “Employee termination indemnities”, based on the contributions due without the application of actuarial calculation methods, as the contra-entry to the recognition of the balance sheet item “Other liabilities” or cash outflows.

The actuarial valuation of the employee termination indemnities was performed based on the “accrued benefits” method according to the Projected Unit Credit criteria governed by paragraphs 70-74 and 75-98 of IAS 19; it is based on the following main types of demographic, economic, and financial assumptions:

Main demographic and actuarial assumptions for the valuation of the employee termination indemnities	
Employee survival rate	Survival table RG48 published by State General Accountancy.
Frequencies and amount of employee termination indemnity advances	They were determined based on the distinct historical experience by service seniority. A value of 1.50% was used for the current financial year.
Disability	INPS tables distinguished by age and gender
Turnover frequencies	Determined on the basis of the historical experience for the Company and for similar companies, distinguished by age and gender, equal to 2.00%.
Probability of retirement	100% upon reaching the first retirement requirement (in accordance with the provisions of the Assicurazione Generale Obbligatoria [Compulsory General Insurance Institute] (AGO).
Annual discount rate	In compliance with the provisions of par. 83 of IAS 19, the Iboxx Eurozone Corporate AA index, in line with the duration of the benefits recognised for the Company's employees, equal to 1.31% as at 31 December 2016.
Annual inflation rate	1.50% for the entire reference timeframe
Annual rate of increase of the employee termination indemnities	2.625% for the entire reference timeframe
Other information	
Service cost for 2016	0.00
Plan duration	10.1

Note that the criteria underlying demographic and actuarial assumptions described above are essentially in line with those used in the past financial year.

Given the content of IAS 19 and lack of specific requirements by regulatory bodies, the identification and selection of the rate concerned is believed to represent one of the many possible evaluations and estimates required by the IFRS within the scope of preparing the financial statements. More specifically, the standard specifies that the discount rate must be calculated with reference to the year-end market yield of securities of leading companies in the country in which the entity operates (high quality corporate bond yields) or alternatively, if there is no market for said securities, with reference to the market yields of government-backed bonds.

For 2016, the annual discount rate used to calculate the current value of the obligation was taken - in compliance with paragraph 83 of IAS 19 - from the Iboxx Corporate AA index with a 10+ year duration, at the valuation date. The yield with a duration that is comparable to the duration of the group of workers subject to valuation was chosen. Reference to the “AA” rating class was made in view of the specifications provided by the IFRS Interpretations Committee in the second half of 2013, on the basis of which “primary quality” must be understood in the absolute sense and cannot therefore be liable to changes from one year to the next to take account of the high number of companies falling within the basket of “high quality corporate bond yield” issuers.

More specifically, the IFRS Interpretations Committee specifies that the meaning of the “high quality corporate bond yield” basket must be evaluated by including bonds issued by companies from other countries provided that they are denominated in the same currency as that in which the benefits will be paid to the employees.

Sensitivity analyses

In compliance with the provisions of IAS 19, the following additional information is provided:

- sensitivity analyses for each significant actuarial hypothesis at year end, showing the potential effects that would result from changes in the actuarial hypotheses considered reasonably possible as at that date, in absolute terms;
- indication of the contribution for the following year;
- indication of the average financial duration of the bond for the defined benefit plans.

Sensitivity analysis of the main data assessment parameters as at 31.12.2016 (values represent the change in the IAS value of the plan)	Valuation parameters	DBO
<i>(thousands of Euro)</i>		
Inflation rate	+0.25%	20,829.4
Inflation rate	-0.25%	20,223.7
Discount rate	+0.25%	20,043.6
Discount rate	-0.25%	21,021.8
Turnover rate	+1%	20,412.3
Turnover rate	-1%	20,647.7

Section 12 PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 Provisions for risks and charges: breakdown

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
1. Retirement benefits	-	-
2. Other provisions for risks and charges	17,140	20,628
2.1 legal disputes	17,140	20,628
2.2 personnel charges	-	-
2.3 Other	-	-
Total	17,140	20,628

12.2 Provisions for risks and charges: annual changes

<i>(thousands of Euro)</i>	<i>Retirement benefits</i>	<i>Other provisions</i>	<i>Total</i>
A. Opening balance	-	20,628	20,628
B. Increases	-	3,750	3,750
B1. Provisions during the year	-	3,499	3,499
B2. Changes due to the passing of time	-	-	-
B3. Changes due to discount rate adjustments	-	251	251
B4. Other changes	-	-	-
C. Decreases	-	7,238	7,238
C1. Use during the year	-	3,883	3,883
C2. Changes due to discount rate adjustments	-	-	-
C3. Other changes	-	3,355	3,355
D. Closing balance	-	17,140	17,140

12.3 Defined benefit retirement funds

At the balance sheet date, as in the previous financial year, there are no defined benefit retirement funds.

12.4 Other provisions for risks and charges

The item “Other provisions for risks and charges”, sub-item “legal disputes”, equal to Euro 17.1 million, comprises the provisions for ongoing disputes including the respective expenses.

Section 13 REDEEMABLE SHARES – ITEM 140**13.1 Redeemable shares: breakdown**

At the balance sheet date, as in the previous financial year, there are no redeemable shares.

Section 14 PARENT BANK SHAREHOLDERS' EQUITY – ITEMS 130, 150, 160, 170, 180, 190, AND 200**14.1 Share capital and treasury shares: breakdown**

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
- Number of treasury stocks and shares	49,859,929	44,883,933
- Face value	Without indication of face value	Euro 4.00

As at 31 December 2016, as in the previous year, Banca Popolare - Volksbank has no treasury shares on hand. As at 31 December 2016, share capital is equal to Euro 199,439,716 and comprises 49,859,929 ordinary shares. With the Board of Directors' resolution of 9 April 2016, it was decided to no longer indicate the nominal value of shares. Hence, effective from that date, share capital referable to each share may be determined by dividing the total share capital by the number of outstanding shares.

All ordinary shares outstanding are subscribed and fully paid-up. Shares do not have restrictions or privileges of any kind and each share has equal rights in terms of collection of dividends and redemption of capital. There are no categories of shares other than ordinary shares.

14.2 Share capital - Number of shares: annual changes

<i>(thousands of Euro)</i>	Ordinary	Other
A. Shares in issue at the beginning of the year	44,883,933	-
- fully paid-up	44,883,933	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening balance	44,883,933	-
B. Increases	4,987,103	-
B.1 New issues	4,987,103	-
against payment:	4,987,103	-
- business combinations	-	-
- bond conversions	-	-
- warrant exercise	-	-
- other	4,987,103	-
on a free basis:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	11,107	-
C.1 Cancellation	11,107	-
C.2 Purchase of treasury shares	-	-
C.3 Sale of businesses	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	49,859,929	-
D.1 Treasury shares (+)	-	-
D.2 Number of shares at the end of the year	49,859,929	-
- fully paid-up	49,859,929	-
- not fully paid-up	-	-

14.3 Share capital: other information

At the balance sheet date, there are no further disclosures to be reported.

14.4 Retained earnings: other information

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
1. Legal reserve	115,400	113,000
2. Extraordinary reserve	121,892	109,774
3. Reserve to purchase treasury shares	-	4,183
4. Concentration reserve (Italian Law 218 of 30.07.1990)	8,584	8,584
5. Other reserves	30,768	32,197
Total	276,644	267,738

Pursuant to art. 2427, paragraph 1, no. 7-bis of the Italian Civil Code, the summary of the shareholders' equity line items is reported according to their origin and indicating the possibility for utilisation and distribution, as well as their utilisation in the three previous accounting years.

	Type/description (thousands of Euro)	Amount	Utilisation options	Available portion	Summary of utilisation in the last three years	
					Loss cover	Other uses
180.	Share capital	199,440	-	-		
170.	Share premium reserve	383,158	A, B, C (1)	383,158		
160.	Reserves					
	- retained earnings					
	- Legal reserve	115,400	B (2)	-		
	- Extraordinary reserve	121,892	A, B, C	121,892		
	- Unavailable reserve pursuant to art. 6, Italian Legislative Decree 38/2005	625	B, (*)	-		
	- other:					
	a) Retained earnings from previous years	-	A, B, C	-		
	b) Specific reserve Italian Law 218/90	8,584	A, B, C (3)	8,584		
	c) FTA reserve	30,143	A, B, C	30,143		
	d) Merger reserve	-	A, B, C	-		
130.	Valuation reserves					
	a) Revaluation reserves	-	A, B, C	-		
	b) IAS revaluation reserves	-	A, B	-		
	c) Negative AFS valuation reserves	(9,556)		-		
	d) Positive AFS valuation reserves	6,202	(*)	-		
	e) Negative actuarial reserve for employee termination indemnities	(2,189)		-		
	Equity instruments	-		-		
	Retained earnings	7,722		-		
	Total	861,421				

A = for bonus share capital increase

B = as loss cover

C = for distribution to shareholders

(*) this reserve is unavailable for distribution pursuant to art. 6 of Italian Legislative Decree 38/2005

- (1) The reserve may be distributed only for the part in excess of the amount necessary for the statutory reserve to attain one-fifth of the share capital (art. 2431 of the Italian Civil Code).
- (2) The reserve may be distributed or used to increase share capital only for the part that exceeds one-fifth of share capital (art. 2430, paragraph 1 of the Italian Civil Code).
- (3) If it is not charged to share capital, the reserve may be reduced only in compliance with the provisions of the second and third paragraphs of art. 2445 of the Italian Civil Code. If the reserve to cover losses is used, earnings cannot be distributed until the reserve has been replenished or reduced by a corresponding amount. The reserve may be reduced only with a resolution by the Extraordinary Shareholders' Meeting without observance of the second and third paragraphs of art. 2445 of the Italian Civil Code. Whensoever distributed to the shareholders, it contributes to form the taxable income of the Company.

14.5 Equity instruments: breakdown and annual changes

At the balance sheet date, as in the previous year, there are no bank capital instruments other than ordinary shares.

14.6 Other information

At the balance sheet date, as in the previous year, there is no other information to be reported.

OTHER INFORMATION

1. Guarantees issued and commitments

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
1) Financial guarantees issued	56,843	57,765
a) Banks	16,244	9,466
b) Customers	40,599	48,299
2) Commercial guarantees issued	388,398	383,456
a) Banks	1,410	630
b) Customers	386,988	382,826
3) Irrevocable commitments to disburse funds	314,134	280,110
a) Banks	219	150
i) certain to be used	219	150
ii) not certain to be used	-	-
b) Customers	313,915	279,960
i) certain to be used	277	561
ii) not certain to be used	313,638	279,399
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets lodged to guarantee minority interest	-	-
6) Other commitments	-	-
Total	759,375	721,331

Irrevocable commitments to disburse funds to customers, certain to be used, refer mainly to corporate customers.

2. Assets lodged to guarantee own liabilities and commitments

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
1. Financial assets held for trading	670,995	503,514
2. Financial assets designated at fair value through profit or loss	-	-
3. Financial assets available for sale	-	-
4. Investments held to maturity	-	-
5. Due from banks	-	-
6. Loans to customers	-	-
7. Property and equipment	-	-

Assets lodged to guarantee own liabilities and commitments for reverse repurchase agreements deposits total Euro 546.0 million, whereas the securities uses as deposit and guarantees for other transactions are recorded for Euro 125.0 million.

Furthermore, it is noted that at the balance sheet date, there are Euro 439.4 million in shares not presented in the table, as the relevant securities, for transactions of self-issued securitisations, are not recorded in balance sheet assets. The above-mentioned securities are afforded in full to guarantee the transactions with the Central Bank in order to support any liquidity needs.

3. Disclosure on operating leases

At the balance sheet date, as in the previous financial year, there are no assets or liabilities under an operating lease.

4. *Management and brokerage on behalf of third parties*

Type of service (thousands of Euro)	Amount
1. Order execution on behalf of customers	-
a) Purchases	-
1. Settled	-
2. Not settled	-
b) Sales	-
1. Settled	-
2. Not settled	-
2. Portfolio management	-
a) Individual	-
b) Collective	-
3. Custody and administration of securities	6,713,575
a) Third party securities held on deposit: related to depositary bank services (excluding assets under management)	1,989,478
1. securities issued by the Bank preparing the financial statements	1,245,648
2. other securities	743,830
b) Third party securities held on deposit (excluding assets under management): other	47,786
1. securities issued by the Bank preparing the financial statements	34,248
2. other securities	13,538
c) Third party securities deposited with third parties	1,990,075
d) Own securities deposited with third parties	2,686,236
4. Other transactions	-

5. *Financial assets subject to offsetting in financial statements, or subject to offsetting master agreements or similar types of agreements*

At the balance sheet date, as in the previous financial year, no financial assets have been subject to offsetting in financial statements or were subject to offsetting master agreements or other similar agreements.

6. *Financial liabilities subject to offsetting in financial statements, or subject to offsetting master agreements or similar types of agreements*

At the balance sheet date, as in the previous financial year, no financial liabilities have been subject to offsetting in financial statements or were subject to offsetting master agreements or other similar agreements.

7. *Securities lending transactions*

At the balance sheet date, as in the previous year, there were no securities lending transactions.

8. *Disclosure on joint-control activities*

At the balance sheet date, as in the previous year, there were no joint-control activities.

PART C INFORMATION ON THE INCOME STATEMENT

Section 1 INTEREST – ITEMS 10 AND 20

1.1 Interest and similar income: breakdown

Items/Technical forms (thousands of Euro)	Debt securities	Loans	Other transactions	31.12.2016	31.12.2015 (*)
1. Financial assets held for trading	876	-	313	1,189	3,072
2. Financial assets available for sale	9,399	-	-	9,399	10,360
3. Investments held to maturity	4,206	-	-	4,206	2,602
4. Due from banks	-	430	-	430	151
5. Loans to customers	4,240	157,434	-	161,674	181,639
6. Financial assets designated at fair value through profit or loss	-	-	-	-	-
7. Hedges	X	X	-	-	-
8. Other assets	X	X	32	32	54
Total	18,721	157,864	345	176,930	197,878

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Interest income on impaired assets totals Euro 10.5 million, compared to Euro 8.2 million as at 31 December 2015. Interest income also includes income on securities relating to repurchase agreement deposits.

Interest income on loans to customers also includes Euro 5 million for the effects of amortisation, using the effective interest rate method, of the fair value of loans identified during the Purchase Price Allocation (PPA) process for Banca Popolare di Marostica Group.

The positive margins or differentials of derivative contracts operationally related with third parties and financial liabilities designated at fair value (fair value option), as well as those operationally related with third parties and financial liabilities classified in the trading portfolio appear in the "Other transactions" column of the item "Financial assets held for trading".

1.2 Interest and similar income: differentials on hedging transactions

During the financial year, as in the previous year, there were no differentials on hedging transactions.

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currency

(thousands of Euro)	31.12.2016	31.12.2015 (*)
a) on (foreign) currency assets	140	189

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

1.3.2 Interest income on finance lease transactions

During the financial year, as in the previous one, there was no interest income on finance lease transactions.

1.4 Interest and similar expense: breakdown

Items/Technical forms (thousands of Euro)	Payables	Securities	Other transactions	31.12.2016	31.12.2015 (*)
1. Due to central banks	(301)	X	-	(301)	(519)
2. Due to banks	(1,923)	X	-	(1,923)	(1,646)
3. Due to customers	(14,811)	X	-	(14,811)	(27,577)
4. Debt securities issued	X	(20,678)	-	(20,678)	(33,948)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities designated at fair value through profit or loss	(50)	(269)	-	(319)	(1,710)
7. Other liabilities and funds	X	X	-	-	-
8. Hedges	X	X	-	-	-
Total	(17,085)	(20,947)	-	(38,032)	(65,400)

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

1.5 Interest and similar expense: differentials on hedging transactions

During the financial year, as in the previous year, there were no differentials on hedging transactions.

1.6 Interest and similar expense: other information**1.6.1 Interest expense on liabilities in foreign currency**

(thousands of Euro)	31.12.2016	31.12.2015 (*)
a) on liabilities in foreign currency	(1,103)	(654)

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

1.6.2 Interest expense on liabilities for finance lease transactions

During the financial year, as in the previous one, there was no interest expense on finance lease transactions.

Section 2 FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 Fee and commission income: breakdown

Type of service/Amounts (thousands of Euro)	31.12.2016	31.12.2015 (*)
a) Guarantees issued	3,759	3,787
b) Credit derivatives	-	-
c) Management, brokerage and consulting services:	25,947	23,926
1. trading of financial instruments	-	-
2. foreign currency trading	733	826
3. portfolio management	-	-
3.1 Individual	-	-
3.2 Collective	-	-
4. custody and administration of securities	390	405
5. depositary bank	-	-
6. placement of securities	13,296	11,163
7. order receipt and transmission activities	1,075	1,336
8. advisory services	180	-
8.1 on investments	-	-
8.2 on financial structures	180	-
9. distribution of third-party services	10,273	10,196
9.1 portfolio management	-	-
9.1.1 Individual	-	-
9.1.2 Collective	-	-
9.2 insurance products	6,317	6,075
9.3 other products	3,956	4,121
d) Collection and payment services	7,216	6,527
e) Servicing for securitisations	-	-
f) Factoring transaction services	-	-
g) Tax collection services	-	-
h) Management of multilateral trading systems	-	-
i) Current account maintenance and management	40,633	39,618
j) Other services	13,066	12,297
Total	90,621	86,155

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

2.2 Fee and commission income: distribution channels for products and services

Channels/Amounts (thousands of Euro)	31.12.2016	31.12.2015 (*)
a) At own branches:	23,569	21,359
1. portfolio management	-	-
2. placement of securities	13,296	11,163
3. third party services and products	10,273	10,196
b) Door-to-door sales:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-
c) Other distribution channels:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

2.3 Fee and commission expense: breakdown

Services/Amounts (thousands of Euro)	31.12.2016()	31.12.2015 (*)
a) Guarantees received	(216)	(223)
b) Credit derivatives	-	-
c) Management and brokerage services:	(2,009)	(2,146)
1. trading of financial instruments	(1,542)	(1,602)
2. foreign currency trading	(159)	(132)
3. portfolio management:	-	-
3.1 own	-	-
3.2 on behalf of third parties	-	-
4. custody and administration of securities	(308)	(412)
5. placement of financial instruments	-	-
6. door-to-door sales of financial instruments, products and services	-	-
d) Collection and payment services	(618)	(577)
e) Other services	(5,684)	(5,667)
1. transmission rights for bancomat (ATM card) data, POS	(2,997)	(3,272)
2. transmission rights - Bank network	(860)	(940)
3. other	(1,827)	(1,455)
Total	(8,527)	(8,613)

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Section 3 DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

Items/Income (thousands of Euro)	31.12.2016		31.12.2015 (*)	
	Dividends	Income from UCITS	Dividends	Income from UCITS
A. Financial assets held for trading	-	-	-	-
B. Financial assets available for sale	301	6,153	777	7,220
C. Financial assets designated at fair value through profit or loss	-	-	-	-
D. Investments	-	X	-	X
Total	301	6,153	777	7,220

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Section 4 PROFITS (LOSSES) ON TRADING – ITEM 80

4.1 Profits (losses) on trading: breakdown

Transactions/Income components (thousands of Euro)	Capital gains (A)	Profits on trading (B)	Capital Losses (C)	Losses on trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	13,922	22,718	(17,183)	(16,878)	2,579
1.1 Debt securities	1	30	(116)	(3)	(88)
1.2 Equity securities	-	206	-	(30)	176
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	13,921	22,482	(17,067)	(16,845)	2,491
2. Financial liabilities held for trading:	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	-
	791	2,155	(202)	(2,331)	10
4. Derivatives	246	1,828	(91)	(2,479)	(365)
4.1 Financial derivatives:	246	1,828	(91)	(2,479)	(365)
- on debt securities and interest rates	246	1,501	(91)	(2,166)	(510)
- on equity instruments and share indices	-	327	-	(313)	14
- on currency and gold	X	X	X	X	131
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	14,168	24,546	(17,274)	(19,357)	2,214

The sub-item “Financial derivatives - on debt securities and interest rates”, negative for Euro 1.1 million, refers to margins and differentials on IRSs held for trading, futures, and options on securities and rates.

The column “Net result” includes the profits, losses, capital gains and capital losses from currency transactions and currency and gold derivatives.

Section 5 PROFITS (LOSSES) ON HEDGING ACTIVITIES – ITEM 90

5.1 Profits (losses) on hedging activities

During the financial year, as in the previous one, there were no hedging transactions.

Section 6 PROFITS (LOSSES) ON SALE/REPURCHASE – ITEM 100

6.1 Profits (losses) on sale/repurchase: breakdown

Items/Income components (thousands of Euro)	31.12.2016			31.12.2015 (*)		
	Profit	Loss	Net result	Profit	Loss	Net result
Financial assets						
1. Due from banks	-	-	-	4	-	4
2. Loans to customers	162	(420)	(258)	-	(2,195)	(2,195)
3. Financial assets available for sale	14,874	(1,240)	13,634	26,536	(2,438)	24,098
3.1 Debt securities	11,737	(958)	10,779	6,614	(629)	5,985
3.2 Equity securities	995	-	995	15,744	(750)	14,994
3.3 UCITS units	2,142	(282)	1,860	4,178	(1,059)	3,119
3.4 Loans	-	-	-	-	-	-
4. Investments held to maturity	-	-	-	-	-	3
Total assets	15,036	(1,660)	13,376	26,540	(4,633)	21,907
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	329	(5)	324	229	(12)	217
Total liabilities	329	(5)	324	229	(12)	217

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Section 7 PROFITS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 110

7.1 Net change in value of financial assets and liabilities designated at fair value through profit or loss: breakdown

Transactions/Income components (thousands of Euro)	Capital gains (A)	Profits on disposal (B)	Capital Losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	246	-	(11)	-	235
2.1 Debt securities	203	-	(11)	-	192
2.2 Due to banks	43	-	-	-	43
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currencies: exchange differences	X	X	X	X	-
4. Financial and credit derivatives	-	-	(235)	-	(235)
Total	246	-	(246)	-	-

The net result of financial liabilities for debt securities refer mainly to the plain vanilla, flat-rate bond issues or bond issues indexed to equity securities, foreign exchange rates, inflation rates, or to interest rate structures, placed with customers and on the Euromarket and hedged via derivative instruments.

During the year, there were no expenses/income attributable to a change in the Bank's creditworthiness.

Section 8 NET LOSSES/RECOVERIES ON IMPAIRMENT – ITEM 130

8.1 Net losses/recoveries on impairment of loans: breakdown

Transactions/Income components (thousands of Euro)	Adjustments			Recoveries				2016	2015 (*)
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		From interest	Other recoveries	From interest	Other recoveries		
A. Due from banks	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers	(5,985)	(111,967)	(9,188)	16,280	17,142	-	4,513	(89,205)	(43,662)
Purchased impaired loans	-	-	-	-	-	-	-	-	-
- Loans	-	-	X	-	-	X	X	-	-
- Debt securities	-	-	X	-	-	X	X	-	-
Other loans	(5,985)	(111,967)	(9,188)	16,280	17,142	-	4,513	(89,205)	(43,662)
- Loans	(5,985)	(111,967)	(9,188)	16,280	17,142	-	4,513	(89,205)	(43,662)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	(5,985)	(111,967)	(9,188)	16,280	17,142	-	4,513	(89,205)	(43,662)

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

The item “Losses – Specific – Derecognitions” mainly refers to doubtful loans. The item “Losses – Specific – Other” mainly contains value adjustments to doubtful and unlikely to pay loans.

The item “Recoveries – Specific – From interest” mainly refers to recoveries on default interest on doubtful loans, as well as to recoveries on doubtful loans as an effect of discounting.

8.2 Net losses/recoveries on impairment of financial assets available for sale: breakdown

Transactions/Income components (thousands of Euro)	Adjustments		Recoveries		2016	2015 (*)
	Specific		Specific			
	Derecognitions	Other	A	B		
A. Debt securities	-	(2,260)	-	-	(2,260)	(2,404)
B. Equity securities	-	-	X	X	-	-
C. UCITS units	-	-	X	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	(2,260)	-	-	(2,260)	(2,404)

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Key:

A = From interest

B = Other recoveries

For the impairment tests, refer to section 4 “Financial assets available for sale” in the balance sheet assets of these Notes to the Accounts.

8.3 Net losses/recoveries on impairment of investments held to maturity: breakdown

At the balance sheet date, there are no net losses/recoveries on impairment of investments held to maturity.

8.4 Net losses/recoveries on impairment of other financial activities: breakdown

Transactions/Income components (thousands of Euro)	Adjustments			Recoveries				2016	2015 (*)
	Specific		Portfolio	Specific		Portfolio			
	Derecog-nitions	Other		From interest	Other recoveries	From interest	Other recoveries		
A. Guarantees issued	-	(513)	-	-	88	-	-	(425)	(421)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	-	(513)	-	-	88	-	-	(425)	(421)

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Section 9 ADMINISTRATIVE EXPENSES - ITEM 150

9.1 Personnel expenses: breakdown

Type of cost/Amounts (thousands of Euro)	31.12.2016	31.12.2015 (*)
1) Employees	(97,899)	(96,318)
a) salaries and wages	(64,748)	(66,870)
b) social security costs	(18,283)	(18,931)
c) employee termination indemnities	-	-
d) pension costs	-	-
e) provisions to employee termination indemnities	(5,741)	(3,083)
f) provisions for retirement benefits and similar commitments:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	(3,771)	(3,776)
- defined contribution plans	(3,771)	(3,776)
- defined benefit plans	-	-
h) costs resulting from share-based payment arrangements	-	-
i) other employee benefits	(5,356)	(3,658)
2) Other working staff	-	-
3) Directors and auditors	(1,191)	(1,636)
4) Laid-off personnel	-	-
5) Cost recovery for employees seconded to other companies	-	-
6) Cost reimbursement for third party staff seconded to the Company	-	-
Total	(99,090)	(97,954)

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Item 3 "Directors and auditors" includes the fees paid to members of the Board of Directors and to the Board of Statutory Auditors of the Company.

9.2 Average number of employees per category

	31.12.2016	31.12.2015 (*)
1. Employees	1,280	1,118
a) Officers	38	34
b) Line managers	521	440
c) Remaining employees	721	644
2. Other employees	-	-
Total	1,280	1,118

(*) The figure is calculated considering the average number of employees of Banca Popolare di Marostica Group from 1 April 2015, the effective date of the merger.

The average number of employees does not include directors and auditors. Part-time employees are considered at 50%, by convention.

9.3 Defined benefit retirement funds: total costs

In the financial year, as in the previous year, there are no company defined benefit retirement funds.

9.4 Other employee benefits

Other employee benefits, whose costs are reported in the previous table 9.1 in point i), mainly include Euro 1.1 million of personnel training expenses. Cafeteria contributions (Euro 1.4 million) and costs for insurance policies stipulated in favour of employees (Euro 0.3 million) are also included.

9.5 Other administrative expenses: breakdown

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015 (*)
1. Equipment and software leasing charges	(2,376)	(1,411)
2. Vehicle circulation and travel/accommodation reimbursements	(2,053)	(2,121)
3. Fees for professional services	(7,613)	(9,613)
4. Membership fees	(872)	(2,083)
5. SEC (consortium data processing centre) management costs	(12,053)	(15,035)
6. Donations	(775)	(490)
7. Property rental	(5,517)	(5,779)
8. Stamp duty and tax on stock exchange contracts	(14,089)	(14,523)
9. Indirect taxes	(986)	(1,130)
10. Insurance premiums	(892)	(990)
11. Transport expenses	(1,287)	(1,291)
12. Security services	(1,253)	(1,053)
13. Electricity, heating, and condominium fees	(2,292)	(2,164)
14. Office supplies	(1,636)	(1,794)
15. Investigation and commercial information	(2,424)	(2,309)
16. Legal fees for credit collection	(3,367)	(3,383)
17. Property, furniture and plant maintenance	(4,830)	(3,823)
18. Advertising and entertainment	(2,943)	(3,769)
19. Office cleaning	(1,066)	(1,185)
20. Telephone, postal, data transmission and telex	(2,821)	(2,953)
21. Taxes and duties	(2,366)	(2,012)
22. Treasury consortium	(101)	-
23. Other expenses	(8,862)	(7,900)
Total	(82,474)	(86,811)

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Section 10 NET PROVISIONS FOR RISKS AND CHARGES – ITEM 160

10.1 Net provisions for risks and charges: breakdown

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015 (*)
a) Provision for civil disputes, revocatory bankruptcy actions and other charges	(3,750)	(11,774)
b) Net provisions for sundry personnel expenses	-	3,060
c) Release of provisions	3,078	2,527
Total	(672)	(6,187)

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Section 11 NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT – NET ADJUSTMENTS TO PROPERTY AND EQUIPMENT – ITEM 170

11.1 Net adjustments to/recoveries on property and equipment: breakdown

<i>Asset/Income component (thousands of Euro)</i>	Depreciation (a)	Losses on impairment (b)	Recoveries (c)	Net result (a+b-c)
A. Property and equipment				
A.1 Owned	(7,368)	-	-	(7,368)
- for business use	(7,368)	-	-	(7,368)
- for investment	-	-	-	-
A.2 Acquired under finance lease	-	-	-	-
- for business use	-	-	-	-
- for investment	-	-	-	-
Total	(7,368)	-	-	(7,368)

Section 12 NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS – ITEM 180

12.1 Net adjustments to intangible assets: breakdown

<i>Asset/Income component (thousands of Euro)</i>	Amortisation (a)	Losses on impairment (b)	Recoveries (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned	(1,848)	-	-	(1,848)
- generated internally by the company	-	-	-	-
- Other	(1,848)	-	-	(1,848)
A.2 Acquired under finance lease	-	-	-	-
Total	(1,848)	-	-	(1,848)

The results of the audits on the recoverability of goodwill recorded in the financial statements did not determine any value adjustments in 2016.

Please refer to Part A - Accounting Policies for an in-depth analysis of the methods of determining goodwill impairment.

For a description of the methods of performing impairment tests on goodwill, please refer to "Part B - Section 12- Intangible assets" of these Notes to the Accounts.

Section 13 OTHER OPERATING INCOME (EXPENSES) – ITEM 190

13.1 Other operating expenses: breakdown

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015 (*)
1. Cash, material, and operating differences	(146)	(113)
2. Losses on loans from Deposit Protection Funds	-	-
3. Other expenses	(2,875)	(2,465)
Total	(3,021)	(2,578)

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

13.2 Other operating income: breakdown

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015 (*)
1. Property rental	811	502
2. Recovery of management costs	7,071	6,711
3. Charges to third parties for various recoveries	14,566	15,573
4. Other income	1,524	6,613
Total	23,972	29,399

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Section 14 PROFITS (LOSSES) ON INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL – ITEM 210

14.1 Profits (losses) on investments in associates and companies subject to joint control: breakdown

Income component/Amounts <i>(thousands of Euro)</i>	31.12.2016	31.12.2015 (*)
A. Income	2,580	144
1. Revaluations	-	-
2. Profits on disposal	-	-
3. Recoveries	2,580	144
4. Other income	-	-
B. Charges	(141)	-
1. Write-downs	-	-
2. Losses on impairment	(141)	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	2,439	144

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Section 15 GAINS (LOSSES) FROM FAIR VALUE MEASUREMENT OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS - ITEM 220

15.1 *Gains (losses) from fair value (or revalued amount) measurement of property and equipment and intangible assets: breakdown*

During the financial year and in the previous year, there were no gains or losses from fair value measurement of property and equipment and intangible assets.

Section 16 VALUE ADJUSTMENTS TO GOODWILL – ITEM 230

16.1 *Value adjustments to goodwill: breakdown*

The results of the checks on the recoverability of goodwill recorded in the financial statements did not determine any value adjustments in 2016.

Please refer to part A - Accounting Policies for an in-depth analysis of the methods of determining impairment of goodwill.

For a description of the methods of performing impairment tests on goodwill, please refer to “Part B - Section 12- Intangible assets” of these Notes to the Accounts.

Section 17 PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 240

17.1 *Profits (losses) on disposal of investments: breakdown*

Income component/Amounts (thousands of Euro)	31.12.2016	31.12.2015 (*)
A. Property	2,474	29
- Profits on disposal	2,474	29
- Losses on disposal	-	-
B. Other assets	80	43
- Profits on disposal	80	53
- Losses on disposal	-	(10)
Net result	2,554	72

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

Section 18 TAXES ON INCOME FROM CONTINUING OPERATIONS - ITEM 260

18.1 Taxes on income from continuing operations: breakdown

Income component/Amounts (thousands of Euro)		IRES	IRAP	31.12.2016	31.12.2015 (*)
1.	Current taxes (-)	-	-	-	(9,296)
2.	Changes in current taxes compared to previous years (+/-)	2,302	1,244	3,546	(615)
3.	Reduction in current taxes for the year (+)	-	-	-	-
4.	Changes in deferred tax assets (+/-)	6,055	106	6,161	68,672
4.bis	Effect of business combinations	-	-	-	(64,120)
4.ter	Substitute tax paid for write-off of goodwill	-	-	(9,474)	-
4.quater	Prepaid taxes on goodwill	16,283	2,982	19,265	-
5.	Changes in deferred taxes (+/-)	(1,107)	(163)	(1,270)	(9,065)
5.bis	Effect of business combinations	-	-	-	1,702
5.ter	PPA effect - business combinations	-	-	-	11,676
5.quater	Substitute tax paid for write-off of Client Relationship	-	-	(3,417)	-
5.quinquies	Deferred taxes on Client Relationship	5,873	1,079	6,952	-
6.	Taxes for the year (-) (-1+/-2+3+ 3bis+/-4+/-5)			21,763	(1,046)

(*) The transactions relating to Banca Popolare di Marostica Group were recognised from 1 April 2015, the effective date of the merger.

18.2 Reconciliation between theoretical tax expense and actual tax expense in the financial statements

(thousands of Euro)	IRES	%
IRES tax with application of nominal rate	(3,861)	27.50%
Tax-free losses on investments	-	0.88%
Non-deductible interest expense	418	3.07%
Non-deductible costs	2,356	3.27%
Total tax effect of increases	2,774	7.22%
Dividends	(79)	-0.87%
Other decreases	(1,942)	-23.26%
Total tax effect of decreases	(2,021)	-24.13%
IRES tax charged to the income statement	(3,108)	10.59%

(thousands of Euro)	IRAP	%
IRAP tax with application of nominal rate	(707)	5.04%
Personnel expenses	212	1.29%
Net losses/recoveries on impairment	-	9.39%
Non-deductible interest expense	77	0.56%
Other increases	950	3.89%
Total tax effect of increases	1,239	15.13%
Dividends	(8)	-0.09%
Other decreases	(5,852)	-13.20%
Total tax effect of decreases	(5,860)	-13.29%
IRAP tax charged to the income statement	(5,328)	6.88%

(thousands of Euro)	IRES+IRAP
Tax relief per Leg. Dec. 185/2008 on goodwill and client relationship	(13,327)

Art. 15, paragraphs 10 and 11 of Italian Law Decree 185/2008 provides the right to realign the higher values attributed to loans at the time of extraordinary transactions by applying substitute tax at a rate of 16%. The amount of Euro 13.3 million refers to the positive effects of tax relief for writing off goodwill and the client relationship, recorded in intangible assets for a total amount of Euro 59.2 million and Euro 20.4 million, respectively, following the recognition of the merger with Banca Popolare di Marostica Group.

The higher values subject to substitute tax are considered recognised for tax purposes starting from the tax period in which substitute tax is paid.

Section 19 INCOME (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS – ITEM 280

19.1 *Income (loss) after tax from discontinued operations: breakdown*

During the financial year, as in the previous year, there was no income or loss after tax from discontinued operations, for which the breakdown is to be reported.

19.2 *Breakdown of income taxes on discontinued operations*

During the financial year, as in the previous year, there were no income taxes on discontinued operations.

Section 20 OTHER INFORMATION

20.1 *Collection of receivables on behalf of third parties: debit and credit adjustments*

<i>(thousands of Euro)</i>	31.12.2016	31.12.2015
a) Debit adjustments	710,707	627,721
1. Current accounts	156,283	135,098
2. Central portfolio	546,917	487,066
3. Cash on hand	5,943	5,145
4. Other accounts	1,564	412
b) Credit adjustments	721,895	696,234
1. Current accounts	166,519	158,208
2. Assignment of bills and documents	554,329	537,219
3. Other accounts	1,047	807

Section 21 EARNINGS PER SHARE

The methods for calculating base earnings per share are envisaged in IAS 33 - Earnings Per Share. Base earnings per share is defined as the ratio between the profit attributable to holders of ordinary equity instruments and the weighted average number of ordinary shares in circulation during the year.

Instead, diluted earnings per share considers the dilutive effects from the conversion of potential ordinary shares, defined as financial instruments that grant the holder the right to obtain ordinary shares. As a result, for the calculation, the numerator and denominator of the ratio is adjusted to account for the effects of additional shares that would be in circulation if the potential ordinary shares with dilutive effects are converted.

The dilutive effect is generated by agreements made during the merger of Banca Popolare di Marostica Group, which envisaged the assignment, free of charge, of a maximum of 797,079 newly-issued shares, in the ratio of 0.117 ordinary Banca Popolare - Volksbank shares for every Banca Popolare - Volksbank share assigned in the swap with Banca Popolare di Marostica shareholders. The latter, as a result of the merger, became Banca Popolare - Volksbank shareholders, and retain uninterrupted ownership of the Banca Popolare - Volksbank shares assigned in the swap for a period of 36 months from the effective date of the merger.

The right to assignment, free of charge, of Banca Popolare - Volksbank shares does not apply to shareholders disposing of all or part of their shares received in the swap within 12 months of the effective date of the merger, and is proportionately reduced if any shares received in the swap are sold between twelve and thirty-six months after the effective date of the merger.

	31.12.2016	31.12.2015
Base earnings per share	0.16	0.52
Diluted earnings per share	0.15	0.52

Earnings per share (hereafter also "EPS") is a performance measure that provides an indication of the shareholders' profit share for the year and is calculated by dividing the income for the year by the weighted average of outstanding shares.

	31.12.2016	31.12.2015
Weighted average number of ordinary shares	49,500,257	43,166,342
Adjustment for dilutive effects	588,521	-
Weighted average number of diluted ordinary shares	50,088,778	-

21.1 Average number of diluted ordinary shares

At the balance sheet date there are no outstanding transactions having dilutive effects on the number of shares.

21.2 Other information

There is no other significant information other than that already indicated in the previous sections.

PART D COMPREHENSIVE INCOME

Analytical statement of comprehensive income

Items (thousands of Euro)	Gross amount	Income taxes	Net amount
10. Net income (loss) for the year	X	X	7,722
Other comprehensive income without reclassification to profit or loss	(736)	199	(537)
20. Property and equipment	-	-	-
30. Intangible assets	-	-	-
40. Defined benefit plans	(736)	199	(537)
50. Discontinued operations	-	-	-
60. Portion of valuation reserves of equity-accounted investees	-	-	-
Other comprehensive income with reclassification to profit or loss	(7,384)	2,393	(4,991)
70. Foreign investment hedges:	-	-	-
a) changes in fair value	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
80. Exchange differences:	-	-	-
a) changes in value	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
90. Cash flow hedges:	-	-	-
a) changes in fair value	-	-	-
b) reclassification to profit or loss	-	-	-
c) other changes	-	-	-
100. Financial assets available for sale:	(7,384)	2,393	(4,991)
a) changes in fair value	(2,680)	862	(1,818)
b) reclassification to profit or loss	(4,704)	1,531	(3,173)
- losses on impairment	-	-	-
- profits/losses on disposal	(4,704)	1,531	(3,173)
c) other changes	-	-	-
120. Portion of valuation reserves of equity-accounted investees:	-	-	-
a) changes in fair value	-	-	-
b) reclassification to profit or loss	-	-	-
- losses on impairment	-	-	-
- profits/losses on disposal	-	-	-
c) other changes	-	-	-
130. Total other comprehensive income	(8,120)	2,592	(5,528)
140. Comprehensive income (10+130)	(8,120)	2,592	2,194

PART E INFORMATION ON RISKS AND RELATED HEDGING POLICIES

In accordance with significant changes in regulations and with the complexity of the operating environment, Banca Popolare - Volksbank places great importance on the management and control of risk, which must protect the creation of value in a context of controlled risk, in line with current and future profitability targets as established by the competent decision-making bodies.

The Board of Directors has established that the main operating focus should be on the progressive fine-tuning of the Risk Appetite Framework and the definition of operating limits and parameters to evaluate compliance, especially with reference to the issue and management of loans.

In this context, the internal audit system of Banca Popolare - Volksbank provides for the following:

- clear identification of responsibilities in the assumption of risk;
- measurement and control systems in line with current best practices;
- organisational separation between departments in charge of risk management and specific persons in charge of auditing.

INTERNAL AUDIT

In line with supervisory provisions issued by Bank of Italy and with the joint Bank of Italy-Consob regulation in implementation of art. 6, paragraph 2-bis of the Consolidated Law on Finance of 29 October 2007, the Internal Audit Department of Banca Popolare dell'Alto Adige (hereafter, "Department") assumes the role of Internal Audit Function.

The primary scope of this Department, based on supervisory regulations, is, on one hand, to verify, through third-level controls including on-site audits, the proper performance of operations and developments in risk, and, on the other hand, to assess the comprehensiveness, adequacy, functionality, and reliability of the organisational structure and other components of the internal control system. The Department is also responsible for bringing to the attention of corporate bodies possible improvements, with particular reference to the RAF, to the risk management process and tools for measuring and controlling risks.

The Department operates as part of the integrated business model for assessing the internal control system, according to a risk-based and process-oriented approach, which principally aims to provide integrated risk analyses and organisational and control oversight to the company control functions.

This integration is mainly based on the use of information shared amongst all the relevant structures (first and foremost, the company control functions, but also the operating functions that may be relevant at any given time), as well as the growing interaction amongst company control functions. In addition to providing for specific, reciprocal information flows, it is of particular importance the establishment of the Internal Control Committee in 2014, consisting of the managers of three company control functions, with the scope of facilitating operational coordination and the exchange of information, as well as generating synergies in performing their respective duties.

The Department operates independently and does not report to any of the managers of operating areas, rather, it reports directly to the Board of Directors, through the Risk Committee. These bodies are systematically informed of the results of audits performed, highlighting any issues that emerged from the activities.

The Department has its own budget, which allows it to make use of external consultants. It also has the right of access to all activities of the Bank performed in central offices, branches, and outsourcers.

The appointment and removal of the Manager and Deputy Manager of the Department are solely the responsibility of the Board of Directors, with the opinion of the Board of Statutory Auditors, and cannot be delegated. The Board of Directors also approves the Internal Audit rules.

The Department operates in alignment with the annual/multi-year activity plan prepared by the manager using a risk-based and process-oriented approach, approved by the Board of Directors. In this context, Internal Audit:

- assesses the comprehensiveness, adequacy, functionality, and reliability of other components of the internal control system, the risk management process, and other business processes, also in reference to the ability

to identify errors and irregularities. This includes reviewing the Risk Management and Compliance/Anti-Money Laundering business functions;

- evaluates the effectiveness of the RAF definition process, the internal consistency of the overall structure, the compliance of business transactions with the RAF, as well as the compliance of these transactions with the approved strategies of the corporate bodies;
- verifies, including through audits:
 - compliance of the various business functions, including outsourced functions, and the development of risks, both in central offices of the Bank and in branches;
 - monitoring of compliance to regulations on activities at all business levels;
 - observance, in various operating sectors, of limits envisaged in delegation mechanisms, and the full and appropriate use of available information in various activities;
 - effectiveness of powers of the Risk Management Office to provide preventive opinions on the alignment of significant transactions with the RAF;
 - adequacy and proper functioning of valuation processes and methodologies of business activities, and, in particular, of financial instruments;
 - adequacy, overall reliability, and security of the information system (ICT audit);
 - correction of anomalies found in operations and in the functioning of controls (follow-up activities);
- execution of periodic tests on the functioning of operating procedures and internal controls;
- performance of audit duties, including with regard to specific discrepancies;
- periodic control of the operational continuity plan;
- if, as part of collaboration and exchange of information with external auditors, the Department becomes aware of issues that emerged during the external accounting audit, it takes action to ensure that the competent business functions adopt the necessary oversight to correct the issues.

In order to correctly, effectively, and efficiently perform its duties, the Department:

- has access to all business documentation and information;
- may take advantage of necessary external support in relation to technical or specialised skills, or skills of any other type, based on specific, formalised agreements. Any such agreement does not constitute a delegation of the Department's responsibilities;
- if it did not directly participate, is informed of interactions with authorities and, in particular, with supervisory authorities;
- collaborates with the various organisational levels, the Board of Statutory Auditors, and other individuals charged with control activities (specifically, Risk Management, Compliance/Anti-Money Laundering, etc.).

In carrying out its mission, the Department adheres to the behavioural rules (Code of Ethics) established by the Board of Directors of the Institute of Internal Auditing (hereafter, "IIA"), with which each auditor must comply. These rules are based on four principles, which are briefly described below:

- integrity. Internal auditing activities are performed with the utmost attention, honesty, diligence, and professionalism. Employees in the Department must not knowingly be involved in any illegal activity, nor undertake actions that may discredit the profession or the organisation for which the employee operates;
- objectivity. The assessments expressed take into consideration all the relevant facts and are not influenced by other persons or particular interests. Hence, the individual who expresses the assessment maintains his/her independence of judgment, analysis, and constructive criticism. Employees in the Department must refer to all known, significant facts, whose omission may provide an altered framework to the analysed activities.
- confidentiality. Employees in the Department are required to maintain the confidentiality of all information that is obtained as part of their work and, thus, are required not to disclose this information unless authorised to do so, unless for legal or ethical reasons. Information obtained must not be used for personal advantage or in ways that are in contrast with the law or the ethical and legitimate objectives of the organisation.
- ability. Employees in the Department must only perform those duties for which they have the necessary knowledge, skill, and experience. Furthermore, employees must continually improve their professional abilities as well as the effectiveness and quality of their services. Note that the resources in the Department follow a

skills development and training programme by participating in courses and meetings on specific issues/regulations and through a continuous self-education process to update their professional abilities.

The Department has an Internal Audit Charter that includes the primary elements of professional standards and details the purpose, authority, independence, objectivity, responsibility, services and activities, as well as types and methods for performing audits, the internal control system, risk assessment, and the code of ethics.

In addition to the Charter, the Department uses an Internal Audit Manual, which describes the main methods for carrying out internal audits, such as the methodological approach for an audit, standard work schemes for the process audit, and standard work schemes with checkpoints for auditing the retail network.

REGULATORY COMPLIANCE OFFICE

The mission of the Compliance Office is to identify, mitigate, and monitor compliance risk. This is the risk of non-compliance with laws, regulations, or internal and external governance codes and any rules that protect the reputation of the Company and the quality of the services provided to customers.

The Compliance Office operates independently and autonomously within the Company, reporting functionally on its activities to the Board of Directors, the natural recipient of the evaluations performed in-house. The current mandate of the Compliance Office was approved by the Board of Directors in its meeting of 16 June 2016.

The main responsibilities of the Compliance Office concern:

- governance and management of the compliance process covering all Bank operations, in accordance with an approach based on the degree of risk of non-compliance; for every activity that is considered to potentially expose the Company to greater risk of non-compliance, instruments and methods to achieve the pre-established objectives of regulatory and operating compliance are identified;
- supervision of the effectiveness over time of the organisational controls for the mitigation of the risk of non-compliance, and if necessary, request for the implementation of mitigation actions to eliminate or, in any case, contain the risks within the desired levels;
- on-going identification of the standards applicable to Banca Popolare - Volksbank and measurement and assessment of their impact on business processes and procedures: if necessary, the competent organisational units are alerted, for the necessary adaptations;
- consulting, assistance and training in matters concerning compliance, which is provided to both top management bodies and the functional organisational units;
- periodic assessment and verification of the overall compliance status;
- submitting reports to top management and company bodies;
- management of relations with the banking and financial supervisory authorities and with the public institutions that control the management of given economic sectors.

The Compliance Office interacts on a daily basis with the business bodies and structures and therefore formalises its activities, typically through:

- annual planning of ordinary activities;
- audit reports, those that are ordinary as part of the annual plan, as well as extraordinary, if necessary;
- consulting reports;
- impact analyses for new regulations;
- interim periodic reports to the Board of Directors;
- annual final report (the latest of which, the 2016 report, is expected to be approved in the first quarter of 2017).

The Compliance Office takes action within the sphere of the "Internal control system - Coordination, integration, information flows between the control functions" which Banca Popolare - Volksbank's Board of Directors approved on 1 August 2014. Its activities are coordinated by the Internal Audit Committee, made up of the managers of the Bank's second- and third-level control functions, for the purpose of maintaining synergy and greater interaction between said functions, in order to reach the tangible objective, also desired by supervisory authorities, of increasing, based on the rules, the level of risk awareness on the part of the bodies responsible for business management.

The Compliance Office also works closely with both the Risk Committee, the Board body responsible for monitoring, on behalf of the Board of Directors, the trend in the Bank's risks, as well as with the Board of Statutory Auditors as the control body and the 231/2001 Supervisory Body.

In 2016, the Compliance Office systematically monitored new laws and regulations, informing the relevant internal departments involved. There were 948 laws and regulations identified and classified, and an organisational impact assessment was prepared for 7 of these. It issued 27 formal advisory reports and 101 informal ones and conducted 33 ex-ante checks on the adequacy of controls to mitigate the risks of non-compliance, and ex-post checks to verify that the operating behaviour is in line with said controls. These activities concerned the following areas:

- Corporate governance, as well as business strategies and policies, including remuneration policies;
- Transformation of Banca Popolare dell'Alto Adige into a joint-stock company;
- Increase in share capital;
- Management of conflicts of interest;
- Related parties (Consob) and associated parties (Bank of Italy);
- Investment services;
- Market abuse;
- Credit and anti-usury process;
- New products and services;
- Transparency and Payment Service Directive (PSD);
- IT security;
- Privacy and data protection;
- Insurance brokerage;
- Outsourcing of cash processing activities;
- Labour law;
- Own taxes and substitute tax;
- Support in managing the Organisational Model pursuant to Italian Legislative Decree 231/2001 and Code of Ethics;
- Ethical codes;
- Complaint management;
- Internal control system management.

The Compliance Office plays a key role in protecting the Bank's image with customers and the local community. Therefore, it also deals with observance of the Code of Ethics which the Board of Directors has adopted since 2005. Efficient and effective compliance control in this area promotes training and helps develop a good reputation. The Compliance Office is an asset for both consumers, for whom it acts as a point of reference with regard to rights and complaints, and for the Company itself, based on the creation of the reputational value said control can generate.

RISK MANAGEMENT

By means of the charter of the Risk Management Office, approved in first draft on 20 December 2012 and reviewed in April 2016, the Board of Directors formalised the duties and tasks of the Risk Management Office, which had already been established by Banca Popolare - Volksbank in 2003, acknowledging all the latest national and international regulations concerning the role and obligations of control functions, to which the Risk Management Office belongs, incorporated in the more general internal control system, and which lay down, in particular:

- independence requirements for all the company control functions;
- adequate professional requirements for the office managers and staff, excluding any role or direct involvement in any operational areas subject to their control;
- specific planning and reporting of the audit activity to submit annually to the company bodies.

The mandate therefore establishes that the Risk Management Office is hierarchically and functionally directly dependent on the Board of Directors. The head of the Risk Management Office communicates and answers to the Board of Directors regarding the work carried out and performs the duties conferred on an independent basis.

Within the internal control system, the Risk Management Office has the purpose of implementing the risk governance policies of Banca Popolare - Volksbank, by means of a suitable risk management process.

In 2015, the Risk Committee was established, pursuant to Bank of Italy Circular no. 285/2013, a Board committee in support of the Board of Directors regarding risks and the internal control system. It is composed of between three and five non-executive directors and is responsible for:

- identifying and proposing the appointment of company control functions;
- examining the programme of activities beforehand and the annual reports of the functions themselves;
- expressing judgments and formulating opinions to the Board of Directors on compliance of the principles to which the internal control system must be aligned and of the requirements which must be respected by the company control functions, bringing any areas of weakness to the attention of the Board and the subsequent corrective actions to be promoted;
- verifying that the company control functions correctly conform to the indications and the guidelines of the body and support the latter in drafting the coordination document;
- defining and approving the strategic guidelines and risk governance policies (RAF), performing the necessary valuation and proposal activities so that the strategic supervision body can define and approve the risk objectives and tolerance threshold;
- supporting the Board of Directors in verifying the correct implementation of the strategies, risk governance policies and the RAF;
- supporting the Board of Directors in defining valuation policies and processes for business activities, including the verification that the price and the conditions of transactions with customers are consistent with the business model and strategies governing risks.

Efforts were once again intensified in 2016, aimed at more effectively disseminating and instilling the contents of Risk Management Policy of Banca Popolare - Volksbank at all levels of management. The yearly revision of the policy was approved by the Board of Directors on 22 December 2016. This essential document includes an organic and systematic description of the policies for identifying, measuring, managing and controlling risk and the conditions for assuming such risks on an informed basis.

Firstly, the Policy contains the definition, in accordance with the regulations contained in Bank of Italy Circular No. 285 of 17 December 2013, of the Risk Appetite Framework (RAF) that was established to define - in accordance with the maximum risk that can be taken on by the Bank, its business model and the strategic plan - the following fundamental limits:

- risk appetite,
- tolerance thresholds,
- risk limits,

- risk governance policies,
- reference processes needed to define them and start them up.

The goal was to define risks in individual activities and describe the ongoing changes in the risk structure, so that accurate and fast risk control and management could be ensured. Any adverse changes could therefore be detected in time as a result of systematic monitoring, allowing for corrective actions to be taken for the risk structure. The framework adopted includes four levels of assumption of risks depending on the ability or intention of the Bank to assume risk and also depending on the extent of Company capital available to cover risks, its income capacity and the risk the Company is willing to assume in order to attain its own economic and strategic goals:

- risk covering potential, representing the absolute risk limit that the Bank is able to sustain, even if it compromises its ability to continue as a going concern, but protecting savings and maintaining the stability and efficiency of the financial system, therefore preventing any domino effect on the system. This reflects the Bank's ability to tackle adverse situations of critical emergency or crisis;
- maximum risk capacity, representing the maximum amount of risk that the Bank is able to sustain without compromising its ability to continue as a going concern. This reflects the Bank's ability to tackle and endure adverse situations of critical emergency or stress;
- risk appetite, including the level of overall (or aggregate) risk, and broken down by category, that the Bank intends to take on to pursue its strategic objectives. It reflects the risk appetite of the Bank within the scope of the normal running of the business;
- risk tolerance, which represents the maximum deviation permitted by the risk appetite. This constitutes the overall deviation of risk accepted by the Bank with respect to its risk appetite within the scope of the normal running of its business, and is set so as to ensure sufficient margins to the Bank to operate, including in stress conditions, within the limits of the maximum risk that it can take on.

It is established that once a year, the body responsible for strategic supervision, that is, the Board of Directors, with the support of the Risk Management Office, checks the suitability of the RAF, its compliance with the Banca Popolare - Volksbank business model, and quantifies risk objectives and any tolerance thresholds for each year, in line with strategic objectives, as part of a document entitled Risk Appetite Statement (RAS).

With regard to the risk assessment, or the activities by means of which the Bank periodically assesses the relevance and significance of each risk to which it is exposed, a method and an assessment scale are used that are compliant with the integrated assessment methods common to the company control units. In detail, the method envisages that, for each risk category, the relevance takes into consideration - where possible - the probability that the risk will occur and the resulting impact. Each control function, with regard to the areas it is responsible for, is involved and shares the results of the risk assessment.

The annual risk assessment led to the identification of insolvency risk (type of credit risk), interest rate risk on the trading book (type of market risk), as well as non-compliance and outsourcing risks (types of operational risk) as the "high-level" risks, for which the Bank's entire operating and control strategic structure must monitor as carefully as possible.

Within the scope of the internal control system (ICS), the "integrated method", i.e. common to all company control functions, defines, in a consistent and standardised framework, the objectives, roles, procedures and techniques to adopt in the design and evaluation of controls put in place by the Bank to mitigate risks. This method provides for the involvement and assignment of responsibility to process owners and the adoption of a bottom-up approach to recognise and measure risks. Once again, the objective is to spread the culture of risk, which includes the need for more involvement by the business functions that must be aware of the risks generated in their day-to-day operations and must constantly monitor the risks through adequate controls.

In direct relation to the main document, in 2016 a series of policies and internal rules were developed or refined to provide details on how to manage specific risks. In particular:

- the “Investment Policy” with the “Limits and operational powers for finance and liquidity”, which regulates risk management with respect to the market, exchange rates and interest rates;
- the “Liquidity and Funding Policy”, which is structured so as to define guidelines to manage operational and structural liquidity of the Bank while setting strategies and procedures to manage liquidity risk and monitor the Bank’s net financial position and prepare emergency plans;
- the “Credit Risk Policy”, which comprehensively regulates, in a single document, the entire credit risk management system according to the continuing developments in risk control processes set up in recent years;
- the “Operational Risk Policy”, which comprehensively regulates, in a single document, the operational risk management system in accordance with the progressive development of the risk control, monitoring and mitigation processes set up in recent years and incorporated into the more generic and integrated internal audit system (IAS);
- the “ALM Policy” that addresses asset liability management, i.e. the process that manages the assets and liabilities of the financial statements. The ALM is set up as a model that allows measurement - for all the financial operations of the Bank - of the interest rate risk level, given by the structure and the repricing of the interest rates and the expiries of the financial assets and liabilities, and to express the potential for profit or loss resulting from market rate fluctuations.
- the “Strategic Risk Policy”, which pursues the aim of achieving strategic and planning decisions which are:
 - coherent with and informed in terms of the level of propensity to risk adopted, avoiding at all costs decisions which may place the income-earning capacity of the Bank and/or its equity endowment at risk;
 - capable of anticipating and/or dynamically governing the risks associated with the sources of “external” riskiness of the reference context;
- the “Reputational Risk Policy”, which defines the guidelines for handling reputational risk within Banca Popolare - Volksbank. This risk, despite being difficult to gauge and envisage, takes on particular importance for the banking sector, whose business is fundamentally based on the maintenance of satisfactory relationships of trust with its customers and public opinion in general;
- the “Business Activity Assessment Policy” which - in relation to each balance sheet asset item - establishes rules and methods aimed at ensuring the reliability of the processes and the assessment methods, also for accounting purposes, of all business activities, supplementing processes and methods with the risk management process, guaranteeing that the assessment of a financial instrument is entrusted to an independent unit with respect to that which trades it, ensuring the vigour and the repeatable nature of the assessment methods, taking care to use, where possible, more than one information source, and furthering the verification of the assessment methods, including under stress scenarios;
 - the “Model Risk Policy”, which, in accordance with instructions from the European Banking Authority, governs the guidelines for assessing and managing the risk of potentially negative consequences from decisions made based on quantitative results from unreliable models or models that are not properly used;
 - the “Stress Test Policy”, which defines the guidelines, operating methods, and organisation of the stress test system in Banca Popolare - Volksbank;
- the “Policy for Transactions of Greatest Significance”, which defines the criteria for the identification of transactions of greatest significance and the assessment process, including the stage of obtaining an opinion in advance from Risk Management.

All transactions that satisfy the following conditions are identified as transactions of greatest significance:

- those which do not fall under the decision-making responsibilities of the management body;
- the transaction which satisfies, in terms of type and amount, the criteria included in a specific list, which is an integral part of the Policy.

As in previous years, Banca Popolare - Volksbank calculated “First Pillar” capital requirements to deal with credit, market, and operational risks using the standard approach in 2016.

Concerning ICAAP (Internal Capital Adequacy Assessment Process), an essential element of the “Second Pillar” under the Basel agreement, calculation and analysis methodologies were provided for all types of risk as well as the relevant stress tests, especially for liquidity risk, residual risk, and concentration risk. Furthermore, the process was adapted where necessary to ensure coherence with both the framework and risk objectives laid down by the RAF as well as the Bank’s medium-term strategic planning. In this context, the forecast horizon of the audits was extended to the full planning period, that is, 5 years.

Banca Popolare - Volksbank’s ICAAP process envisages, in the course of any given year, two capital adequacy audits:

- the annual audit, based upon the information in the financial statements and year-end reports leading to the yearly report to be sent to the supervisory authority;
- the internal six-monthly check on the half-yearly data at the end of June.

The annual ICAAP process report send to the supervisory body in April, based on business planning including the acquisition of Banca Popolare di Marostica Group, showed that, as a result of the share capital increase for Euro 100 million that successfully concluded on 22 January 2016, strategic planning will continue, in terms of capital adequacy, in accordance with the key principles of the BPAA risk appetite contained in the RAF, which is more stringent than Basel 3 regulations.

During 2016, the Internal Liquidity Adequacy Assessment Process (ILAAP) was carried out and reported for the first time, with reference to the processes of identifying, measuring, managing, and monitoring internal liquidity.

Also in 2016, the new Basel 3 framework was addressed on several occasions and at varying degrees of detail and implementation. With the new framework, regulatory authorities intend to strengthen rules governing the international banking system by introducing a new definition of regulatory capital with stricter requirements in terms of quality and by providing additional measures to reduce the pro-cyclicality of rules (capital buffers) and setting limits on financial leverage while promoting new rules on liquidity management.

Moreover, risk management and control activities were heavily focused in 2016 on implementing improvement proposals following the results of the SREP Mirroring project carried out in 2015, which seeks to standardise risk oversight in Banca Popolare - Volksbank with the guidelines established by the European Banking Authority in SREP (Supervisory Review and Evaluation Process). In this context, the following activities were launched:

- integration of the risk management framework (RAF, ICAAP, and reporting) with the business lines defined in the Bank’s strategic planning,
- drafting, implementing, and formalising the liquidity adequacy assessment process (ILAAP),
- definition of guidelines for analysing and managing model risk,
- strengthening of controls on the credit collection process,
- reinforcing controls on data governance and data quality, as part of oversight on IT risk.

Finally, the Risk Management Office completed and consolidated the organisational adjustments as part of risk management following the merger with Banca Popolare di Marostica Group in 2015, which as at the date of this report, may be considered fully concluded.

BANK RISKS

CREDIT RISK

Credit risk is the total or partial risk of insolvency of a key counterparty and constitutes Banca Popolare - Volksbank's main risk factor, in accordance with its own retail nature as a Bank geared towards retail customers and small to medium enterprises.

Therefore, credit risk management in Banca Popolare - Volksbank, on the one hand, aims to improve loan allocation procedures so that it becomes compatible with underlying risks, and on the other hand, to forecast possible insolvency for key customers through increasingly effective and reliable monitoring systems.

Credit risk management in 2016 was based entirely on the Credit Risk Policy, which was initially approved at the end of 2011 and subject to annual review in December 2016. This document defines in full the guidelines for managing all forms of credit risk as defined in the more general risk policy (risk related to insolvency, change in degree of solvency, exchange rate exposure, loan portfolio concentration, and residual risk). More specifically, the document governs:

- the definition of the economic risk appetite relating to the credit risk of the customers
- the scope of application, with explicit mention of the Bank's values as a credit institution, which are applied in their annual credit strategy and management policies;
- the organisation model, specifying responsibilities, roles and minimum activities assigned to each department involved;
- the description of the management process and credit risk control, which is divided into five fundamental steps, i.e., granting credit, position control and monitoring, risk measurement and quantification, stress testing, management of impaired loans;
- for each step, the essential activities are described, both in terms of execution as well as in monitoring and control, while making reference to internal documentation for details as appropriate;
- the procedures for mitigating risk, i.e., the process for receiving and managing guarantees, with the related implications as regards asset requirements;
- the system for monitoring positions, which is based on five pillars: regular monitoring through periodic review, monitoring trends using the internal rating system, behavioural monitoring of the individual exposures by the Risk Management Office as part of second-level controls, the supervisory mechanism and alert for positions at risk (early warning, CM), and monitoring of risk mitigation tools;
- the model for determining the likelihood of official default in the loan portfolio and quantifying expected and unexpected loss;
- the effects of credit risk on equity and the Bank's financial statements and therefore: determination of capital requirements for credit risk (Pillar I); regulatory and internal limits for risk concentration (Pillar II); and criteria adopted for losses on impaired loans.

From an operational point of view, the credit monitoring process is continually guaranteed by an automatic classification system for anomalous positions (CM, Credit Management). It uses an early warning system to give timely notice of any potentially deteriorating situations, starting from the performance rating and other indicators calculated and input on a daily basis. In addition, the system streamlines the internal process for classification and management of problem customers, in turn governed by specific regulations containing details on the control that needs to be undertaken, the procedure for classification of irregular positions and operational instructions for their administration and management.

In addition to the usual risk classes for impaired loans established by the supervisory authority (doubtful, unlikely to pay, past-due exposures, exposures subject to concession [forborne exposures]), the system also provides two classifications for performing customers, graded based on the presence of anomaly indicators which, despite not calling for the classification under the impaired loan category, nonetheless require more careful management of the risk profile.

Specifically, a monitoring and management system exists for “pre-past due” positions, i.e. positions which have been overdue for more than 30 days, in order to prevent them turning into true ‘past-due’ loans.

In order to improve the quality of credit and minimise risk, the following measures were introduced in 2016 as part of the processes of granting, monitoring, and periodic review involved in lending:

- implementation of a new version of the IT procedure to analyse the financial statements of lending customers, which strengthened the valuations on projected financial needs, consolidated and projected financial statements, audits on businesses in the hospitality sector, and the comparison with sector data for businesses using simplified accounting;
- an allocation for commercial advances proportional to the anticipated amount;
- activation of the digitalised data service on all documents associated with loan applications, where required;
- enrichment of the information collected from the Cerved credit bureau in the credit management and analysis process, especially for new customers;
- strengthening of the automated process of debiting instalments on past-due mortgages, including for partial amounts up to the availability, on the supporting current account;
- introduction of specific audits by the Risk Management Office on the length of time that positions remain in unlikely to pay and past-due status.

During 2016, organisational and management activities were undertaken in anticipation of the introduction in January 2018 of the new IFRS 9 standard, which will replace the current IAS 39, governing the classification, measurement, and impairment of financial instruments, and therefore, loans to customers.

Adoption of the Credit Risk Mitigation methods to calculate the Bank’s regulatory capital in accordance with Basel 3 led to the accurate definition of forecasting, valuation and period revaluation procedures for property used as mortgage guarantees in order to observe the eligibility and admissibility criteria of such guarantees. To this end, in 2016, the entire portfolio of mortgage guarantees was subject to the process of periodic revaluation, with the help of the services offered by Nomisma.

In order to guarantee the correct classification and assessment of credit exposures, the performance monitoring of individual positions by the Risk Management Office was extended and reinforced in 2016. In this context, the Risk Management Office:

- verifies that the performance monitoring of exposures, both performing and impaired, is performed methodically and systematically, in compliance with the internal organisational processes;
- checks that this monitoring is carried out using methodologies and procedures that make it possible to:
 - identify and promptly report any anomalies;
 - ensure the adequacy of adjustments and write-offs.
- assesses, with reference to credit management:
 - the consistency of the classifications, i.e. the compliance of the distribution into credit classes with the provisions of internal regulations;
 - the adequacy of allocations, i.e. that the coverage of impaired loans is sufficient.
- verifies the adequacy of the debt collection process and in particular:
 - the correct placement of impaired loans;
 - the reliability of the estimated collection times and the levels of non-collectability of impaired loans;
 - the treatment of guarantees, including the updating of appraisals.

Control by the Risk Management Office entails:

- sample checks, based on predefined approaches, applicable to all loan categories;
- regular controls, through the adoption of synthetic distance indicators applied to all existing exposures, at all phases of the life of the loan.

During the year, the capital requirement level was constantly monitored as part of the ICAAP process and there were no significant changes in the average level of weighting of the exposures in the individual regulatory portfolios, also in respect of the recent integration of the credit portfolio of Banca Popolare di Marostica Group.

The quarterly credit risk report drafted for the Board of Directors represents the tool for reporting on the trend in lending activities and related risks, and compliance with risk objectives (outlined in the RAF) and guidelines defined in the medium/long-term strategic plan. Amongst other things, it contains the risk index assessments (insolvency probability and estimated losses), the calculation methods adopted and scenario analyses to verify loan portfolio behaviour should unexpected events occur. Also in 2016, the structure and quality of information was partially revised to make it more accessible and meet the needs of management.

A condensed report is also drawn up on a monthly basis, containing the essential information on the composition and overall degree of risk of the credit portfolio.

The control of credit risk was also dealt with on a monthly basis by the Internal Credit Committee, which, among other things, also makes an in-depth detailed analysis of the aforesaid monthly and quarterly reports and the situation regarding the main impaired positions.

MARKET RISK

Market risk is defined as the risk of loss on owned financial instruments from possible fluctuations in financial market variables (rates, volatility, exchange rates, share prices), considering that each individual financial instrument may be exposed to one or more of these risks. Therefore, Banca Popolare - Volksbank measures market risk as changes in value of balances due to market fluctuations.

Banca Popolare - Volksbank adopts a system for measuring and managing market risk based on the Value-at-Risk (VaR) method, which supports a system of risk limits and maximum losses sustainable (risk capital) over various timeframes. The VaR method calculates the maximum potential loss of a portfolio during a certain timeframe and with a certain probability, under normal market conditions. VaR is a single measurement system applicable to all financial instruments, thus allowing a comparison of risk figures calculated in terms of both time and daily profitability. For the VaR calculation, the Bank uses the parametric model of variance-covariance provided by the company Prometeia, supported by hybrid, internal models used for the necessary audits.

In addition to analysing VaR and maximum sustainable losses, market risk management is based on the control of counterparty risk, country risk, sensitivity of the portfolio to market rate risk (basis point value) and credit risk (credit risk sensitivity), using specific limit systems.

To avoid and prevent exceeding authorised risk limits, a standardised daily reporting system monitors and verifies how near positions are to reaching thresholds.

Checking and managing market risk is discussed by the Internal Finance Committee on a weekly basis and by the Finance Committee on a monthly basis. At these meetings a specific monthly report is submitted by the Risk Management Office.

The Risk Management Office also has the role of validating and checking the pricing system for financial instruments in order to maintain a reliable price profile that is consistent with fair value pricing.

COUNTERPARTY RISK

This is the risk that a counterparty to a transaction does not fulfil its obligations according to the terms and timing envisaged in the contract.

Counterparty risk is governed by a specific system of operating limits, based on a series of valuation criteria for creditworthiness of counterparties, in accordance with their type (corporate or financial). The general rules whereby all financial transactions must be carried out exclusively by trusted counterparties also apply.

Each counterparty's limit is decided on by the Board of Directors, and may be used by the Treasury and Investment services based on specific percentages of the limit, attributed to standard categories of financial instruments.

INTEREST RATE RISK

With regard to the banking book, which corresponds to the Bank's total commercial transactions in relation to the conversion of maturities for all assets and liabilities, treasury and hedging derivatives, changes in market rate structure can have a negative effect on the interest margin and on equity, thereby constituting a source of risk (interest rate risk).

The management and investment strategies for this banking book are in line with optimisation of the risk-yield ratio and are implemented according to expected interest rate performance. The Bank's investment policy is therefore focused on optimising interest rate margins and minimising their volatility (Asset & Liability Management).

The guidelines and procedures for managing interest rate risk are established by the Finance Policy, along with the related limits and operational powers for financial management and liquidity. Two indicators have been identified in the policy: the interest margin sensitivity and the sensitivity of the current asset value to unfavourable variations in the interest rate curve.

Interest rate risk is managed with the support of monthly reports from the ERMAS IT procedure by Prometeia. This model has been progressively streamlined to process all assets and liabilities in the banking book in a realistic and reliable manner.

In 2016, the banking book's risk profile was also kept within the limits set by the risk assessment with respect to interest margin sensitivity and asset value sensitivity.

Review and control of interest rate risk is discussed by the Internal Finance Committee on a weekly basis and by the Finance Committee on a monthly basis, for which a specific monthly report is submitted by the Risk Management Office (ALM report). The report includes a "fixing" analysis, which allows the amounts of the most significant financial statement items subject to rate changes to be shown on a day-by-day basis, and also to be separated out by indexation parameters. This also allows the natural hedging of the banking book to be effectively monitored, in terms of both timing and amounts, between the asset and the liability items.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank might not be able to meet its own payment commitments at the due date and/or fund increases in its assets. It is mainly in the form of:

- inability to obtain funds on the market (funding liquidity risk);
- inability to obtain funds by selling assets on the market (asset liquidity risk).

The importance of liquidity risk, exacerbated by the current and continuing crisis in financial markets, inter-bank relations, and by sovereign debt, especially in the Euro area and in Italy, formed an element of constant attention also in 2016.

In particular, in compliance with disclosure requirements that emerged from the SREP guidelines from the European Banking Authority, the Internal Liquidity Adequacy Assessment Process (ILAAP) was defined and formalised, whose results as at 31 December 2015 were sent to supervisory authorities in April as part of a specific report prepared along with the ICAAP report.

Liquidity is managed in accordance with the instructions and operational guidelines contained in the liquidity and funding policy, which is continuously updated. An essential element is the distinction between short-term operational liquidity (under 12 months) and medium/long-term structural liquidity (over 12 months). The former is to deal with unexpected critical situations due to specific shocks in the Bank or market; the latter meets the need to ensure optimal management from a strategic standpoint, transformation of maturities between funding and loans, by balancing asset and liability maturities in order to prevent any future crises in liquidity.

Measurement and control of operational liquidity and structural liquidity were defined by means of a system of indicators, limits, and reports, including daily. Moreover, the organisational structure is clearly defined for liquidity risk management and its oversight as well as emergency plans for times of crisis or so-called Contingency Funding Plan (CFP).

Liquidity risk is measured using the Liquidity at Risk method (LaR), which assesses liquidity needs at different confidence levels over specific timeframes. Interest liquidity flows in the LaR analysis are daily imbalances not caused by Bank decisions, or flows not “dependent” on the intent of the Bank and so resulting from customer activity. This approach is used to check the level of reserves and to determine, including for ICAAP purposes, any internal capital needs to handle liquidity risk.

Specific committees constantly monitor the liquidity situation on a weekly and monthly basis. The Contingency Funding Plan also provides a system of alerts monitored by the Liquidity Monitor and based on the measurement of pre-alarm indicators, divided according to whether the indicators refer to a systemic crisis or a specific crisis. The indicators are fully weighted in order to determine five different operational situations resulting from progressive deterioration of the Bank’s liquidity position: normal operations (in turn, divided into situations that are regular, under observation, and under attention), stress situations (emergency), or crises (critical emergency).

The Treasury service, which manages liquidity, also uses the liquidity synoptic framework, which is a daily report providing a concise yet thorough description of the short/medium-term liquidity situation, thereby enabling the Bank to quickly identify critical situations and control indicators.

During 2016, the calculation and launch of monthly reports to the supervisory authority for the liquidity indicators envisaged by Basel 3 regulations, was finally applied. This involves a short-term indicator, known as LCR, Liquidity Coverage Ratio, and a long-term one, known as NSFR, Net Stable Funding Ratio.

Excessive financial leverage is the risk of a particularly high level of debt with respect to equity resources rendering the Bank vulnerable, in which case it would be necessary to adopt corrective actions in relation to the business plan, including the sale of assets with the recognition of losses that may also involve adjustments to the remaining assets. For this purpose, once a year, the Board of Directors defines the Bank’s risk propensity in terms of financial leverage as part of the RAF, establishing a minimum leverage ratio level (ratio between Tier 1 and total assets, as per the Basel 3 definition).

In 2016, the Bank did not experience any short-term or long-term situations in liquidity that would cause concern, despite the low confidence of operators and especially in consideration of the country risk assigned to several countries in the Eurozone, including Italy.

The policy of the Bank favoured maintaining substantial funds in liquidity reserves so that they would always be sufficient to deal with any stress conditions; all available instruments were used for that purpose including the most recent provisions by the European Central Bank and the Italian government. The portfolio of securities owned by the Bank is set up to ensure an ample reserve over time for managing liquidity, establishing appropriate investment rules in terms of duration, sector, issuer risk, eligibility, etc.

During 2016, the ABACO refinancing channel was used extensively, a tool through which it is possible to collateralise with the ECB certain loans that satisfy specific conditions.

OPERATIONAL RISKS

Unlike credit and market risks, which the Bank inevitably assumes while being remunerated for such risk, operational risk may generate losses without any compensation being received by the Bank. Operational risks are naturally intrinsic to processes, the characteristics of products and services provided, and the likelihood of being exposed to fraudulent or accidental events.

For these reasons the Bank studies causes that may result in operating losses and systematically detects and measures the events to limit and reduce the risks in question.

In line with Basel Committee definitions, Banca Popolare - Volksbank defines operational risk as “the risk of loss resulting from errors or inadequacies in internal processes, human resources, and systems or from external events”. This category includes legal risks, but not strategic, reputational and systemic risks. Therefore, the definition of operational risk includes opportunity risks (deal fall-through), damage to image and risks involving the entire banking system.

Since 2003, Banca Popolare - Volksbank has used a system for detecting and measuring operating losses with the purpose of improving management of potential sources of risk that could undermine business stability.

This system follows a similar initiative applied on a national scale by the Italian Banking Association (ABI). With the DIPO project (Italian database of operating losses), ABI is attempting to inform banks on how to implement these procedures and create a national databank that would allow banks to obtain more extensive and meaningful statistical data.

The process of collecting data on operating losses is based on an internal notification process that detects all events in the category of operating losses, starting from the minimum threshold of Euro 500, and forwards them to a central collection point run by the Risk Management Office. These reports are integrated with losses deriving from legal action, customer complaints, disputes with staff, etc.

The collection and systematic analysis of this information over the years has provided valuable observations and suggestions for assessing and optimising the Bank's processes and activities.

The valuation of operational risks is also incorporated in the assessments of company control functions with the introduction of new products, services or other sales initiatives and with the introduction of new operating processes.

The management of operational risks is the responsibility of the Risk Management Office and is also taken into consideration within the scope of the internal control system and the Internal Control Committee, which meets on a monthly basis to coordinate all company control functions (Internal Audit, Compliance and Risk Management), sharing the intervention limits and the results of audits, directing corrective actions to operating structures, as well as developing and spreading the risk and control culture within the operating structures.

A report on the Bank's operational risk situation is drafted on a quarterly basis by the Risk Management Office, discussed in the Internal Control Committee, and presented to the Board of Directors.

Starting from 2012, the capital requirements necessary to deal with operational risks were calculated in accordance with standardised Basel 2 methods which require the execution of initiatives to improve the general level of monitoring of operational risks. These include:

- implementation of an overall self-evaluation process on the operational risk management system, aimed at evaluating the general quality of the system in accordance with the organisational structure of the Bank, evaluating the exposure to operational risks on a comprehensive level, evaluating the compliance of the system with prevailing law, and evaluating the effectiveness of the system in relation to the objectives and programmes of the Strategic Plan in effect and developments in reference markets;

- implementation of rules to ensure the correct allocation of operating losses among the different business lines of the Bank;
- the annual review of the operational risk management system by the Internal Audit Office.

In the final quarter of 2015, “conduct risk” was also integrated in the operational risk management system, as defined in the SREP guidelines of the European Central Bank. This is the risk of incurring losses owing to inadequate supply of financial services, including cases of fraud or negligence and derives from unethical behaviour on the part of bank managers and employees, also in violation of correctly defined controls and processes, the expression of an unethical business culture. In particular, this risk encapsulates:

- the fraudulent sale of products in retail and wholesale markets;
- pushed cross-selling of products to private customers, e.g. packaged bank accounts or add-on products which customers don't need;
- conflicts of interest in the management of transactions;
- the manipulation of reference interest rates, exchange rates or of other financial instruments or indexes to increase entities' profits;
- barriers preventing a change from one financial product during its life cycle and/or switch to other providers of financial services.

The risk evaluation is incorporated in the assessments of the company control functions when new products, services or other sales initiatives are introduced.

In 2016, the foundations for the systematic and structured management of model risk were developed, which is expected to be extended to all banking activities that, for decision making and measurement of certain market variables, make use of “models”, that is, quantitative methods, systems, and approaches that use theories, techniques, and assumptions of a statistical, mathematical, economic, and financial nature to process input data for quantitative results/estimates.

Increasing attention has been given to the processes of analysing, measuring and managing IT risk, in close collaboration with the SEC service centre in Padua.

CONCENTRATION RISK

Concentration is defined as the risk deriving from credit exposure with regard to counterparties, groups of related counterparties, counterparties in the same economic sector or which exercise the same company activities.

Concentration risk is measured in compliance with the provisions of Bank of Italy Circular no. 285 (Title III – Chapter 1 – Annex B) by the Granularity Adjustment (GA) method.

Specific procedures were defined under the ICAAP process in compliance with applicable regulatory provisions in order to calculate geo-sector concentration risk, i.e., risk deriving from counterparties operating in the same sector or geographical area.

A defined system of limits that controls and steers the guidelines to limit exposure to concentration risk in the Bank's loan portfolio was activated.

The various forms of concentration risk are also monitored in the quarterly credit report, and discussed at the quarterly meetings of the Internal Credit Committee.

OTHER RISKS

The Risk Management Policy identifies and defines the following additional risk classes, which are periodically subject to analysis and assessment:

- strategic risk which covers, with respect to its timing in terms of occurrence, the following sub-types:
 - short-term risk (business or commercial risk), or rather the risk of losses following unexpected changes in sales volumes (lower revenues) and/or expected margins (greater costs due to technological innovation, higher taxes, and changes in the legislative context, etc.);
 - strategic risk in the strict sense or positioning risk, or rather the risk of losses, current or forecast, or decreases in profits or capital deriving from changes in the operating context or from erroneous business decisions, inadequate implementation of decisions, or slow reactions to changes in the competitive scenario:

- risks deriving from securitisation transactions;
- investment risk, or risk that the book value of an investment may suffer a decrease due to the drop in the stock price, for listed companies, or equity default of the investee company which makes it necessary/advisable to review the book value, for unlisted companies;
- reputational risk, or rather the risk - current or forecast - of a decrease in the profits or the capital deriving from a negative perception of the Bank's image by stakeholders or any party with which the Bank enters into dealings.

ANTI-MONEY LAUNDERING OFFICE

Money laundering and terrorism financing are activities that, also due to their international nature, pose a serious threat to the economy and can have destabilising effects, especially on the banking and financial system.

The wide-ranging legal basis on which the entire system involved in the international and internal fight against money-laundering and terrorism are aimed at protecting the system from the risk of being used, also inadvertently, to perform unlawful acts. They call on operators to “collaborate actively”, i.e. by reporting any transactions that raise suspicions regarding the unlawful origin of the funds being transferred. In order to make anti-money laundering laws fully effective, it was necessary to undertake a significant process to standardise international laws to prevent movement of money from criminal activity in an increasingly open and competitive market, taking advantage of gaps in protection networks put in place by various countries.

Moreover, there are geographical areas and territories where regulations are not in line with international best practices and where more severe anti-money laundering inspections should be applied due to their higher risk. The regulation, including both primary laws and secondary rules is vast and is constantly extended by the various supervisory authorities in charge. Basically, the obligation system that must be adhered to by intermediaries, and which Banca Popolare - Volksbank continuously implements, is focused on the following three basic principles:

- a) adequate verification of new customers or persons with whom transactions are made (customer due diligence);
- b) logging relations and transactions and conserving related documentation;
- c) notifying authorities of any suspicious transactions.

The most recent national legislation and regulations on this matter regarded the following:

- ABI circular of 20 January 2016, containing clarifications from Bank of Italy on performing self-assessments and the annual report produced by the Anti-Money Laundering Office;
- UIF publication in January 2016 of the Anti-Money Laundering Workbook no. 5, including an econometric analysis at a local level on anomalies in use of cash and money laundering;
- UIF communication of 12 February 2016 on the assessment of the Italian system for preventing and fighting money laundering and financing of terrorism by the FATF and the IMF;
- Bank of Italy letter of 21 March 2016 containing clarifications on the application of regulations pursuant to Italian Legislative Decree no. 231/2007;
- UIF communication of 18 April 2016 on preventing the international financing of terrorism;
- Bank of Italy measure of 3 May 2016 including provisions on sanctions and administrative penalty procedures;
- Bank of Italy document of 5 May 2016 on the passage of the new registry pursuant to art. 106 of the Consolidated Banking Law and Aggregate Anti-Money Laundering Reporting;
- UIF communication of 20 May 2016 on developing a portal to prevent the financing of terrorism;
- UIF communication of 27 July 2016 on the new functionality to compile reports on suspicious money transfer transactions through data entry;
- UIF communication of 1 August 2016 showing typical patterns of anomalous behaviour in over-the-counter transactions with foreign stockbrokers;
- Italian Law no. 153 of 28 July 2016 containing rules for fighting terrorism, as well as the ratification and implementation of international conventions;
- Italian Law no. 170 of 12 August 2016, including the delegation to the government to implement European directives, including EU Directive 2015/849 of 20 May 2015 (Anti-Money Laundering Directive IV) and implementation of other European Union acts - 2015 Delegation Law;
- Italian Law no. 192 of 3 October 2016 on ratifying and executing the agreement between the government of the Republic of Italy and the government of the Socialist Republic of Vietnam for cooperation in the fight against crime, signed in Rome on 9 July 2014;

- Italian Law Decree no. 193 of 22 October 2016 containing urgent tax measures and measures for financing non-deferrable needs that re-open the terms of voluntary collaboration (known as Voluntary Disclosure bis);
- UIF publication in December 2016 of the Anti-Money Laundering Workbook no. 6, containing the update on the study of the use of high value banknotes as potential money laundering tools;
- UIF publication of 30 December 2016 of the Anti-Money Laundering Workbook no. 7, containing examples of money laundering and financing of terrorism;
- countless updates of the European Council via regulations and decisions regarding restrictive measures vis-à-vis various countries and/or parties subject to sanctions.

In 2016, both in execution of the annual plan and taking into account the guidelines received from the sector supervisory authorities and the Internal Audit Department, the following main activities were developed:

- a) drafting of the self-assessment on adequacy of anti-money laundering controls, merged into the annual report;
- b) implementation of a new process for fulfilling reinforced due diligence requirements;
- c) recovery of due diligence questionnaires for every customer position in place;
- d) recovery of the identification of effective owners for relationships with customers who are not individuals;
- e) preparation of a consolidated regulation that incorporates all service provisions and related first- and second-level controls;
- f) audit of data entry in the Single Computer Database;
- g) design of management processes for trusts involving direct and indirect relationships;
- h) introduction of a control on the use of prepaid cards;
- i) qualitative/quantitative increase in internal and external training activities.

COMPLAINT MANAGEMENT

Banca Popolare - Volksbank firmly believes that long-lasting growth and development is possible only if the customer is placed at the centre of a mechanism to create value. This focus on the customer, which is based on the Company's Code of Ethics, emerges already during the planning stage for products and services, constantly oriented towards the search for high quality, but especially customer relationship management, so that customers are always provided with the most suitable product or service to meet their needs.

Despite the profound commitment of all employees and considering the great quantity of transactions handled by the Company daily, it is highly unlikely that customer expectations will always be met to the fullest, which means there will be a certain degree of dissatisfaction. On these occasions, collaboration with customers is essential to enable the Company to identify and remove the cause of any poor service and also to improve procedures.

The Company has a special office to manage complaints and, in compliance with the law, refers to special bodies for the out-of-court settlement of disputes between the Bank and customers. With a view to constantly improving the services offered to customers, an office was created to manage complaints, whose staff are organisationally and hierarchically independent from the business units responsible for the marketing of products and services, ensuring the objectivity of analyses and opinions when assessing complaints.

If the solutions do not satisfy customers, either partly or entirely, they can turn to the out-of-court system to settle their dispute. As they operate differently from ordinary judicial authorities, the dispute is handled more quickly and at a lower cost. On this point, customers can obtain an information kit from the retail network or from the website, which contains, inter alia, the complaints regulation and the Company's systems for settling disputes.

Moreover, statistics on complaints received by 31 December 2016 were also published. During the year, 464 written complaints were received and processed, including 325 regarding banking services and 139 regarding investment services.

Out of 464 complaints as at 31 December 2016, 325 were settled, 92 were closed pending settlement, while 47 are still under assessment. A complaint is considered to have been settled when the reason behind the complaint made by the customer has been resolved, whereby the Company has provided a complete and exhaustive

response within the timeframe provided and the customer has not made any further complaints in the following thirty days, with respect to the same product or service. The complaint is also considered to have been settled in the case where a settlement or an amicable solution to the matter is reached with the customer.

With respect to complaints made in 2016 regarding banking services, the Company repaid customers a total gross amount of Euro 8,167.86. For loss forecasts relating to complaints which have not yet been settled, a total loss of Euro 121,509.84 was envisaged and this amount was allocated to the appropriate provision.

With respect to complaints made in 2016 regarding financial instrument intermediation, the Company repaid customers a total gross amount of Euro 2,296.61. For loss forecasts relating to complaints which have not yet been settled, an allocation of Euro 2,960.00 was made to the appropriate provision.

No repayments relating to complaints made in previous years were made in 2016. More precisely, Euro 17,766.85 was reimbursed for complaints submitted in 2015, while Euro 550,000.00 was reimbursed for complaints submitted in 2014.

A detailed investigation of the complaints made in 2016 did not reveal any particular procedural, organisational or behavioural shortfalls.

CODE OF ETHICS

A good reputation implies trust in the organisation, as an institution that adopts business and relation policies with stakeholders. Protection of the company's image stems from observance of the values, principles and standards of conduct that the Code of Ethics of Banca Popolare - Volksbank explicitly sets forth: it constitutes an internal business control to guarantee propriety in day-to-day business operations, meaning, in the strict sense, compliance with the regulatory provisions and, in a broad sense, ensuring the best operational practices of elevated value drivers. It is a key tool for stakeholders' valuations, who can approach the Company with more trust, confidence and greater sense of cooperation. The Code of Ethics is an internal Bank regulation, and the Bank fully believes that the integrity, honesty, propriety and good faith of all interested parties are essential conditions for long-lasting success. The Code of Ethics also supplements the Organisational Model of Banca Popolare - Volksbank, in combating the commission of predicate offences set out in Italian Legislative Decree 231/2001.

In 2016, the Board of Directors approved the updated edition of the Code of Ethics, which is coupled to the system of values on which Banca Popolare - Volksbank bases its activities and, at the same time, updated its prescriptive contents, also in light of the business context, which expanded as a result of the merger by incorporation of the Banca Popolare di Marostica Group. The rules of conduct that the Code of Ethics sets out stem from the following principles (the "values") supported and actively experienced by individuals working at the Bank:

- Appreciation: we treat one another with esteem and respect, we conduct ourselves in the proper manner with customers, shareholders, colleagues and persons in charge;
- Trust: as a result of our reliability with customers, shareholders and employees, we lay the foundations for mutual trust;
- Enthusiasm: our work is a source of pleasure; our spirit of initiative and commitment convey our enthusiasm to customers and shareholders, contributing to the Bank's success;
- Courage: everything we do, we do with courage; our positions are clear and even in difficult situations we stay true to our values and principles;
- Authority: we are aware of our strengths as individuals and employees; we further develop our skills and believe whole-heartedly in the value of our Bank;
- Attention: we are fully aware of and attentive to our surroundings; we pay attention to our customers, shareholders and colleagues, listening to them and respecting each one;
- Excellence: we obtain excellent results due to constant improvements; we are looking for fresh challenges and pursue our objectives with a competitive spirit.

During 2016, compliance of business activities with the Code of Ethics was verified extensively by the Compliance Office and Internal Audit Department and, for certain aspects, by the Supervisory Body pursuant to Italian Legislative Decree 231/2001, which report the results to the Board of Directors.

STATEMENT PURSUANT TO ART. 154-BIS OF THE CONSOLIDATED LAW ON FINANCE (TUF)

Italian Legislative Decree no. 195 of 6 November 2007, transposing EC Directive 2004/109/EC on the harmonisation of transparency requirements ("Transparency Directive"), partially extended the regulations in Italian Law no. 262 of 28 December 2005, which incorporated "Provisions for safeguarding savings and governing financial markets", thereby amending Italian Legislative Decree 58/1998 (Consolidated Law on Finance), to companies issuing securities admitted for trading in regulated markets.

The rules give specific responsibilities to the Manager in charge of preparing the corporate financial report in order to ensure a true and correct view of the issuer's equity, economic and financial condition.

For that purpose, the Manager in charge of preparing the corporate financial report drafts a report on the financial statements and abridged six-month report certifying their adequacy and application of administrative and accounting procedures when preparing financial statements and any other financial disclosure and certifying that the documents and accounting records correspond.

To issue the statement, the Manager in charge of preparing the corporate financial report ensures the internal control system for financial reporting is adequate and effective:

- through a brief analysis, at company level, aimed at ensuring that the Bank is organised in such a way as to reduce the risk of error or improper conduct in financial disclosure and reporting;
- by checking business operations for generating and developing financial reporting, including by using results provided by other audit and control offices; for that purpose, the scope is determined to identify the significant processes that need checking.

Banca Popolare - Volksbank therefore undertook a process aimed at defining a model that is in line with national standards in order to improve the reliability of its financial reporting, which includes processes for gathering, processing and disclosing economic-financial information.

Section 1 CREDIT RISK

QUALITATIVE INFORMATION

1. *General aspects*

The Bank's credit activities offer support in the growth and consolidation of small and medium enterprises and assistance in families' financing needs, with the dual aim of providing economic support in developing local economies in areas covered by the Bank and of becoming a well-known, competent, and reliable contact for customers.

The credit policy that has always been adopted by Banca Popolare - Volksbank is geared towards meeting the financing needs of private individuals and companies, always with a special focus on the risk-return ratio and the presence of adequate hedging with guarantees, including via mortgages, particularly in relation to medium/long-term exposures.

With regard to private customers, the activity concentrated on mortgages and personal loans, for which the Bank has a complete, wide-ranging product mix, selecting customers based on criteria regarding the reliability and the merit of the specific needs and financial goals.

For small enterprises, on the other hand, demand concentrated mainly on short-term commitments, characterised by a high degree of risk spreading, whilst for medium and large enterprises the Bank increased its medium-term lending, particularly with regard to loans backed by real guarantees. Pool loans were provided to distribute major loan risks.

Special focus was targeted on the selection of economic sectors, preferring those considered less risky. In addition, support was provided to companies by means of special finance transactions, such as project financing, managed and monitored in terms of progress and release by means of a specific IT procedure.

In general, the credit portfolio is monitored with a view to a broad diversification of economic segments and geographical areas (provinces of Bolzano, Trento, Belluno, Vicenza, Padua, Treviso, Pordenone and Venice), so as to mitigate the effect of any crisis situation. Strict and timely controls were also applied to significant exposures, taking into account all legal and economic ties between the counterparties in order to keep these within limits that do not jeopardise the Bank's equity and economic position in any manner.

In any event, the credit policy is guided by a prudential approach and geared towards establishing key customer relationships of mutual trust and transparency in order to guarantee long-term, customised relations.

2. *Credit risk management policies*

2.1 *Organisational aspects*

Credit risk is the risk of incurring losses due to default by the counterparty or the risk that a debtor or counterparty fails to meet assumed financial obligations (specifically with regard to failure to repay loans). This is one of the Bank's main risk factors, affecting all financial activities, in particular loans, securities, and all committed facilities in relation to guarantees issued or as funding for distribution commitments. Its analysis mainly involves the quality and reliability of debtors and risk concentration. In particular, credit risk may be manifest in the following types of risk:

- credit default risk is the risk that a debtor is unable to fulfil commitments assumed, generating a loss represented by the unrecovered portion of the loan;
- residual risk is the risk that the techniques acknowledged for risk mitigation utilised by the Bank turn out to be less effective than expected. The residual risk is manifest, therefore, in relation to Credit Risk Mitigation (CRM)

techniques utilised to determine the absorption of the capital required to handle credit risk. Residual risk may emerge as:

- risk of impairment of the guarantees, related to a possible significant deterioration in the market value of a guarantee;
- risk of non-enforceability of guarantees, if the guarantee cannot be enforced due to market illiquidity or for reasons linked to the administrative management process of the guarantees at the moment it is needed;
- risk of concentration of guarantees, resulting from indirect exposure with respect to individual providers of guarantees when they are covering a significant portion of the exposures;
- risk of contagion of the guarantors, which may occur in the enforceability of personal guarantees and resulting from the possible impairment of the creditworthiness suffered by the guarantor when paying the agreed amounts.
- risk of forbearance, related to the classification (and consequent management) of a debtor in a better class of risk than its actual situation requires. The consequence may be a delay in the recognition of doubtful loans (and impaired loans in general) and the necessary write-downs, with negative consequences on financial stability and the allocation of resources;
- counterparty credit risk, i.e. the risk that a counterparty to a transaction does not fulfil its obligations under the terms and timing envisaged in the contract;
- credit spread risk, i.e. the risk that an unexpected change of the credit rating of a counterparty generates a corresponding unexpected change of the market value of the exposure; this event immediately leads to an economic loss for the Bank;
- settlement risk, i.e. the risk of incurring losses if, in settling a transaction, the counterparty is no longer able to fulfil its commitments. Settlement risk originates mainly from swap transactions and contracts, when the counterparty is unable to fulfil its obligations (handover securities or sums of money) during settlement, after the Bank has already honoured its commitments;
- risk of change in solvency, associated with the deterioration of the borrower's and counterparty's credit rating, i.e. the counterparty must be classified in a lower rating class (known as downgrading), without there necessarily being an immediate economic loss for the Bank;
- concentration risk, which in turn can be broken down into:
 - single name concentration risk, or the risk incurred if there is exposure (investments or granting of loans) to one individual or a group of interconnected individuals;
 - sector concentration risk, or the risk incurred if there is exposure (investments or granting of loans) to individuals operating in the same business sector or geographical area.
- currency exposure risk is the risk of a possible insolvency of the borrower in the event of a deterioration in foreign exchange rates and the consequential increase of debt;
- sovereign risk is the risk of cross-border payments transfers, which involves a potential unwillingness to pay (political risk) or also the insolvency (economic risk) of a country. In other words, the risk is associated with the possibility of losses subsequent to the insolvency of a foreign country, of a measure by foreign country that blocks international settlements, or defaults on the part of non-Italian debtors for causes depending on macroeconomic variables of the country in which it operates. The EU countries that fulfil the convergence criteria, as well as Switzerland, Norway, Sweden, Denmark, and Great Britain, are not in this sense considered as countries at material risk;

From an organisational point of view, the process for managing and monitoring credit risk is conducted by special departments, appropriately defined and regulated to ensure performance of the various supervisory controls, as specified in the Regulatory Instructions (Title IV, Chapter 11, Section II). A well-structured internal framework, which is constantly checked to ensure efficiency and making reference to the Credit Risk Policy, is in place to clearly, and at the highest levels, define activities, roles and responsibilities during all phases of the loan process and to ensure the necessary separation between operational and control functions.

On a quarterly basis, the Internal Credit Committee analyses and guides all policies for credit risk management based on the outcome of testing and monitoring with the support of detailed reports provided by the Risk Management Office. Specifically, the Committee:

- checks compliance with limits set in the annual Credit Strategy;
- verifies trends in overall quality of the loan portfolio;
- checks the risk profile and main risk parameters of the loan portfolio;
- reviews and analyses the main risk situations;
- defines what measures to undertake for monitoring and oversight;
- analyses internal capital pertaining to credit risk, current and future capital absorption, also under adverse conditions;
- determines any corrections to be made to policies on assessment, management and mitigation of credit risk on the basis of reports submitted by each competent office;
- makes any proposals needed to revise/update limits and thresholds for credit and concentration risks.

The credit risk monitoring processes comprise:

- line controls (first-level controls), initially carried out by the managers of the organisational unit of the retail network, especially through verifying overdrafts and unpaid instalments by means of special procedures and analyses of periodic progress reports. As a second step, controls are carried out by departments that report to the Credit Department (second-level controls); in this respect, tests carried out by offices responsible for credit assessment and the Anomalous Loans Analysis service are particularly relevant. The offices responsible for credit assessment perform control activities for proper management of credit positions attributable to the branches and corporate centres, such as:
 - implementation of decisions made by the relevant bodies;
 - timely renewal/reimbursement of credit lines at maturity;
 - meeting the deadlines set to review positions;
 - timely extension of guarantees at maturity (e.g., bank guarantees in our favour, guarantees from guarantee consortia);
 - breach of the rules on the powers assigned to grant/manage lines of credit;
 - absence or incomplete formation of economic groups;
 - use of loans for reasons other than those envisaged;
 - forms of credit managed in a technically incorrect manner (e.g., multiple lines of credit backed by different guarantees on a single account, multiple projects managed on a single account).

Secondly, the Anomalous Loans Analysis service is instead responsible for credit control and managing/monitoring classified positions, by interfacing with the branch and area offices in charge of the customer relationship; this ensures the systematic control of risks associated with loans to customers through overseeing and ensuring typical first-level and second-level controls, and risk limitation.

- special monitoring: carried out by the independent, second-level control departments, i.e. Risk Management and Compliance. The Risk Management Office is in charge of carefully monitoring credit risk. The controls carried out by the Risk Management Office aim to define the risk measurement methods, verify compliance with the limits assigned, and control the consistency of operations in the individual production areas with the assigned risk-return targets. The Compliance Office is responsible for ensuring that internal procedures are consistent with the goal of preventing infractions of external regulations (laws and regulations) or self-regulation (codes of conduct, codes of ethics) applicable to the Bank on credit matters. Compliance audits are carried out through a system of controls aimed at identifying any misalignment caused by any missing/incorrect adoption of regulatory provisions.
- audits performed by the Internal Audit Department as part of their on-site and remote auditing duties, for the purpose of verifying credit quality, the accuracy of procedures, and conscious decision-making by the relevant departments responsible for allocating and managing credit.

Each type of task is supported by appropriate IT procedures. The control and monitoring of impaired financial assets is handled by the following specific company functions:

- the Anomalous Loans Analysis service, which reports to the Credit Department and is composed of staff based at the Central Office, is tasked with identifying loan positions that show signs of anomaly, placing them on the watch-list if necessary, and proposing their classification as impaired loans;
- the Doubtful Loans Service is part of the Legal Department. This service is composed of in-house legal advisors and administrative-accounting staff and is in charge of performing all the activities related to management of doubtful positions (legal action and out-of-court credit collection).

2.2 Management, measurement and control systems

The first and most important stage in credit risk measurement and management is performed at the time the credit line is granted and during its annual review, particularly during the preliminary process to assess the credit rating of the borrower.

In Banca Popolare - Volksbank, the preliminary stages of the loan granting process are as follows:

- collection of assessment elements and all documentation necessary to analyse the potential credit line, also with reference to information from external databases;
- analyses of material collected to reach a final credit rating.

The verifications/analyses performed on the applicant are likewise performed on any guarantors and, in the event of joint signatory, on other signatories.

For private and small business customers, all branches have a disbursement rating system, i.e. an IT tool to verify credit ratings during the allocation stage of new credit lines, making use of internal and external IT sources integrated with the electronic loan application procedure.

A structured and prudent system of powers approved by the Board of Directors defines the limits for granting credit lines starting from the sales network, where authorisation limits are not excessively high. For large amounts and/or disbursements with low ratings, the decision lies with the central offices (Credit Department, General Management, Internal Loans Committee, Central Credit Committee, and Board of Directors).

The decision to allocate credit to companies/institutional customers instead falls to credit managers, always within a set limit, or to the central offices mentioned previously if the amounts involved are higher. Credit line proposals for such customers must be accompanied by the Credit Department's technical opinion, formulated by internal employees that have specific skills and qualifications in providing preliminary investigations, analyses, assessments, and the administrative management of loan applications to the network, including special lending and credit, and guaranteeing the observance of both internal and external regulations.

The positions are all subject to periodic review to verify that customer and guarantor are still solvent compared to situations existing at approval stage, the validity and degree of guarantee cover, and the profitability of economic terms applied compared with the risk profile.

The periodic review can also be carried out automatically whenever a series of requirements are met, such as an adequate performance rating.

Among the credit risk monitoring and management tasks, use of the internal rating system is particularly important in allowing credit managers to verify developments in customer credit ratings and quickly identify positions under their control that show a drop in the rating.

The system is based on the calculation of a performance rating for each customer. All customers, both private and corporate, are analysed on a monthly basis using performance monitoring methodologies that take into account internal and system data. Each customer is assigned a rating on a scale of 12 levels of increasing risk (AAA, AA, A, BBB, BB, B, CCC, CC, C, DDD, DD and D+). Business customers are divided into the Small Business segment (sole proprietorships, general partnerships, and capital companies with turnover under Euro 1.5 million) and Corporate segment (non-financial partnerships and capital companies with turnover over Euro 1.5 million).

The data managed by the internal rating system is subject to constant analysis and verification by the Risk Management Office, particularly to measure and verify the system's predictive capacity for all customer types by means of appropriate statistical approaches.

The performance rating is used also when granting credit and revising credit lines and it is one of the essential factors in the framework of authorisation powers. The performance rating is disclosed during the yearly meeting only for high-end corporate customers; this is done to make the consultancy services more systematic, unequivocal, and structured, and to help determine critical aspects regarding the customer and its potential.

The internal rating system is also used for PD calculation (probability of default) of individual rating classifications, i.e. the likelihood that a position with a given rating becomes insolvent (doubtful, unlikely to pay, past-due, exposures subject to concession) within one year. This rating depends only on counterparty characteristics and conduct, and not on the nature or quality of the guarantees granted.

The loan portfolio is also subject to stress testing to assess the potential effects of exceptional changes in one or more risk factors. The simulations consider the effects deriving from negative changes in individual risk factors (sensitivity analysis) or negative changes simultaneously in more than one risk factor (scenario or crash-test analysis).

With regard to exposure and concentration limits, it should be emphasised that the absolute credit limit that can be agreed per business group, individual non-banking counterparty, or member of the banking group is established as 10% of own funds. This limit can however be raised at the complete discretion of the Board of Directors. Nonetheless, obligations imposed by current supervisory regulations of the Bank of Italy on maximum individual and group credit limits obviously remain binding.

All loan portfolio risk analyses and data are produced in a detailed quarterly report issued by the Risk Management Office, submitted for discussion and resolution by the Internal Credit Committee, and thus the Board of Directors. The quarterly credit risk report plays an important role as a tool to monitor performance of the Bank's credit business and related risks, and to monitor adherence to objectives and compliance with guidelines defined in the Bank's medium/long-term strategic plan. Amongst other things, it contains the risk index assessments (insolvency probability and estimated losses), the calculation methods adopted and scenario analyses to verify loan portfolio behaviour should unexpected events occur.

The quantitative and qualitative assessments of the breakdown and level of risk of the loan portfolio are therefore used as the Bank's main credit policy guidelines, in the adoption of appropriate operational and control measures for the central and branch offices.

The process to monitor credit is guaranteed over the long term by an automatic classification system for irregular positions (CM, Credit Management), which uses an early warning system to detect any substandard situations, starting from the performance rating and a series of daily indicators.

In compliance with regulatory provisions, verification of the correct performance of monitoring of the individual exposures, in particular, impaired loans, and the assessment of the consistency of the classifications and of the allocations, and of the adequacy of the recovery process, is carried out at central level by the Risk Management Office. This office verifies, inter alia, the work of the operating and debt collection units, ensuring the proper classification of impaired loans and the adequacy of the associated degree of non-recoverability.

The controls concern, inter alia: the presence of updated appraisal values of the guarantees, the registration in automatic procedures of all the information needed to evaluate the loans, the traceability of the collection process, the estimated recovery times, and discount rates used. The monitoring activities are carried out both during the classification phase (downgrade or upgrade) and during the period in which an exposure remains in a risk class. The transfer from an initial risk class to a lower risk class may occur automatically, when objective indicators of impairment of the exposure are verified, or through a genuine resolution process.

In the first case, the controls performed by the Risk Management Office essentially consist of:

- assessing and validating the automatic procedures that perform the classification in terms of consistency of the parameters used and the promptness of the classification itself;
- statistical performance monitoring of the inflows by origin and quantities whose outcomes are periodically (at least monthly) transmitted to the competent bodies.

In the second case, the Risk Management Office verifies the decisions taken by the deliberating bodies in observance of its competencies, in particular by participating in the Internal Credit Committee in an advisory capacity.

In addition to the classification, the Risk Management Office verifies the consistency of the specific (analytical) allocations proposed by the competent bodies with internal regulations, on a statistical or single position basis.

The Risk Management Office carries out monitoring not only during the classification phase, but also during the period in which a position remains in a given risk class, in order to verify and continuously validate the consistency of the classification and of any specific allocations.

2.3 Credit risk mitigation techniques

To mitigate credit risk, the Bank uses all the main forms of guarantees typical of banking activities, both collateral and personal guarantees. The main collateral acquired consists of:

- mortgages on property;
- pledges in cash or a variety of securities (treasury securities, bonds, investment funds, assets under management, insurance policies, certificates of deposit, securities in foreign currency, etc.).

With regard to management methods, the above-mentioned guarantees are acquired by means of a standard pledge agreement and by notary deed (for mortgages), and included in the electronic “Credit and Guarantees” procedure to allow their computerised management, control and monitoring.

Personal guarantees are mainly issued by:

- individuals in favour of companies in which they are partners and/or directors;
- individuals in favour of family members;
- credit syndicates in favour of their associate companies/firms (subsequent to agreements stipulated with the Bank).

To a more limited extent, there are also personal guarantees by companies in favour of subsidiaries/associated companies and by financial institutions primarily in favour of companies.

An analysis of guarantee characteristics shows no particular degree of concentration of the various hedging/guarantee formats as the guarantees obtained, except in special cases, are essentially considered as “specific” to each individual position. Furthermore, in general, there are no contractual restrictions that could undermine their legal validity.

To conclude, as verification of the legal and operational effectiveness of the guarantees, an IT/organisational/legal system is used (electronic loan application procedure) providing online texts and help on the various guarantees in accordance with Italian Bankers’ Association (ABI) regulations, including:

- operating procedures governed by national law, pronouncing and establishing regulations on values attributable to guarantees obtained (appraisals, confirmation/verification/monitoring of events with mass land registry searches, real-time online assessment of listed securities, etc.)
- verification of signature authenticity on the various guarantees (from company documents, “signed in the presence of” Bank officers, confirmation by notary deed, etc.).

Adoption of Credit Risk Mitigation methods to calculate the Bank’s capital requirements led to the accurate definition of forecasting, valuation and periodic revaluation processes for properties used as mortgage guarantees in order to fully observe the eligibility and admissibility criteria of such guarantees.

2.4 Impaired financial assets

All borrowers for whom particularly serious signals or events occur are defined as impaired, and in turn allocated to one of the following categories according to level of impairment:

- doubtful loans, inclusion of positions under this category regards bankrupt entities, even if not yet legally confirmed, or in an essentially equivalent position, as a result of which legal or other action is taken to settle or recover the exposure;
- unlikely to pay, i.e. positions:
 - continuously marked by ongoing irregularities in performance, system-related/Bank of Italy Central Credit Bureau, information on collection procedures and foreclosures (injunction decrees, seizures, judicial mortgages, etc.), drastic deterioration in the equity/profit or balance sheet position (lack of repayment capacity), from which it could be presumed that the borrower is in objective difficulty, also with the risk of insolvency, that could, however, in the Bank's opinion, be resolved in a reasonable period of time. The decision to classify a position as 'unlikely to pay' must be taken by disregarding any guarantees (collateral securities or personal guarantees) pledged to cover the loans and receivables;
 - that, regardless of the trend in relations, imply a situation of risk of borrower default (e.g. from being in a sector in crisis);
 - for which the Bank deems it appropriate to make an allocation to the provision for risks (forecast loss);
- exposures subject to tolerance measures (forborne exposure) or positions, according to supervisory provisions, to which the Bank has agreed facilitated terms (e.g. restructuring of debt, lengthening of term of the loan, suspension of instalments/principal portions, reduction in rates or commissions) in the event of borrower difficulty. The category applies across the board to the categories of performing loans (performing exposures with forbearance measures) and impaired loans (non-performing exposures with forbearance measures). The following classifications of positions subject to forbearance measures are distinguished:
 - forborne performing exposure;
 - unlikely to pay with forborne non-performing exposure;
 - doubtful with forborne non-performing exposure;
- impaired past-due and/or overdue exposures, according to supervisory provisions:
 - constantly overdue for more than 90 days (past-due and/or overdue loans/mortgage instalments in arrears);
 - where the amount of the overdue loan exceeds the relevant threshold of 5% of the total exposure in the observation period;
 - not classified as 'unlikely to pay'.

As already described in the section on organisational aspects, in addition to the sales network, impaired credit not classed as a doubtful loan is also monitored by the Anomalous Loans Analysis Service, whose mission is essentially insolvency prevention.

Specifically, the steps to be taken for positions classed as unlikely to pay include:

- immediate review of the position and any related positions (guarantor, affiliated, partner, associate companies), updating the relevant documentation and any estimates on guarantees granted;
- review of the terms applied in order to take into account the borrower's deteriorated risk profile
- verification of the quality and total of guarantees issued;
- development of a restructuring plan with the aim of turning around the position and improving guarantees through the definition of a detailed recovery plan submitted to the appropriate internal body for decision.

The Bank's management of doubtful loans and debt collection is handled by the Doubtful Loans Service, a department that makes use of specialised internal staff and a specific IT procedure for accounting.

Debt collection activity is proactive and aims to optimise legal proceedings and maximise the financial result. In particular, with regard to assessment of the initiatives to be implemented, in-house legal advisors also make use of out-of-court debt collection, with recourse to settlement agreements, which have a positive impact on collection

times and the level of costs sustained. External legal advisors are also employed to start legal actions that always represent a valid and fundamental coercive method for putting pressure on borrowers and an instrument for resolving disputes.

The correct implementation of doubtful loans management and assessment activity is also ensured by periodic audits performed internally, by the Internal Audit Department, and externally by the Board of Statutory Auditors and Independent Auditors.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information on credit quality, the term “credit exposures” excludes equity instruments and UCITS units while the term “exposures” includes the aforementioned elements.

A.1 Impaired and non-impaired loan exposures: balances, adjustments, changes, trend, economic and geographic distribution

A.1.1 Loan exposure distribution by relevant portfolio and by credit quality (book values)

Portfolio/Quality (thousands of Euro)	Doubtful loans	Unlikely to pay	Impaired past-due exposures	Non-impaired past-due exposures	Other non-impaired exposures	Total
1. Financial assets available for sale	-	-	-	-	1,294,585	1,294,585
2. Investments held to maturity	-	-	-	-	260,924	260,924
3. Due from banks	-	-	-	-	41,917	41,917
4. Loans to customers	342,060	314,070	12,795	185,238	5,873,060	6,727,223
5. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-
Total as at 31.12.2016	342,060	314,070	12,795	185,238	7,470,486	8,324,649
Total as at 31.12.2015	327,694	261,131	38,819	317,731	6,897,952	7,843,327

Impaired loans subject to concession amount to Euro 158.1 million: doubtful loans (Euro 33.3 million) and unlikely to pay (Euro 124.9 million). Non-impaired loans subject to concession amount to Euro 102.6 million.

Portfolio/Quality (thousands of Euro)	Loans under renegotiation					Other transactions		
	Assets past due by under 3 months	Assets past due between 3 months and 1 year	Assets past due between 6 months and 1 year	Assets past due by over 1 year	Assets past due by under 3 months	Assets past due between 3 and 6 months	Assets past due between 6 months and 1 year	Assets past due by over 1 year
1. Financial assets available for sale	-	-	-	-	-	-	-	-
2. Investments held to maturity	-	-	-	-	-	-	-	-
3. Due from banks	-	-	-	-	-	-	-	-
4. Loans to customers	-	-	-	-	147,831	22,523	10,636	4,248
5. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-	-
Total as at 31.12.2016	-	-	-	-	147,831	22,523	10,636	4,248
Total as at 31.12.2015	-	-	-	-	207,019	44,232	48,749	17,731

A.1.2 Loan exposure distribution by relevant portfolio and by credit quality (gross and net values)

Portfolio/Quality (thousands of Euro)	Impaired assets			Non-impaired assets			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets available for sale	-	-	-	1,294,585	-	1,294,585	1,294,585
2. Investments held to maturity	-	-	-	260,924	-	260,924	260,924
3. Due from banks	-	-	-	41,917	-	41,917	41,917
4. Loans to customers	1,163,436	(494,511)	668,925	6,105,355	(47,057)	6,058,298	6,727,223
5. Financial assets designated at fair value through profit or loss	-	-	-	-	X	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total as at 31.12.2015	1,163,436	(494,511)	668,925	7,702,781	(47,057)	7,655,724	8,324,649
Total as at 31.12.2014	1,048,407	(420,763)	627,644	7,253,552	(37,869)	7,215,683	7,843,327

Portfolio/Quality (thousands of Euro)	Assets with clearly poor credit quality		Other assets Net exposure
	Accumulated capital losses	Net exposure	
1. Financial assets held for trading	-	-	14,359
2. Hedges	-	-	-
Total as at 31.12.2016	-	-	14,359
Total as at 31.12.2015	-	-	39,058

Portfolio adjustments on loans to customers only regard write-downs on performing positions.

A.1.3 Cash and off-balance sheet loan exposure for amounts due from banks: gross and net values

Exposure type/Values (thousands of Euro)	Gross exposure							
	Impaired assets				Non-impaired assets	Specific adjustments	Portfolio adjustments	Net exposure
	Under 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Doubtful loans	-	-	-	-	X	-	X	-
– of which: loans subject to concession	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
– of which: loans subject to concession	-	-	-	-	X	-	X	-
c) Impaired past-due exposures	-	-	-	-	X	-	X	-
– of which: loans subject to concession	-	-	-	-	X	-	X	-
d) Non-impaired past-due exposures	X	X	X	X	-	X	-	-
– of which: loans subject to concession	X	X	X	X	-	X	-	-
e) Other non-impaired exposures	X	X	X	X	377,931	X	-	377,931
– of which: loans subject to concession	X	X	X	X	-	X	-	-
TOTAL A	-	-	-	-	377,931	-	-	377,931
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Non-impaired	X	X	X	X	22,150	X	-	22,150
TOTAL B	-	-	-	-	22,150	-	-	22,150
TOTAL A+B	-	-	-	-	400,081	-	-	400,081

Cash exposures comprise all financial assets on a cash basis owed by banks, regardless of their allocation in the accounting portfolio (trading, held for sale, held to maturity, loans, assets designated at fair value, financial assets held for sale).

The “off-balance sheet” exposures include all financial transactions other than those on a cash basis (guarantees issued, commitments, derivatives, etc.) which involve the assumption of credit risk, regardless of the purposes of said transactions (trading, hedging, etc.).

A.1.4 Cash exposures from loans to banks: changes in gross impaired exposures

At the balance sheet date, as for the previous financial year, there are no impaired loans to banks.

A.1.5 Cash exposures from loans to banks: changes in overall adjustments

At the balance sheet date, as for previous year, there are no adjustments referring to cash exposures from loans to banks.

A.1.6 Cash and off-balance sheet exposure from loans to customers: gross and net values

Exposure type/Values (thousands of Euro)	Gross exposure				Non-impaired assets	Specific adjustments	Portfolio adjustments	Net exposure
	Impaired assets							
	Under 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year				
A. CASH EXPOSURES								
a) Doubtful loans	-	11,613	41,243	687,130	X	(397,926)	X	342,060
– of which: loans subject to concession	-	9,234	13,545	34,582	X	(24,099)	X	33,262
b) Unlikely to pay	204,246	9,459	26,176	169,510	X	(95,321)	X	314,070
– of which: loans subject to concession	80,675	5,133	9,316	73,180	X	(43,492)	X	124,812
c) Impaired past-due exposures	1,087	2,879	5,241	4,851	X	(1,263)	X	12,795
– of which: loans subject to concession	-	-	-	-	X	-	X	-
d) Non-impaired past-due exposures	X	X	X	X	186,959	X	(1,721)	185,238
– of which: loans subject to concession	X	X	X	X	21,634	X	(344)	21,290
e) Other non-impaired exposures	X	X	X	X	7,147,836	X	(45,337)	7,102,499
– of which: loans subject to concession	X	X	X	X	82,647	X	(1,327)	81,320
TOTAL A	205,333	23,951	72,660	861,491	7,334,795	(494,510)	(47,058)	7,956,662
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	10,156	-	-	-	X	(1,176)	X	8,980
b) Non-impaired	X	X	X	X	735,011	X	-	735,011
TOTAL B	10,156	-	-	-	735,011	(1,176)	-	743,991
TOTAL A+B	215,489	23,951	72,660	861,491	8,069,806	(495,686)	(47,058)	8,700,653

Cash exposures include all the financial assets on a cash basis owed by customers, regardless of their allocation in the accounting portfolio (trading, held for sale, held to maturity, receivables, assets designated at fair value, financial assets held for sale).

The “off-balance sheet” exposures include all financial transactions other than those on a cash basis (guarantees issued, commitments, derivatives, etc.) which involve the assumption of credit risk, regardless of the purposes of said transactions (trading, hedging, etc.).

A.1.7 Cash loan exposures to customers: trend in gross impaired exposures

Reasons/Categories <i>(thousands of Euro)</i>	Doubtful loans	Unlikely to pay	Impaired exposures
A. Gross exposure at the beginning of the year	667,320	339,011	42,076
of which: exposures sold and not derecognised	8,972	10,699	3,036
B. Increases	119,498	231,378	42,386
B.1 Income from performing loans	7,532	177,345	41,120
B.2 Transfers from other categories of impaired exposures	101,243	42,639	9
B.3 Other increases	10,723	11,394	1,257
C. Decreases	46,832	160,998	70,404
C.1 Transfers to performing loans	10	29,681	18,685
C.2 Derecognitions	9,239	2	3
C.3 Collections	36,409	36,763	3,131
C.4 Sale proceeds	-	-	-
C.5 Losses on disposal	420	-	-
C.6 Transfers to other categories of impaired exposures	754	94,552	48,585
C.7 Other decreases	-	-	-
D. Gross exposure at the end of the year	739,986	409,391	14,058
of which: exposures sold and not derecognised	8,447	18,651	1,408

A.1.7bis Cash loan exposures to customers: trend in gross exposures subject to concession broken down by credit quality

Reasons/Categories (thousands of Euro)	Impaired loans subject to concession	Non-impaired loans subject to concession
A. Gross exposure at the beginning of the year	157,507	118,886
of which: exposures sold and not derecognised	-	-
B. Increases	110,799	73,898
B.1 Income from performing loans not subject to concessions	16,488	35,693
B.2 Income from performing loans subject to concessions	32,059	X
B.3 Income from impaired loans subject to concessions	X	16,973
B.4 Other increases	62,252	21,232
C. Decreases	42,642	88,503
C.1 Transfers to performing loans not subject to concessions	-	-
C.2 Transfers to performing loans subject to concessions	16,872	X
C.3 Transfers to impaired loans subject to concession	X	32,960
C.4 Derecognitions	-	-
C.5 Collections	18,194	55,543
C.6 Sale proceeds	-	-
C.7 Losses on disposal	-	-
C.8 Other decreases	7,576	-
D. Gross exposure at the end of the year	225,664	104,281
of which: exposures sold and not derecognised	-	-

A.1.8 Cash exposures from loans to customers: changes in overall adjustments

Reasons/Categories (thousands of Euro)	Doubtful loans		Unlikely to pay		Impaired past-due exposures	
	Total	Of which: loans subject to concession	Total	Of which: loans subject to concession	Total	Of which: loans subject to concession
A. Overall adjustments at the beginning of the year	339,626	1,049	77,880	41,778	3,257	-
of which: exposures sold and not derecognised	1,736	213	558	895	197	-
B. Increases	86,233	24,207	67,398	21,293	3,298	-
B.1 Adjustments	60,443	10,086	64,029	21,233	3,298	-
B.2 Losses on disposal	420	-	-	-	-	-
B.3 Transfers from other categories of impaired exposures	25,370	14,121	3,369	60	-	-
B.4 Other increases	-	-	-	-	-	-
C. Decreases	27,933	1,157	49,957	19,579	5,292	-
C.1 Recoveries on valuation	-	-	-	-	-	-
C.2 Recoveries on collection	17,166	1,097	21,481	5,433	269	-
C.3 Profits on disposal	162	-	-	-	-	-
C.4 Derecognitions	9,986	-	2	-	1	-
C.5 Transfers to other categories of impaired exposures	198	60	24,891	14,121	3,650	-
C.6 Other decreases	421	-	3,583	25	1,372	-
D. Overall adjustments at the end of the year	397,926	24,099	95,321	43,492	1,263	-
of which: exposures sold and not derecognised	1,528	68	1,602	1,188	118	-

Conversion of loans to equity instruments

During the year, there were no conversions of loans to equity instruments as part of the agreements for the restructuring of impaired positions.

A.2 Exposure classification based on internal and external ratings

A.2.1 Distribution of cash and “off-balance sheet” credit exposures by external rating class

The Bank adopts the credit ratings issued by the following external credit assessment institutions (ECAI): Standard & Poor's Ratings Services.

In addition, reference is also made to the ratings of Moody's Investors Service and Fitch Ratings for the regulatory portfolio's exposures to central administrations and central banks only.

In compliance with the provisions of the legislation, where two assessments of the same customer are present, the more prudential one is adopted; in the event of three assessments, the middle one.

Taking into account the composition of the loan portfolio, composed predominantly of loans to small and medium-size companies, family business and craftsmen, professionals, and consumer families, the distribution of the cash and “off-balance sheet” exposures by rating class appears insignificant.

A.2.2 Distribution of cash and “off-balance sheet” credit exposures by internal rating class

For prudent credit risk purposes, these are measured with the standard method. The internally generated rating assessments are not relevant for loan processing and prudent governance purposes.

A.3 Distribution of guaranteed loans by guarantee type

A.3.1 Guaranteed loans to banks

At the balance sheet date, as in the previous year, there are no guaranteed loans to banks.

A.3.2 *Guaranteed loans to customers*

(thousands of Euro)	Net exposure value	Collateral (1)				Personal guarantees (2)				Credit commitments				Total (1)+(2)		
		Mortgaged property		Other collateral		Governments and central banks		Other entities		Governments and central banks		Other public entities			Banks	
		Property under financial lease	Securities	Property under financial lease	Other collateral	Governments and central banks	Other entities	Governments and central banks	Other entities	Governments and central banks	Other public entities	Governments and central banks	Other public entities		Banks	Other entities
1. Guaranteed cash loan exposures:	5,201,938	4,018,702	29,177	31,064	-	-	-	-	-	-	-	-	-	938	867,900	4,990,764
1.1 fully guaranteed	4,738,831	3,887,696	-	26,826	-	-	-	-	-	-	-	-	-	938	774,077	4,736,509
- of which impaired	534,422	462,233	-	2,935	-	-	-	-	-	-	-	-	-	18	63,978	534,424
1.2 partly guaranteed	463,107	131,006	-	4,238	-	-	-	-	-	-	-	-	-	-	93,823	254,255
- of which impaired	84,397	53,244	-	477	-	-	-	-	-	-	-	-	-	-	16,318	70,807
2. Off-balance sheet guaranteed loan exposures:	175,669	5,495	5,420	9,424	-	-	-	-	-	-	-	-	-	342	150,054	170,735
2.1 fully guaranteed	155,280	2,892	-	9,035	-	-	-	-	-	-	-	-	-	342	138,815	154,925
- of which impaired	5,689	516	-	193	-	-	-	-	-	-	-	-	-	-	4,978	5,687
2.2 partly guaranteed	20,389	2,603	-	389	-	-	-	-	-	-	-	-	-	-	11,239	15,810
- of which impaired	699	-	-	60	-	-	-	-	-	-	-	-	-	-	383	443

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURE**B.1 Segment distribution of cash and off-balance sheet credit exposure from loans to customers (book value)**

Exposures/Counterparties (thousands of Euro)	Governments		Other public entities		Financial companies		Insurance companies		Non-financial companies		Other entities		
	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	Net exposure	Specific adjustments	Portfolio adjustments	
A. Cash exposures													
A.1 Doubtful loans	-	-	X	-	X	(2,583)	X	-	X	276,936	(344,361)	X	
- of which: loans subject to concession	-	-	X	-	X	(2,166)	X	-	X	28,914	(19,584)	X	
A.2 Unlikely to pay	-	-	X	-	X	(2,631)	X	-	X	262,319	(67,369)	X	
- of which: loans subject to concession	-	-	X	-	X	(2,627)	X	-	X	99,222	(38,419)	X	
A.3 Impaired past-due exposures	1	-	X	-	X	-	X	-	X	6,789	(673)	X	
- of which: loans subject to concession	-	-	X	-	X	-	X	-	X	-	-	X	
A.4 Non-impaired exposures	1,112,942	X	-	25,647	X	(194)	137,880	X	(637)	3,613,346	X	(28,560)	
- of which: loans subject to concession	-	X	-	-	X	(9)	506	-	X	69,771	X	(1,140)	
Total A	1,112,943	-	-	25,647	-	(194)	143,667	164,832	-	(1)	4,159,390	(432,404)	(28,560)
													2,350,183
													(56,893)
													(17,666)
B. Off-balance sheet exposures													
B.1 Doubtful loans	-	-	X	-	X	10	-	-	X	1,660	(1,014)	X	51
B.2 Unlikely to pay	-	-	X	-	X	-	-	-	X	6,644	(74)	X	482
B.3 Other impaired assets	-	-	X	-	X	-	-	-	X	86	-	X	47
B.4 Non-impaired exposures	200	X	-	630	X	-	16,417	-	X	574,544	X	-	143,220
Total B	200	-	-	630	-	-	16,427	-	-	582,934	(1,088)	-	143,800
													(88)
													(56,981)
													(17,666)
Total as at 31.12.2016	1,113,143	-	-	26,277	-	(194)	160,094	164,832	-	(1)	4,742,324	(433,491)	(28,560)
													2,493,983
													(55,075)
													(14,061)
Total as at 31.12.2015	909,468	-	-	14,425	-	(83)	158,664	176,944	-	(1)	4,514,771	(362,130)	2,382,083

B.2 Geographic distribution of cash and off-balance sheet credit exposure from loans to customers (book value)

Exposures/Geographic areas (thousands of Euro)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	341,585	(397,106)	476	(620)	-	-	-	-	-	-
A.2 Unlikely to pay	313,480	(95,255)	571	(65)	19	(1)	-	-	-	-
A.3 Impaired past-due exposures	12,792	(1,263)	3	-	-	-	-	-	-	-
A.4 Non-impaired exposures	7,230,636	(46,733)	50,419	(311)	5,525	(5)	1,096	(9)	61	-
Total A:	7,898,493	(7,898,493)	(540,357)	51,469	(1,196)	5,544	(6)	1,096	(9)	61
B. Off-balance sheet exposures										
B.1 Doubtful loans	1,720	(1,103)	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	7,126	(74)	-	-	-	-	-	-	-	-
B.3 Impaired past-due exposures	133	-	-	-	-	-	-	-	-	-
B.4 Non-impaired exposures	712,968	-	21,708	-	-	-	135	-	200	-
Total B:	721,947	(1,177)	21,708	-	-	-	135	-	200	-
Total as at 31.12.2016	8,620,440	(541,534)	73,177	(1,196)	5,544	(6)	1,231	(9)	261	-
Total as at 31.12.2015	8,056,955	(458,079)	105,225	(1,295)	914	(5)	455	(3)	66	-

Exposures/Geographic areas (thousands of Euro)	NORTH-WEST ITALY		NORTH-EAST ITALY		CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS		TOTAL	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	13,096	(7,096)	325,963	(385,978)	1,553	(2,918)	974	(1,112)	341,586	(397,104)
A.2 Unlikely to pay	10,928	(6,061)	298,188	(86,765)	4,156	(2,420)	207	(10)	313,479	(95,256)
A.3 Impaired past-due exposures	7	(1)	12,727	(1,256)	23	(2)	35	(4)	12,792	(1,263)
A.4 Non-impaired exposures	174,690	(841)	5,747,788	(45,070)	1,294,589	(718)	13,569	(105)	7,230,636	(46,734)
Total A:	198,721	(13,999)	6,384,666	(519,069)	1,300,321	(6,058)	14,785	(1,231)	7,898,493	(540,357)
B. Off-balance sheet exposures										
B.1 Doubtful loans	57	(60)	1,655	(1,043)	-	-	8	-	1,720	(1,103)
B.2 Unlikely to pay	74	-	6,922	(74)	130	-	-	-	7,126	(74)
B.3 Impaired past-due exposures	-	-	133	-	-	-	-	-	133	-
B.4 Non-impaired exposures	22,270	-	682,428	-	7,121	-	1,149	-	712,968	-
Total B:	22,401	(60)	691,138	(1,117)	7,251	-	1,157	-	721,947	(1,177)
Total as at 31.12.2016	221,122	(14,059)	7,075,804	(520,186)	1,307,572	(6,058)	15,942	(1,231)	8,620,440	(541,534)
Total as at 31.12.2015	226,911	(10,987)	6,741,075	(442,125)	1,076,897	(3,742)	12,072	(1,225)	8,056,955	(458,079)

B.3 Geographic distribution of cash and off-balance sheet credit exposure from loans to banks (book value)

Exposures/Geographic areas (thousands of Euro)	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	322,476	-	55,153	-	12	-	289	-	-	-
Total A:	322,476	-	55,153	-	12	-	289	-	-	-
B. Off-balance sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-
B.4 Non-impaired exposures	16,633	-	5,517	-	-	-	-	-	-	-
Total B:	16,633	-	5,517	-	-	-	-	-	-	-
Total as at 31.12.2016	339,109	-	60,670	-	12	-	289	-	-	-
Total as at 31.12.2015	375,522	-	64,673	-	667	-	44	-	-	9

Exposures/Geographic areas (thousands of Euro)	NORTH-WEST ITALY		NORTH-EAST ITALY		CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS		TOTAL	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	132,073	-	34,884	-	124,478	-	31,041	-	322,476	-
Total A:	132,073	-	34,884	-	124,478	-	31,041	-	322,476	-
B. Off-balance sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-
B.4 Non-impaired exposures	106	-	272	-	16,255	-	-	-	16,633	-
Total B:	106	-	272	-	16,255	-	-	-	16,633	-
Total as at 31.12.2016	132,179	-	35,156	-	140,733	-	31,041	-	339,109	-
Total as at 31.12.2015	153,896	-	37,300	-	151,734	-	32,592	-	375,522	-

B.4 Significant exposures

With the 6th update of Circular no. 263 “New Regulations for the Prudential Supervision of Banks” of 27 December 2010, supervisory regulations in matters of risk concentration were revised to align with Directive 2009/111/EC. The new regulation that came into effect on 31 December 2010 defines “significant exposures” as exposures to a legally or economically related customer or customer group if exceeding or equal to 10% of the regulatory capital. The values relative to the significant exposures recognised at the balance sheet date are reported below:

	Number of significant exposures	Credit exposure (Euro)	Weighted amount for purposes of significant exposures (Euro)
31.12.2016	6	1,852,759	351,609
31.12.2015	9	1,810,948	422,536

The number of significant exposures stated in the table is determined by making reference to unweighted “exposures” that exceed 10% of admissible capital, as defined by EU Regulation no. 575/2013 (CRR), where “exposures” means the sum of cash risk assets and off-balance sheet transactions (excluding those deducted from capital) vis-a-vis a customer, or a group of related customers, without the application of weighting factors. The financial statements table relating to significant exposures also includes entities that - despite a weighting of 0% - present an unweighted exposure exceeding 10% of admissible capital for the purposes of significant risks.

C. SECURITISATIONS

QUALITATIVE INFORMATION

Securitisation of residential mortgages – S.P.V. VOBA n. 3 S.r.l. (September 2011)

Issue characteristics

In September 2011, Banca Popolare - Volksbank completed a securitisation via the transfer of performing mortgage loans, for about Euro 400 million, to the special purpose vehicle Voba N. 3 s.r.l. that financed the acquisition by issuing bonds. The transaction was finalised on 1 September 2011 with agreement of non-recourse transfer contracts for the loan portfolio and subsequently with issue of the bonds. Banca Popolare - Volksbank acts as the servicer of the portfolio in the securitisation.

The portfolio subject to disposal had the following characteristics:

SPV:	VOBA N. 3 S.r.l.
- Company interest in the SPV	0%
- Loan disposal date	01.09.2011
- Type of loans transferred	Mortgage loans
- Status of loans transferred	Performing
- Guarantees on loans transferred	Mortgage loan I. Legal grade
- Geographic area of loans transferred	Northern Italy
- Business of debtors transferred	Private individuals and companies
- Number of loans transferred	3,188
- Price of loans transferred	Euro 387,269,164.82
- Nominal value of loans transferred	Euro 387,269,164.82

The characteristics of the securities issued are as follows:

Tranche	Fitch/Moody's rating	Percentage	Amount (in Euro)
Class A1	AA/A2 – AAA/Aaa	25.73%	102,500,000
Class A2	AA/A2 – AA-/Aa2	59.28%	236,100,000
Class C	-	14.99%	59,700,000
Total		100.00%	398,300,000

The Class C securities were fully subscribed by the Company. A total of Euro 196.4 million in securities remain, Euro 136.7 million of which are Class A2 and Euro 59.7 million are Class C. Of these, Euro 59.7 million of the Class C are held by the Company.

*Securitisation of residential mortgages – S.P.V. VOBA n. 4 S.r.l. (July 2012)**Issue characteristics*

In July 2012, Banca Popolare - Volksbank completed a securitisation via the transfer of performing mortgage loans and unsecured loans, for about Euro 600 million, to the special purpose vehicle Voba n. 4 s.r.l., who financed the acquisition by issuing bonds. The transaction was finalised on 1 July 2012 with agreement of non-recourse transfer contracts for the loan portfolio and subsequently with issue of the bonds. Banca Popolare - Volksbank acts as the servicer of the portfolio in the securitisation.

The portfolio subject to disposal had the following characteristics:

SPV:	VOBA N. 4 S.r.l.
- Company interest in the SPV	0%
- Loan disposal date	01.07.2012
- Type of loans transferred	Mortgage loans and unsecured loans
- Status of loans transferred	Performing
- Guarantees on loans transferred	in part mortgage
- Geographic area of loans transferred	Northern Italy
- Business of debtors transferred	Small and medium sized enterprises
- Number of loans transferred	3,714
- Price of loans transferred	Euro 601,313,690.21
- Nominal value of loans transferred	Euro 601,313,690.21

The characteristics of the securities issued are as follows:

Tranche	S&P/Moody's rating	Percentage	Amount (in Euro)
Class A1	A/A2 – A/Aa2	72.22%	443,000,000
Junior class	NR	27.78%	170,400,000
Total		100.00%	613,400,000

The Junior securities were fully subscribed by the Company. As at 31 December 2016, a total of Euro 215.3 million in securities remain, Euro 44.9 million of which are Class A and Euro 170.4 million are Junior class. Of these, Euro 14.0 million of the Class A securities and Euro 170.4 million of the Junior class are held by the Company.

Securitisation of residential mortgages – S.P.V. VOBA n. 5 S.r.l. (February 2014)**Issue characteristics**

On 24 February 2014, the Board of Directors authorised the realisation of a securitisation for a loan portfolio consisting of mortgage loans and performing unsecured loans to small to medium enterprises (SMEs) under the name VOBA n. 5 S.r.l.

The transaction involved the transfer of 4,164 loans for a total value of Euro 479,791,803.44.

Like the previous VOBA Finance S.r.l., VOBA n. 3 S.r.l. and VOBA n. 4 S.r.l securitisations, this was established to obtain instruments eligible for the refinancing transactions at the ECB to support liquidity requirements.

SPV	VOBA N. 5 S.r.l.
- Company interest in the SPV	0%
- Loan disposal date	01.02.2014
- Type of loans transferred	Residential mortgage loans
- Status of loans transferred	Performing
- Guarantees on loans transferred	Mortgage loans
- Geographic area of loans transferred	Northern Italy
- Business of debtors transferred	SAE (sector of economic activity) 600, 614, 615
- Number of loans transferred	4,164
- Price of loans transferred	Euro 479,791,803.44
- Nominal value of loans transferred including accruals	Euro 479,791,803.44

The characteristics of the securities issued are as follows:

Tranche	S&P/Moody's rating	Percentage	Amount (in Euro)
Class A1	AAA/AA+	41.11%	201,400,000
Class A2	AAA/AA+	40.62%	199,000,000
Junior class	NR	18.26%	89,450,000
Total		100.00%	489,850,000

The Junior securities were fully subscribed by the Company. As at 31 December 2016, a total of Euro 310.7 million in securities remain, Euro 22.2 million of which are Class A1, Euro 199.0 million are Class A2 and Euro 89.5 million are Junior class. Of these, as at 31 December 2016, Euro 22.2 million of the Class A1 securities and Euro 89.5 million of the Junior class are held by the Company.

Securitisation of residential mortgages – S.P.V. VOBA n. 6 S.r.l. (September 2016)

On 24 February 2014, the Board of Directors authorised the realisation of a securitisation for a loan portfolio consisting of mortgage loans and performing unsecured loans to small to medium enterprises (SMEs) under the name VOBA n. 5 S.r.l.

The transaction involved the transfer of 4,014 loans for a total value of Euro 529.5 million.

Like the previous securitisations, this was established to obtain instruments eligible for the refinancing transactions at the ECB to support liquidity requirements.

SPV:	VOBA N. 6 S.r.l.
- Bank interest in the SPV	0%
- Loan disposal date	01/09/2016
- Type of loans transferred	SME mortgages
- Status of loans transferred	Performing
- Guarantees on loans transferred	Mortgage loans and unsecured loans
- Geographic area of loans transferred	Northern Italy
- Business of debtors transferred	Individuals
- Number of loans transferred	4,014
- Price of loans transferred	Euro 529,495,061.41
- Nominal value of loans transferred	Euro 528,611,984.61

The characteristics of the securities issued and listed on the Dublin stock exchange are as follows:

Tranche	DBRS/Moody's rating	Percentage	Amount (in Euro)
Class A1	AAA/Aa2	18.47%	100,000,000
Class A2	AA/Aa2	47.53%	257,400,000
Class B	BBBh/A3	11.01%	59,600,000
Junior class	-	23.00%	124,545,000
Total		100.00%	541,545,000

The Class D securities were fully subscribed by the Company. A total of Euro 506.7 million in securities remain, Euro 65.2 million of which are Class A1, Euro 257.4 million of which are Class A2, Euro 59.6 million are Class B, and Euro 124.5 million are Junior Class. The Company owns Euro 171.1 million of Class A1 securities, Euro 59.6 million of Class B securities, and Euro 124.5 million of Junior Class securities.

C.3 SPVs for the securitisation

Securitisation name / SPV name	Registered office	Consolidation	Assets			Liabilities		
			Loans and receivables	Debt securities	Other	Senior	Mezzanine	Junior
Voba N. 3 S.r.l.	Conegliano (TV)	NO	196,738	-	15,892	136,703	-	59,700
Voba N. 4 S.r.l.	Conegliano (TV)	NO	232,890	-	17,920	44,868	-	170,400
Voba N. 5 S.r.l.	Conegliano (TV)	NO	321,192	-	10,838	221,204	-	89,450
Voba N. 6 S.r.l.	Conegliano (TV)	NO	472,382	-	40,028	322,571	59,600	124,545

C.4 Non-consolidated SPVS for the securitisation

At the balance sheet date, there are no holdings in non-consolidated SPVS for the securitisation. Furthermore, there are no exposures to the afore-mentioned companies nor have any measures or support agreement been resolved, including financial, for said companies.

C.5 Servicer assets - own securitisations: securitised credit collections and repayment of SPV-issued securities for the securitisation

SPV (thousands of Euro)	Securitized assets (year-end figure)		Loan collections made in the year		Percentage of securities redeemed (year-end figure)					
	Impaired	Performing	Impaired	Performing	Senior		Mezzanine		Junior	
					Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
Voba 3 S.r.l.	4,418	192,319	245	32,213	-	59.98%	-	-	-	-
Voba 4 S.r.l.	20,837	213,315	1,958	50,709	-	89.87%	-	-	-	-
Voba 5 S.r.l.	2,072	319,120	228	48,649	-	44.75%	-	-	-	-
Voba 6 S.r.l.	1,179	472,277	64	56,981	-	9.74%	-	-	-	-

D. INFORMATION ON STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES (OTHER THAN SECURITISATION SPVS)

QUALITATIVE INFORMATION

The Company did not hold any structured entities not consolidated in the accounts at the balance sheet date, as in the previous year.

QUANTITATIVE INFORMATION

The Company did not hold any structured entities not consolidated in the accounts at the balance sheet date, as in the previous year.

E. DISPOSAL TRANSACTIONS

The information in this section regards all disposal transactions, including securitisations.

A. Financial assets sold but not fully derecognised

QUALITATIVE INFORMATION

The transactions mainly refer to the use of debt securities in the portfolio for short- and medium-term repurchase agreements and loans to customers sold as part of the Voba n. 3 S.r.l., Voba n. 4 S.r.l., Voba n. 5 S.r.l. and Voba n. 6 S.r.l. securitisations. Please refer to the Notes to the Accounts – Part B for more information on the debt security transactions against medium- and long-term repurchase agreements.

E.3 Disposal transactions with liabilities recouped exclusively from sold assets: fair value

The fair value of the financial assets sold but still recognised are shown in columns A and B, respectively on a full or partial basis in the balance sheet assets, and the fair value of the associated financial liabilities recorded following said sale if the liabilities can only be recouped from the related assets sold. The case only applies to the VOBA N. 3 S.r.l., VOBA N. 4 S.r.l., VOBA N. 5 S.r.l. and VOBA N. 6 S.r.l. securitisations for Banca Popolare - Volksbank. Where the assets sold belong to two or more accounting portfolios, the associated liabilities are, as is standard, indicated in proportion to the weight that the assets sold (valued at fair value) - in a given accounting portfolio - has on the overall assets being sold. There were no cases of this type as at 31 December 2016.

Categories/Portfolio	Financial assets held for trading		Financial assets designated at fair value through profit or loss		Financial assets available for sale		Investments held to maturity (fair value)		Due from banks (fair value)		Loans to customers (fair value)		(*) Total
	A	B	A	B	A	B	A	B	A	B	A	B	
A. Cash assets													
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	X	X	X	X	X	X	X	-
3. UCITS	-	-	-	-	-	X	X	X	X	X	X	X	-
4. Loans	-	-	-	-	-	-	-	-	-	-	1,308,975	-	961,541
B. Derivatives	-	-	X	X	X	X	X	X	X	X	X	X	-
Total assets	-	-	-	-	-	-	-	-	-	-	1,308,975	-	961,541
C. Associated liabilities													
1. Due to customers	-	-	-	-	-	-	-	-	-	-	539,335	-	X
2. Due to banks	-	-	-	-	-	-	-	-	-	-	-	-	X
Total liabilities	-	-	-	-	-	-	-	-	-	-	539,335	-	969,900
Net value as at 31.12.2016	-	-	-	-	-	-	-	-	-	-	769,640	-	X
Net value as at 31.12.2015	-	-	-	-	-	-	-	-	-	-	(8,359)	-	X

Key:

A = financial assets sold and fully recognised

B = financial assets sold and partly recognised

B. *Financial assets sold and fully derecognised with recognition of continuing involvement*

At the balance sheet date, as in the previous year, there are no financial assets sold and fully derecognised with recognition of continuing involvement

E.4 *Covered bond transactions*

At the balance sheet date, as in the previous year, there are no covered bond transactions.

F. CREDIT RISK MEASUREMENT MODELS

In measuring the credit risk portfolio, the Risk Management Office uses an econometric model fed by a vast set of data and risk variables for management purposes.

The model, through the use of Credit VaR, permits the probability distribution of the loan portfolio loss for resident ordinary and financial customers to be defined, with particular reference to collectively and comprehensively valued exposures. This distribution is used to measure the maximum potential loss during a year at a specific confidence level.

In particular, to derive this distribution, the model calculation engine uses a “Monte Carlo” simulation approach, through which a number of scenarios large enough to provide a good empirical approximation of the theoretical distribution of the loan portfolio losses is simulated. The model used is a structural, one-factor asymptotic type that simulates the behaviour of the portfolio according to changes in two classes of variables, one representing the market environment, which is common to all counterparties, and the other representing the specific features of individual counterparties.

It is used for calculating expected and unexpected losses in the loan portfolio and for the performance of stress testing for the purpose of assessing the effects of extraordinary but plausible events on the portfolio.

An unexpected loss (credit risk) is defined as the difference between the maximum potential loss, given a certain confidence interval, and the expected loss, based on a twelve-month time horizon.

Finally, the portfolio model periodically undergoes stress testing to evaluate the sensitivity of the portfolio's credit risk to changes, both moderate and extreme (provided that they are plausible), of one (sensitivity analyses) or more (scenario analyses) economic-financial factors.

Section 2 MARKET RISKS

2.1 INTEREST RATE RISK AND PRICE RISK – REGULATORY TRADING PORTFOLIO

QUALITATIVE INFORMATION

A. *General aspects*

In Banca Popolare - Volksbank, the regulatory trading portfolio comprises a relatively modest portion of the owned portfolio, since most financial instruments are held and recognised under the available-for-sale (AFS) category and therefore belong to the banking book.

However, analytical tools used to measure market risk (interest rate risk and price risk) are the same for all owned portfolios.

Interest rate risk represents the risk relating to the possibility that the Bank suffers losses on financial assets held for trading as a result of adverse market rate performance.

Price risk represents the risk connected with changes in value of positions classed as financial assets held for trading, arising from market price fluctuations. It can be broken down as follows:

- generic risk: price change in an equity security following fluctuations in the reference stock market;
- specific risk: market price change in a specific equity security as a result of a change in market expectations regarding the financial solidity or prospects of the issuer.

The trading portfolio is managed in a prudent manner geared towards limiting market risk and in compliance with the strategic indications and the operating limits set out in the "Investment Policy", the "Limits and Operational Powers for Finance and Liquidity" and the annual "Operating Plan".

The main source of interest rate risk is formed by the bond securities held; trading is intended to produce absolute returns to maximise yields on the portfolio in compliance with the Value at Risk (VaR) and Stop-Loss as defined in the internal policies noted above. The bond segment of the portfolio comprises floating-rate and fixed-rate securities with limited duration. Most bonds held refer to securities issued by the Republic of Italy or Italian banks with national standing. Interest rate risk is assumed by the Investment Department, which also uses derivative instruments (futures, IRS) as hedges.

On the other hand, the main source of price risk is from the UCITS units held and, to a lesser extent, derivatives connected to stock indices. In this case too, the strategy pursued is oriented towards the prudent management of assets, and thus towards the conscious assumption of risks. Value at Risk and Stop-Loss price ceilings also apply to price risk.

The financial instruments present in trading portfolio are almost all denominated in Euro, making the exchange risk totally marginal.

Assets in the owned portfolio did not undergo any significant changes from the previous year, except for the average level, which rose in accordance with the strategic planning guidelines.

B. Interest rate risk and price risk management processes and measurement methods

The internal market risk control and management processes (interest rate and price) are contained in the “Investment Policy” and the “Limits and Operating Powers for Finance and Liquidity” documents, both subject to periodic review and consideration by the Board of Directors.

The policy formalises the performance of risk management activities concerning market risks, it defines the tasks and the responsibilities assigned to the various organisational units having expertise on the matter and specifies, among other things, the main operating processes, the methods of measurement, the exposure limits, the information flows, and any corrective measures.

The investments and trading activity is therefore performed in conformity with the internal policy and is carried out within a structured internal regulatory system of delegations of management powers which provides for operational limitations defined in terms of negotiable financial instruments, amounts, duration, investment markets, issue and issuer types, sector, and rating.

Risk monitoring is carried out by the Risk Management Office, which produces a daily and monthly report subject to scrutiny by the Internal Finance Committee (weekly) and by the Finance Committee (monthly). The latter sets the risk management policy in the context of the strategy contained in the annual Operating Plan.

With regard to the processes and methods of market risk monitoring and management, the indicators monitored and their related limits are provided below, together with first- and second-level internal control processes on overall owned portfolio transactions. In general, the limits are classified according to the various types of market risk (interest rate and price), but are in any event managed within a single framework based on similar logic.

The authorisation structure for finance operations is based on four levels:

- operating limits;
- position limits: credit risk and concentration;
- Stop-Loss limits;
- Value-at-Risk (VaR) limits.

The operating limits structure uses the following risk indicators:

- rate risk: sensitivity (changes in profit or loss as a result of a change of one percentage point in the reference curve, with parallel shift);
- equity risk: delta equivalent (market value of share funds and cash equivalent position for equity derivatives);
- maximum amount invested: equivalent value of shares/funds at the initial price to guarantee compliance with the average equity assigned.

Position limits are structured on:

- credit risk assumption limits: overall limits are established on rating class exposures, particularly below the investment grade range;
- sector limits;
- credit sensitivity limits (changes in profit or loss as a result of a change of one percentage point in the credit spread);
- expiry category limits;
- restrictions related to eligibility criteria for the Eurosystem;
- country limits: limits are provided on the maximum exposure allowed per individual country according to the rating of the latter.

Stop-Loss limits are monitored for cumulative results achieved and not achieved over the last business day, accumulated over the most recent 5 business days (weekly stop-loss) and over the last 30 calendar days (monthly stop-loss), backed by cumulative monitoring at the start of the year, via a reporting process to the relevant decision-making bodies. Limits are based on the maximum level of loss deemed acceptable in the reference period in accordance with Bank strategies (Risk Capital within the scope of the Risk Appetite Framework, RAF) and established in the annual Operating Plan. Risk Capital is in turn broken down across the various asset classes that make up the portfolio.

With regard to VaR limits, they are defined as the limit, over which there should be no losses with reference to a certain level of confidence and a specific time horizon. VaR is a single measurement indicator applicable to all types of market trading and all financial instruments, thus allowing a comparison of risk figures calculated from both a time and daily profitability viewpoint. For the VaR calculation, the Bank uses the parametric model of variance-covariance provided by the company Prometeia, supported by hybrid, internal models used for the necessary audits.

The responsibility for daily checks on operating limits, on positions, on Stop-Loss and VaR is entrusted to the Risk Management Office which, in order to avoid and prevent any possible exceeding of authorised risk limits, controls and verifies approximations on reaching thresholds, through a standardised daily reporting system.

VaR models are intended for management purposes and are not used to calculate the asset requirements on credit risk for which, instead, the standard approach for supervisory reporting to the Bank of Italy is adopted.

QUANTITATIVE INFORMATION

1. *Regulatory trading portfolio: breakdown of cash financial assets and liabilities and financial derivatives by residual maturity (re-pricing date)*

Currency: Euro

Type/Residual life (thousands of Euro)	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified life
1. Cash assets	-	1,124	1,484	-	-	7,329	-	-
1.1 Debt securities	-	1,124	1,484	-	-	7,329	-	-
- With option of early redemption	-	-	-	-	-	-	-	-
- Other	-	-	1,124	1,484	-	-	7,329	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	(73,459)	(3,117)	892	(1,426)	(4,421)	(3,172)	-
3.1 With underlying security	-	(87)	233	(129)	(30)	11	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(87)	233	(129)	(30)	11	-	-
+ Long positions	-	410	291	64	12	11	-	-
+ Short positions	-	(497)	(58)	(193)	(42)	-	-	-
3.2 Without underlying security	-	(73,372)	(3,350)	1,021	(1,396)	(4,432)	(3,172)	-
- Options	-	-	-	-	7,604	(4,432)	(3,172)	-
+ Long positions	-	1	-	1	83,660	51,210	15,041	-
+ Short positions	-	(1)	-	(1)	(76,056)	(55,642)	(18,213)	-
- Other derivatives	-	(73,372)	(3,350)	1,021	(9,000)	-	-	-
+ Long positions	-	18,494	514	1,021	1,000	-	-	-
+ Short positions	-	(91,866)	(3,864)	-	(10,000)	-	-	-

Currency: Other

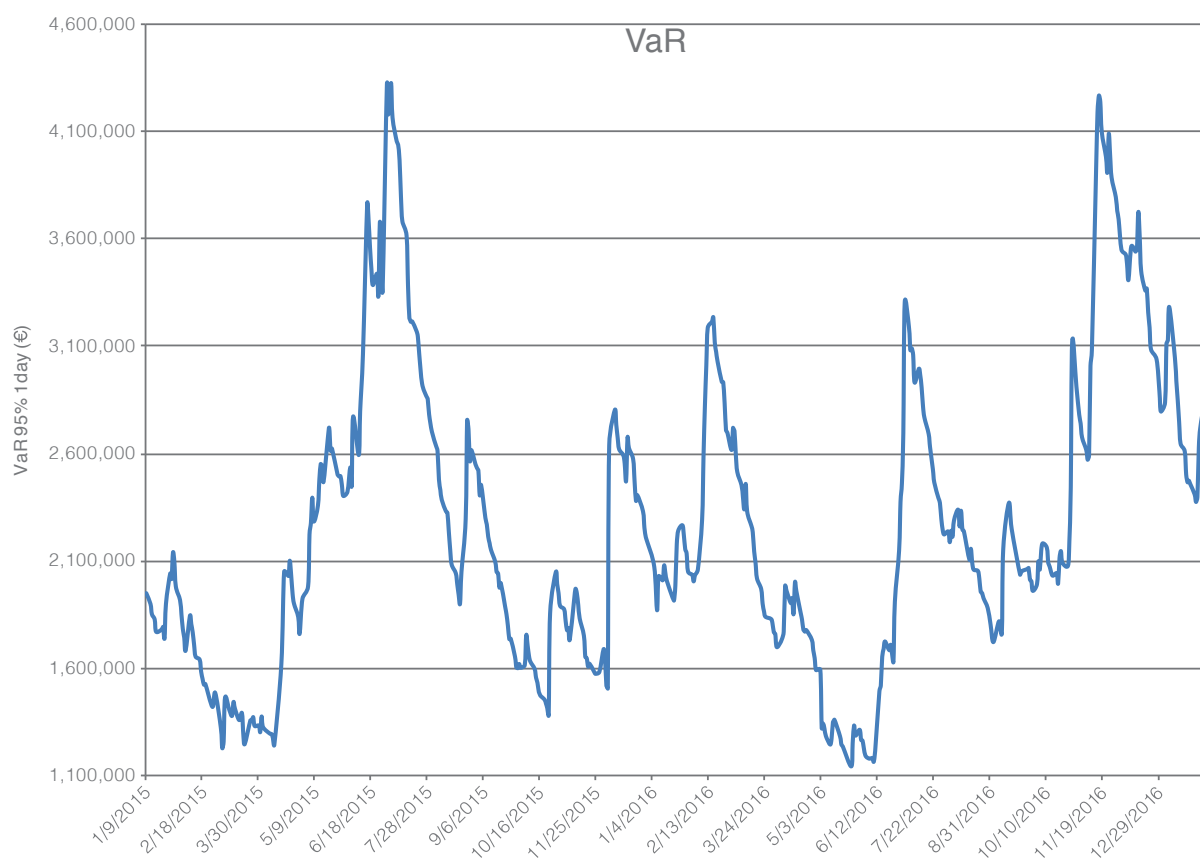
Type/Residual life (thousands of Euro)	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified life
1. Cash assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	-	-	-	-	-	-	-	-
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	83,312	3,467	(980)	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	83,312	3,467	(980)	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	83,312	3,467	(980)	-	-	-	-
+ Long positions	-	105,979	4,005	617	-	-	-	-
+ Short positions	-	(22,667)	(538)	(1,597)	-	-	-	-

2. Regulatory trading portfolio: breakdown of the exposures in equity securities and share indices by leading countries of the listed market

The Company did not hold any equity securities or share indices classified in the regulatory trading portfolio at the balance sheet date, as in the previous year.

3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

The trends in VaR for 2016 are shown below (confidence 95%, 1-day confidence interval) with respect to the entire proprietary portfolio of Banca Popolare - Volksbank:



In addition to the monthly and daily 99% VaR, a daily 99.9% VaR is also calculated using the “Extreme Value Theory”. This method provides a notable advantage in terms of accuracy, especially in the valuation of extreme conditions (improbable situations but with strong impacts).

This figure in December 2016 (daily 99.9% VaR) amounted to Euro 11.0 million, meaning that the proprietary portfolio could suffer a loss equal to or higher than that amount in one day every four years.

2.2 Interest rate risk and price risk – banking book

QUALITATIVE INFORMATION

A. General considerations, interest rate risk and price risk management, procedures and measurement methods

The banking book corresponds to the set of the commercial trading operations of the bank, of the treasury, and of hedging derivatives. Changes in market rate structure can have adverse effects on the banking book (interest margin and share capital) and are therefore a source of risk. Changes in interest rates affect income in that they modify the net interest received, as well as the level of other operating expenses and revenues sensitive to interest rates, but also the underlying value of assets, liabilities, and off-balance sheet postings, since the present value of the future cash flow varies with changes in interest rates.

The interest rate risk on the banking book may have different origins:

- **basis risk**, i.e. the risk resulting from an imperfect correlation in the adjustment of the receivable and payable interest rates on various instruments but with otherwise similar price revision features; as interest rates vary, these differences can cause unforeseen changes in cash flow and in the yield differential between assets, liabilities and off-balance sheet positions having analogous maturities or rate-repricing frequency;
- **repricing risk**, the risk deriving from time lags in maturity (for fixed-rate positions) and in the interest rate adjustment date (for floating-rate positions); these can expose the Bank's income and the economic worth to unforeseen fluctuations as interest rates vary;
- **yield curve risk**, i.e. the risk that materialises when unexpected changes in the yield curve have adverse effects on the Bank's income and underlying economic value. In fact, asymmetries in interest rate repricing times can also expose the Bank to changes in the steepness and shape of the yield curve;
- **option risk**, i.e. the risk deriving from option rights intrinsic to some of the Bank's assets, liabilities and off-balance sheet instruments, such as for example various types of bonds or loans with call or put clauses, that grant the option holder the right to modify the characteristics of the rate applied and/or the duration of contract over time.

The Bank's management and investment strategies for the banking book are based on criteria of optimisation of the risk-return ratio and are implemented according to expected interest rate performance. The Bank's investment policy is therefore focused on optimising interest rate margins and minimising their volatility (Asset & Liability Management).

The guidelines and rules and regulations for managing interest rate risk are contained in the "ALM Policy" according to a clear and easily understandable model. The measurement of interest rate risk is based on a gap analysis model:

- in relation to the annual interest margin (12 months), calculating the effect of an instantaneous parallel shift in the interest rate curve equal to one percentage point, which is assumed to occur instantaneously and in parallel on all maturity dates on the day after the reference date;
- in relation to the present value of capital, the complete repricing (full valuation) of the receivables and payable items subsequent to a parallel shift of two percentage points, and recalculating of the difference ("delta") with respect to previous state. The risk indicator represents the ratio between the change of overall value and own funds.

For realistic treatment of core deposits (current accounts in Euro and in foreign currency and savings accounts), the analysis uses an econometric model with parameters based on their historical trends.

Ermas, by the Prometeia company, is the IT procedure used for the actual calculation of the impacts of the interest rate shifts, and hence for the interest rate risk calculation.

The Risk Management Office, every month, calculates the sensitivity of the Bank's interest margins and share capital to predetermined variations in the rate curve on the transactions underway at the date in question (end of month).

The results of the analysis, together with the rate-change forecasts performed by the Investment and Treasury Departments, are contained in a monthly report and help define the interest rate risk hedging policy established by the Finance Committee. They are discussed by the Finance Committee on a monthly basis. The Investment and Treasury Departments are thus entrusted with the practical application of the decisions made.

With a view to strengthening safeguards against interest rate risk, two main indicators were identified; these regard the sensitivity of the interest margin to interest rate risk, and the sensitivity of the present value of share capital to interest rate risk; specific limits were set for these indicators:

- Indicator ΔMI %: Interest Margin difference (shock +100 bps/-25 bps) / Expected Interest Margin
- Indicator ΔVE %: Economic Value difference (shock +200 bps/-50 bps) / own funds

A limit of 6% is set for the first indicator whereas a limit of 16% is set for the second. The Risk Management Office is responsible for verifying the limitations presented in the preceding paragraph, at least once every month.

As at 31 December 2016, the following sensitivities were determined on the interest margin:

- for a sudden shock of -100 bps on the interest rate curve, a negative impact of -7.11% on the margin, quantifiable in a loss of Euro 9.9 million;
- for a sudden shock of +100 bps on the interest rate curve, a positive impact of 5%, quantifiable in a gain of Euro 6.9 million.

By contrast, as regards the effects on the economic value of the total financial items, the analyses performed shows that the profile has become "liability sensitive", compared to the situation at the end of 2015:

- in the case of a parallel decrease in rates of 100 bps, this value would decrease by Euro 31.1 million, 4.3% of own funds;
- for an increase of 200 bps, a gain of Euro 35.3 million is estimated, that is, 4.8% of own funds.

The banking book price risk only refers to the variations in market price of the assets classed as available for sale. As regards these assets, the methods for measuring and controlling price risk utilise the calculation model previously described, i.e. the daily calculation of Value at Risk (VaR) with a confidence of 99% in a time horizon of 21 days.

The price risk is also calculated as specified by the prudent supervisory regulations for banks issued by the Bank of Italy and currently in force.

B. Fair value hedging

At the balance sheet date, there is no fair value hedging, just as for the previous year.

As regards hedge accounting of the fixed-rate or structured-rate issues, the Bank uses the “fair value option” (FVO) accounting method. The underlying hedging strategy is intended to reduce the term of the liability that is intended to produce certainty in the cost of structured issues.

During 2016, the liabilities defined above were hedged by means of (unlisted) OTC Interest Rate Swap derivative contracts.

C. Cash flow hedging

At the balance sheet date, there is no cash flow hedging, just as for the previous year.

D. Foreign investment hedges

For a thorough analysis, refer to that indicated in section relative to exchange risk.

QUANTITATIVE INFORMATION

1. Banking book: breakdown by residual life (re-pricing date) of financial assets and liabilities

Currency: Euro

Type/Residual life (thousands of Euro)	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified life
1. Cash assets	2,165,407	3,927,681	520,919	115,710	751,371	523,304	275,432	-
1.1 Debt securities	164,689	224,821	470,208	38,549	296,152	380,614	145,164	-
with option of early redemption	-	-	-	-	-	-	-	-
other	164,689	224,821	470,208	38,549	296,152	380,614	145,164	-
1.2 Loans to banks	10,122	31,045	-	-	-	-	-	-
1.3 Loans to customers	1,990,596	3,671,815	50,711	77,161	455,219	142,690	130,268	-
- Current accounts	1,304,492	37,807	5,235	12,037	92,132	1,217	-	-
- Other loans	686,104	3,634,008	45,476	65,124	363,087	141,473	130,268	-
with option of early redemption	330,751	3,497,705	25,877	36,407	212,732	139,639	130,187	-
other	355,353	136,303	19,599	28,717	150,355	1,834	81	-
2. Cash liabilities	5,249,644	1,171,779	178,959	142,936	1,318,075	3,690	2,757	-
2.1 Due to customers	5,060,235	788,698	58,719	36,581	13,408	1,690	2,757	-
- Current accounts	4,670,337	-	-	-	-	-	-	-
- other payables	389,898	788,698	58,719	36,581	13,408	1,690	2,757	-
with option of early redemption	-	-	-	-	-	-	-	-
other	389,898	788,698	58,719	36,581	13,408	1,690	2,757	-
2.2 Due to banks	188,491	-	-	1,000	806,596	2,000	-	-
- Current accounts	34,739	-	-	-	-	-	-	-
- other payables	153,752	-	-	1,000	806,596	2,000	-	-
2.3 Debt securities	918	383,081	120,240	105,355	498,071	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	918	383,081	120,240	105,355	498,071	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	(3,848)	-	3,848	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	(3,848)	-	3,848	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	(3,848)	-	3,848	-	-	-
+ long positions	-	2,000	-	-	3,848	-	-	-
+ short positions	-	(2,000)	(3,848)	-	-	-	-	-
4. Other off-balance sheet transactions	(310,169)	73	57	140	34,489	83,746	191,666	-
+ long positions	47	73	57	140	34,489	83,746	191,666	-
+ short positions	(310,216)	-	-	-	-	-	-	-

Currency: Other

Type/Residual life (thousands of Euro)	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified life
1. Cash assets	2,724	17,922	6,869	941	2,422	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	749	-	-	-	-	-	-	-
1.3 Loans to customers	1,975	17,922	6,869	941	2,422	-	-	-
- current accounts	14	-	-	-	-	-	-	-
- other loans	1,961	17,922	6,869	941	2,422	-	-	-
- with option of early redemption	1,961	17,922	6,869	941	2,422	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	46,837	69,295	2,602	530	-	-	-	-
2.1 Due to customers	31,249	-	-	-	-	-	-	-
- current accounts	29,855	-	-	-	-	-	-	-
- other payables	1,394	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	1,394	-	-	-	-	-	-	-
2.2 Due to banks	15,588	69,295	2,602	530	-	-	-	-
- current accounts	15,072	-	-	-	-	-	-	-
- other payables	516	69,295	2,602	530	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	-	-	-	-	-	-	-	-
+ Long positions	-	14,283	-	-	-	-	-	-
+ Short positions	-	(14,283)	-	-	-	-	-	-

2. *Banking book: internal models and other methods of sensitivity analysis*

Interest rate risk exposure is measured through an internal model that provides for a full-valuation approach for all positions comprising performing assets and interest-bearing liabilities. In detail, the model provides for the following stages:

- calculating the net present value (NPV) of the individual receivable and payable positions and the off-balance sheet postings and determining the economic value (given by the difference between the NPV of the receivable positions and the NPV of the payable positions);
- defining a scenario relative to a change in the interest rate curve (parallel displacement i.e. steepening or flattening of the curve with reference to the maturity dates deemed most significant);
- recalculating the NPV of the balance sheet and off-balance sheet instruments based on the new interest rate curve and determining the new economic value;
- determining the change of the economic value as the difference between the value before and after the interest rate shock.

At the end of year, the modified duration calculated for the receivables and payable postings of the entire financial statements and the duration gap were moderate.

2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General considerations, exchange risk management processes and measurement methods

Exchange risk represents the risk connected with a change in value of positions in foreign currency as a result of unexpected changes in currency cross rates.

Support for business activities in foreign currency and foreign securities trading are the Bank's main source generating exchange risk.

Exchange rate risks are managed centrally by the Treasury; exposures to exchange rate risks are limited.

Automatic network systems linked to a single position keeping system allow the Treasury Service to perform constant, real-time monitoring of currency cash flows transmitted immediately to the Forex interbank market.

The integrated Treasury IT system (Murex) then permits efficient flow management of spots, futures and options within a pre-established framework of operating limits, defined in the "Investment Policy" and the annual "Operating Plan".

All positions in currency are revalued on a daily basis to the reference exchange rates of the European Central Bank and constitute the economic contribution from exchange activities to general Bank profitability.

B. Exchange risk hedging

Exposure to foreign exchange risk is limited by the Company's extremely prudent approach, which manifests itself in a highly circumscribed currency trading activity.

The exchange risk generated by the loans and funding in foreign currency is systematically hedged in real time, with the hedge transaction and/or investment in the same currency.

QUANTITATIVE INFORMATION

1. Currency distribution of assets, liabilities, and derivatives

Items (thousands of Euro)	Currency					
	US dollar	Swiss franc	Yen	GB pound	Canadian dollar	Other currencies
A. Financial assets	7,201	20,519	2,806	219	14	120
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	-	-	-	-	-	-
A.3 Loans to banks	10	148	291	166	14	120
A.4 Loans to customers	7,191	20,371	2,515	53	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	742	1,025	59	228	95	282
C. Financial liabilities	105,200	10,670	15	2,684	435	260
C.1 Due to banks	79,486	6,846	-	1,631	-	52
C.2 Due to customers	25,714	3,824	15	1,053	435	208
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	97,322	(11,383)	(2,806)	2,229	330	107
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	97,322	(11,383)	(2,806)	2,229	330	107
+ long positions	106,792	161	668	2,282	331	367
+ short positions	(9,470)	(11,544)	(3,474)	(53)	(1)	(260)
Total assets	114,735	21,705	3,533	2,729	440	769
Total liabilities	114,670	22,214	3,489	2,737	436	520
Difference (+/-)	65	(509)	44	(8)	4	249

2. Internal models and other methods of sensitivity analysis

The exchange rate risk generated from the trading portfolio and from the banking book is monitored through an internal VaR model, described in the section “Interest rate risk and price risk - regulatory trading portfolio” where the values assumed by the indicator are presented in addition to the “Interest rate risk and price risk – banking book” section.

2.4 Derivative instruments

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading portfolio: year-end notional values

Underlying assets / Derivative types (thousands of Euro)	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	27,332	-	38,796	15,250
a) Options	15,541	-	16,609	-
b) Swaps	11,000	-	21,000	-
c) Forwards	791	-	1,187	-
d) Futures	-	-	-	15,250
e) Other	-	-	-	-
2. Equity securities and share indexes	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	120,626	-	162,427	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	120,626	-	162,427	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	147,958	-	201,223	15,250

A.2 Banking book: year-end notional values**A.2.1 Hedges**

At the balance sheet date, as in previous financial year, there are no hedges.

A.2.2 Other derivatives

Underlying assets / Derivative types (thousands of Euro)	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	5,848	-	5,848	-
a) Options	-	-	-	-
b) Swaps	5,848	-	5,848	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and share indexes	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	5,848	-	5,848	-

A.3 *Financial derivatives: positive gross fair value – breakdown by product*

Underlying assets / Derivative types (thousands of Euro)	Positive fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio	1,542	-	1,466	-
a) Options	57	-	137	-
b) Interest rate swaps	95	-	137	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	1,390	-	1,192	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking book – hedging	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book – other derivatives	2,870	-	2,802	-
a) Options	-	-	-	-
b) Interest rate swaps	2,870	-	2,802	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	4,412	-	4,268	-

A.4 *Financial derivatives: negative gross fair value – breakdown by product*

Underlying assets / Derivative types (thousands of Euro)	Negative fair value			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio	2,252	-	3,107	-
a) Options	-	-	-	-
b) Interest rate swaps	1,916	-	2,369	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	336	-	738	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking book – hedging	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book – other derivatives	17	-	23	-
a) Options	-	-	-	-
b) Interest rate swaps	17	-	23	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	2,269	-	3,130	-

A.5 *OTC financial derivatives: regulatory trading portfolio – notional values, gross positive and negative fair values for counterparties – contracts that do not come under offsetting agreements*

Contracts that do not come under offsetting agreements (thousands of Euro)	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates	-	-	29,052	-	-	138	442
- notional value	-	-	26,760	-	-	137	435
- positive fair value	-	-	153	-	-	1	3
- negative fair value	-	-	1,916	-	-	-	4
- future exposure	-	-	223	-	-	-	-
2) Equity securities and share indexes	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currency and gold	-	-	115,094	-	-	8,165	120
- notional value	-	-	112,692	-	-	7,814	120
- positive fair value	-	-	1,182	-	-	204	-
- negative fair value	-	-	260	-	-	72	-
- future exposure	-	-	960	-	-	75	-
4) Other securities	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 *OTC financial derivatives: regulatory trading portfolio – notional values, gross positive and negative fair values for counterparties – contracts that come under offsetting agreements*

At the balance sheet date, as in the previous financial year, there are no financial derivatives that come under offsetting agreements.

A.7 *OTC financial derivatives: banking book – notional values, gross positive and negative fair values for counterparties – contracts that do not come under offsetting agreements*

Contracts that do not come under offsetting agreements (thousands of Euro)	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates	-	-	8,754	-	-	-	-
- notional value	-	-	5,848	-	-	-	-
- positive fair value	-	-	2,870	-	-	-	-
- negative fair value	-	-	17	-	-	-	-
- future exposure	-	-	19	-	-	-	-
2) Equity securities and share indexes	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currency and gold	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4) Other securities	-	-	-	-	-	-	-
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 *OTC financial derivatives: banking book – notional values, gross positive and negative fair values for counterparties – contracts that come under offsetting agreements*

At the balance sheet date, as in the previous financial year, there are no financial derivatives that come under offsetting agreements.

A.9 Residual life of OTC financial derivatives: notional values

Underlying / Residual life (thousands of Euro)	Under 1 year	From 1 to 5 years	Over 5 years	Total
A. Regulatory trading portfolio	122,533	15,853	9,571	147,957
A.1 Financial derivatives on debt securities and interest rates	1,907	15,853	9,571	27,331
A.2 Financial derivatives on equity securities and share indexes	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	120,626	-	-	120,626
A.4 Financial derivatives on other assets	-	-	-	-
B. Banking book	2,000	3,848	-	5,848
B.1 Financial derivatives on debt securities and interest rates	2,000	3,848	-	5,848
B.2 Financial derivatives on equity securities and share indexes	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other assets	-	-	-	-
Total 31.12.2016	124,533	19,701	9,571	153,805
Total 31.12.2015	176,683	9,589	20,799	207,071

A.10 OTC financial derivatives: counterparty risk/financial risk – Internal models

The Company does not use internal EPE-type models validated by the regulatory authorities for the purpose of calculating the capital requirements for counterparty risk.

For operational purposes and for the assessment of capital adequacy (Internal Capital Allocation Assessment process, ICAAP), it uses a risk estimation model relative to the component represented by the OTC derivative transactions.

This model entails the use of in-house market risk estimation methods to determine the potential short-term evolution of the positions' fair value, incorporating the benefits of market correlations and including the impacts of the guarantee agreements.

B. CREDIT DERIVATIVES

B.1 Credit derivatives: year-end and interim notional values

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.2 OTC credit derivatives: Positive gross fair value – breakdown by product

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.3 OTC credit derivatives: Negative gross fair value – breakdown by product

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.4 OTC credit derivatives - Gross fair values for counterparties (positive and negative) – Contracts that do not come under offsetting agreements

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.5 OTC credit derivatives - Gross fair values for counterparties (positive and negative) – Contracts that come under offsetting agreements

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.6 Residual maturity of the credit derivatives: notional values

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.7 Credit derivatives: counterparty risk / financial risk - Internal models

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: Net fair values and future exposure for counterparties

At the balance sheet date, as in the previous financial year, there are no financial and credit derivatives.

Section 3 LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, management processes and methods of measuring liquidity risk

Liquidity risk is the risk that the Bank might not be able to meet its own payment commitments at the due date, which would compromise day-to-day operations or the financial situation of the Bank itself. Within this risk, there are the following definitions for each component of liquidity risk:

- refinancing risk can, in turn, be broken down into:
 - funding liquidity risk, i.e., the risk that the Bank is unable to fulfil its payment commitments when they come due because of the incapacity or impossibility of procuring the necessary funds;
 - liquidity contingency risk, i.e., the risk that future contingencies may require an amount of liquidity in excess of that expected, such as the non-repayment of loans, the need to fund new activities, withdrawal risk, i.e., an unexpected, greater than anticipated withdrawal of deposits by customers, credit line utilisation risk, that is, an unexpected, greater than anticipated utilisation of the credit facilities by the customers.
- rollover risk, i.e., the potential risk of rising loan costs due, for example, to changes in the Bank's rating (internal factor) or widening of credit spreads (market factor).
- market liquidity risk, which is the risk that the Bank is not able to dispose of assets, thereby generating losses due to market conditions; these risks are managed by the departments in charge of the various trading portfolios and, as a result, are measured and monitored according to econometrics for market risk management.
- liquidity concentration risk, which can, in turn, be broken down into:
 - flow concentration risk, i.e. the concentration risk of inflows and outflows of expected cash - and the resulting imbalances or surpluses - over predefined expiry bands; in this case, there is inadequate discontinuity in the expiry dates with potential negative impacts on the exposure to liquidity risk.
 - funding contingency risk, i.e. the risk of dependence on a single market or an excessively limited number of markets/counterparties or concentration on certain technical forms, to the extent that the withdrawal of funds by a limited number of counterparties, or the loss of a funding channel could lead to a substantial review of the controls necessary to deal with liquidity risk.
- liquidity mismatch risk, i.e., the risk of inconsistency between the amounts and/or timeframes between incoming and outgoing cash flow.
- margin calls liquidity risk, which refers to a situation where the Bank is required by contract to supplement warranties and/or margins for certain financial instruments.
- operational liquidity risk, i.e., the risk of not fulfilling payment obligations due to errors, violations, interruptions or damages caused by internal processes, personnel, systems or external events, despite the Bank remaining solvent.

Liquidity risk management is described in the document “Liquidity and Funding Policy”, reviewed, and approved annually by the Board of Directors. In detail, it defines:

- the organisational model, that assigns roles and responsibilities to the offices involved in the liquidity management and control process;
- policies for managing operational and structural liquidity, indicating the models and metrics used to assess, monitor and control liquidity risk and for performing stress tests;
- the Contingency Funding Plan (CFP), which provides the organisational processes and interventions undertaken to restore standard conditions in liquidity management in addition to providing a description of indicators to determine any critical situations.

In particular, the policy concerns the provisions regarding the governance and management of liquidity risk contained in Bank of Italy Circular no. 298 of 17 December 2013 and subsequent updates. These rules and regulations are based on the principle that an adequate liquidity risk governance and management system, integrated with the overall risk management system, is fundamental for maintaining the stability of individual banks and the market. This entails rules regarding matters of organisation and internal controls, as well as the adoption of precise management instruments and public disclosure obligations, which although proportional to the operational size, to the organisational complexity, and to the type of the activities performed by the individual banks, require a significant commitment on the part of the latter.

The management of liquidity risk is allocated to the Treasury Service, which operates under the direct management of the Finance Department. However, the definition and control of compliance with operational limits lies with the Risk Management Office. General Management is responsible for governance over liquidity, both as regards compliance with the limits defined and for as regards tactical and structural funding strategies. In the event of liquidity emergencies, General Management is also responsible for activation, management, and coordination of the Bank's Contingency Funding Plan.

An essential element is the distinction between short-term operational liquidity (under 12 months) and medium/long-term structural liquidity (over 12 months). The former is to deal with unexpected critical situations due to specific shocks in the Bank or market; the latter meets the need to ensure optimal management from a strategic standpoint, transformation of maturities between funding and loans, by balancing asset and liability maturities in order to prevent any future crises in liquidity.

The containment of exposure to liquidity risk is pursued primarily through a structured set of guidelines, operational decisions, and organisational control, the most relevant of which are:

- ensure the capacity to meet foreseen and unforeseen cash payment commitments by maintaining a sustainable ratio between incoming and outgoing cash flow;
- maintain an adequate ratio between overall liabilities and medium/long-term assets aimed at avoiding pressure on current and prospective sources in the short term;
- centralise liquidity management;
- diversify the sources of funding in terms of funding instruments, counterparties, in geographic terms, and currency;
- keep a sufficient stock of assets on hand that can be easily liquidated and used to guarantee loan transactions or that are directly disposable in crisis situations; specifically, it is expected that the trading portfolio will be invested mainly in listed financial instruments with a strong rating, based on precise, pre-established limits in terms of quantity and quality. The listing and strong rating help to rapidly unfreeze the financial instruments;
- manage short-term liquidity in compliance with the regulatory framework;
- issue financial instruments so as to maintain prudent capital ratio targets;
- have and maintain an IT system suitable to monitor and manage liquidity.

Measurement and control of operational liquidity and structural liquidity were defined by means of a system of indicators, limits, and reports, including daily. In particular, a maturity ladder was prepared, which is a surveillance system for the net financial position that reports the balances and therefore the imbalances between expected inflows and outflows over predefined time bands and, through the formation of cumulative imbalances, calculates the net financial requirement (or surplus) in the time horizon considered.

To measure the Bank's liquidity risk, the Liquidity at Risk (LaR) model is used; this is based on observing the "independent" negative net flows of liquidity – taking into consideration the historical series of the last 5 years – applying the Extreme Value Theory, which allows accuracy to be improved for high confidence levels. More specifically, the following daily balances are used: mandatory reserve at the Bank of Italy, inter-bank deposits, bond issues, securitisations, movement of securities owned, and extraordinary flows. The data is processed to determine the daily cash flow linked solely to decisions not under the direct control of the Bank (Treasury Service) and so resulting from customer conduct. The 3 confidence levels in question should represent the Bank's liquidity needs under normal conditions (up to the LaR value at 99% confidence), stress (up to 99.9%) and critical (up to 99.99%) at 1 day, 1 week (5 business days), 2 weeks (10 business days) and at one month (20 business days). Other fundamental liquidity risk management functions regard conducting a stress test program aimed at evaluating the Bank's vulnerability to exceptional but plausible events. In particular, stress testing is performed in terms of scenario analyses, consistent with the definition of liquidity risk adopted and attempting to simulate the behaviour of the Bank's cash flow under unfavourable conditions, making subjective assumptions based on the Bank's experience and/or instructions provided by supervisory regulations and guidelines. The risk factors involved in the test include, for example:

- increasing demand withdrawals
- revocation/non-renewal or reduction of credit lines received
- increase in haircut of securities that can be readily liquidated
- non-/limited rollover of maturing loans and renewing lines of credit/credit openings
- reduction in rollover of inter-bank funding
- reduction in rollover of inter-bank funding
- revocation/non-renewal or reduction of credit lines received
- increase utilisation of credit lines granted
- increase in haircut of securities that can be readily liquidated
- increase in haircut on cash loans

Moreover, the organisational layout of the structures and functions responsible for managing liquidity and the relative controls and contingency plans to be implemented in times of stress or crisis (CFP, Contingency Funding Plan) are clearly defined in the policy; a contingency is declared when there is problematic progression in a predefined series of external and internal factors.

As indicated by the relevant legislation mentioned above, a "Policy on the Internal Transfer Price System" (TIT) of funds was also defined starting from 2011. The system sets the following objectives:

- transfer of interest rate and liquidity risks from the sales network to the Treasury unit, so as to guarantee the centralised valuation and management of the Bank's exposure to these types of risk
- transfer of fees resulting from the transformation of maturities from the sales network to the Treasury unit
- possibility of precisely assessing the actual fee at the level of each individual sales unit and each individual customer relationship.

The internal transfer rates on which the system is based, in addition to being differentiated by maturity (multiple TIT), and being based on market rates effectively tradable by the Treasury, guarantee revenue margins for the operating units consistent with the Bank's overall profitability, and are all composed of several components with different purposes:

- the "interest rate" (risk-free TIT) component that transfers the interest rate risk from the sales unit to the treasury unit;
- the "liquidity" component (liquidity TIT), which takes into account the refinancing cost that the Bank must face in the inter-bank market and its capacity to assume the risk set out in the "Risk Policy" and in the "Liquidity Policy";
- the "bonus-malus" component, as an instrument to manage any commercial incentives.

Finally, during 2016, the analysis of the Bank's liquidity situation did not indicate any situations of short- or long-term stress, as is also shown by the weekly reports sent to the Bank of Italy.

QUANTITATIVE INFORMATION

1. Time distribution by residual contract duration of financial assets and liabilities

Currency: Euro

Items / Timescales (thousands of Euro)	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Unspecified life
Cash assets	1,469,136	7,897	21,369	177,835	431,026	388,337	551,230	2,892,303	2,602,061	31,045
A.1 Government securities	-	-	-	-	-	75,000	87,500	436,273	366,369	-
A.2 Other debt securities	8	-	-	1,000	181,027	13,808	13,016	264,191	127,500	-
A.3 UCITS units	307,744	-	-	-	-	-	-	-	-	-
A.4 Loans	1,161,384	7,897	21,369	176,835	249,999	299,529	450,714	2,191,839	2,108,192	31,045
- Banks	9,097	-	-	917	-	-	-	-	-	31,045
- Customers	1,152,287	7,897	21,369	175,918	249,999	299,529	450,714	2,191,839	2,108,192	-
Cash liabilities	5,136,297	183,936	4,884	46,384	85,778	141,931	178,674	2,179,641	124,984	-
B.1 Deposits and current accounts	5,065,069	7,776	4,081	7,977	43,248	57,748	35,959	6,254	-	-
- Banks	79,866	-	-	-	-	-	-	-	-	-
- Customers	4,985,203	7,776	4,081	7,977	43,248	57,748	35,959	6,254	-	-
B.2 Debt securities	918	1,656	803	38,376	42,467	68,126	141,206	820,064	-	-
B.3 Other liabilities	67,310	174,504	-	31	63	16,057	1,509	1,353,323	124,984	-
Off-balance sheet transactions	(1,960)	(21,213)	(39,900)	(16,818)	(39,118)	(86,757)	(190,683)	34,561	275,424	-
C.1 Financial derivatives with exchange of principal amount	-	(21,140)	(39,900)	(16,818)	(4,701)	(3,070)	845	72	12	-
- Long positions	-	7,951	100	5	742	794	1,095	121	12	-
- Short positions	-	(29,091)	(40,000)	(16,823)	(5,443)	(3,864)	(250)	(49)	-	-
C.2 Financial derivatives without exchange of principal amount	(1,764)	-	-	-	(1)	2	(2)	-	-	-
- Long positions	152	-	-	-	-	6	6	-	-	-
- Short positions	(1,916)	-	-	-	(1)	(4)	(8)	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	(196)	(73)	-	-	(34,416)	(83,689)	(191,526)	34,489	275,412	-
- Long positions	47	-	-	-	73	57	140	34,489	275,412	-
- Short positions	(243)	(73)	-	-	(34,489)	(83,746)	(191,666)	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal amount	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal amount	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

<i>Currency: Other</i>										
Items / Timescales (thousands of Euro)	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Unspecified life
Cash assets	2,426	38	343	866	14,863	5,912	671	3,101	3,135	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	2,426	38	343	866	14,863	5,912	671	3,101	3,135	-
- Banks	749	-	-	-	-	-	-	-	-	-
- Customers	1,677	38	343	866	14,863	5,912	671	3,101	3,135	-
Cash liabilities	46,838	-	42,690	25,141	1,411	2,597	530	-	-	-
B.1 Deposits and current accounts	46,322	-	42,690	24,823	-	2,295	-	-	-	-
- Banks	15,072	-	42,690	24,823	-	2,295	-	-	-	-
- Customers	31,250	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	516	-	-	318	1,411	302	530	-	-	-
Off-balance sheet transactions	-	21,155	40,594	16,686	4,877	3,467	(980)	-	-	-
C.1 Financial derivatives with exchange of principal amount	-	21,155	40,594	16,686	4,877	3,467	(980)	-	-	-
- Long positions	-	29,589	40,797	29,529	6,063	4,005	617	-	-	-
- Short positions	-	(8,434)	(203)	(12,843)	(1,186)	(538)	(1,597)	-	-	-
C.2 Financial derivatives without exchange of principal amount	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	14,283	-	-	-	-	-	-	-	-
- Short positions	-	(14,283)	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	5	-	-	-	-	-	-	-	-
- Short positions	-	(5)	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal amount	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal amount	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The hedge fund portfolio amounted to Euro 7.7 million as at 31 December 2016. Capital losses of Euro 0.5 million were recorded, distributed over 3 positions.

Section 4 OPERATIONAL RISKS

QUALITATIVE INFORMATION

A. *General considerations, operational risk management processes and measurement methods*

In line with the supervisory provisions, operational risk is defined as the risk of incurring losses due to errors, violations, interruptions, exogenous events or damages deriving from malfunctions in the internal processes or the unsuitability of people and/or systems. Operational risks include, among other things, the ensuing losses from theft and fraud, human errors, interruptions of operations, the unavailability of systems, executions of transactions, breaches of contract, data processing, damage to real property, and natural catastrophes.

These risks will be monitored, within the scope of the internal control system, by all internal control departments (Internal Audit, Compliance and Risk Management) in accordance with the following guidelines:

- prevent the occurrence or reduce the probability of events occurring that could potentially generate operating losses, through the appropriate legal, organisational, procedural and training activities;
- mitigate the expected effects of these events;
- enhance overall operational efficiency;
- protect the Bank's reputation and image.

Certain types of operational risks, due to their significance or singularity, are considered as separate types of risk and their coverage is also ensured by dedicated control functions:

- legal, judicial and non-compliance risks;
- risk of money laundering and/or financing of terrorism;
- risks of erroneous financial disclosure;
- risks of conditioning by influential parties;
- outsourcing risks;
- IT risk;
- model risk;
- conduct risk.

Monitoring and measuring of operating losses

The most advanced method for measuring the operational risk profile involves the combined use of information regarding historical internal and external operating losses, with qualitative factors deriving from scenario analysis and from assessments relative to the control systems and to the business environment.

With regard to operational risk monitoring, since it was founded in 2002, the Bank has been a member of the ABI's DIPO (Italian database of operating losses) inter-bank consortium, and is therefore regularly involved in operating loss data collection activities.

The internal operating loss database records all events involving an operating loss of over Euro 500. These reports originating from the network and the internal organisation units are integrated with losses deriving from legal action and customer complaints; both types of events are systematically recorded and monitored as they evolve on special internal databases under management of the Legal Department and the Compliance Office respectively. Whenever, subsequent to a legal and accounting analysis, facts emerge that imply probable future disbursements of economic resources, appropriate precautionary allocations of funds are made to the provisions for risks and charges, in addition to implementing settlement policies.

The information gathered from the internal and external databases (DIPO), the detailed analysis of the most significant loss events according to their impact and/or frequency of occurrence, the countermeasures already implemented or to be implemented are discussed quarterly within the Internal Control Committee. The main sources of operational risk manifestation are identified in those meetings, also involving the operational units (“process owners”) concerned from time to time, together with potential critical situations, the suitability of the existing operating processes with regard to the potential sources of loss, the action and measures to be taken with a view to preventing and mitigating these sources, and the quality of insurance hedges.

As already indicated, where deemed expedient, certain categories of operational risks are mitigated through the stipulation of ad hoc insurance contracts. The Bank also has a sophisticated business continuity plan, operationally reviewed and audited annually; it establishes principles, objectives, and procedures aimed at reducing the damage resulting from accidents and catastrophes to a level deemed acceptable.

The Risk Management Office also carries out analyses and digital processing activities, based entirely on the data on the internal database of operating losses, with the aim of calculating the VaR values of the operating losses (Operational VaR, i.e. potential loss). The model involves a Monte Carlo simulation based on 60,000 scenarios. The operating losses in one year are simulated in each scenario, numerically and by amount, acting on 2 independent distributions that model the following fundamental variables:

- distribution of the frequency of the loss events (number of events in 1 year); a Poisson distribution is used;
- distribution of the severity (amount) of the loss events (“severity loss distribution”); the general Pareto distribution is used in accordance with the Extreme Value Theory method (EVT).

The database comprises loss events that have been recorded by Banca Popolare - Volksbank since 2003, filtering events that involve amounts of more than Euro 500 only. As at December 2016, the model estimated the potential operating losses in 1 year as Euro 5.5 million with a confidence interval of 99% (1 year for every 100).

For the purpose of calculating the asset requirements with reference to operational risk, the Company adopted the Traditional Standardised Approach, starting from 31 December 2012, in compliance with the regulatory provisions of EU Regulation No. 575/2013 dated 26 June 2013, which acknowledges the provisions of Basel 3. This envisages that the overall capital requirement calculation equals the average of the so-called TSA contribution, which refers to the most recent three observations made at the end of the financial year (31 December) on an annual basis. The TSA contribution is obtained from the sum of contributions from the individual regulatory business lines (BLs) each year; these sums are calculated by applying the regulatory coefficients (known as “ β ” or risk factors) as weighting factors to the relevant indicator. These coefficients were estimated by the supervisory authority on the basis of the relationship between historically recorded losses by the banking industry in that particular BL and the related economic indicator. As significant indicator, the legislation establishes a whole series of elements, appropriately dealt with, taken from the accounting items of the income statement.

Identification and assessment of operational risks

A key element in the identification, assessment and implementation of actions to reduce operational risks in business operations is the business process system which is subject to constant updates and revisions by the respective process owners and which also comply with the three basic criteria of:

- customer focus / streamlining operations;
- efficiency;
- risk monitoring;

and the aim is to guide and support the departments involved in pursuing the strategic goals.

The assessment of intrinsic and residual operational risks is carried out through a risk self-assessment process whereby Banca Popolare - Volksbank analyses all the processes underlying its business activities with respect to the risk factors, considering their potential impact. Each type of risk (intrinsic and residual) is therefore given an overall assessment of its "significance" using a two-dimensional breakdown of the analysis as guidelines:

- impact of the risk on normal business operations;
- probability (or frequency) that the risk will occur in a certain time frame.

The assessment of the residual risk starts with the intrinsic risk, with this being reduced in accordance with the degree of mitigation that is considered to be provided by the controls; if the controls are more stringent, there is a reduction of residual risk, which, by definition, cannot be higher than the associated intrinsic risk. The following instruments are used by Banca Popolare - Volksbank to ensure that the risks are properly assessed:

- mapping the processes to identify the main risk factors, the interdependence of the various risks, control areas and any shortcomings in the control;
- results of the checks performed by the control departments;
- other information regarding the probability of a new risk and the possible financial consequences that may result;
- risks where there has not been enough information regarding the event probability and potential damage may be subject to qualitative analyses.

Control management processes

Within the internal control system, the monitoring of operational risks is guaranteed by adoption of an integrated control model, which, along with the supervisory provisions, is organised into three levels, with each level governing the specific aspects pursuant to its role, the business functions in charge of line control (or first-level control) and the business control departments in charge of second-level control (Risk Management and Compliance) and the third level (Internal Audit).

The results of the monitoring and control are discussed on a regular basis and evaluated within the scope of the Internal Control Committee, comprising all business control departments, and which - among other things - is in charge of establishing the priority initiatives and coordinating the control activities.

In addition, monitoring of the operational risks uses the results from the monitoring and analyses of operating losses contained in the periodic report drawn up by the Risk Management Office and related discussions by the same Internal Control Committee.

First-level control

The first-level controls, or line controls, are aimed at ensuring the correct and lawful performance of the transactions underlying all business processes, and are carried out by the network production units or as part of middle and back-office operations preferably through the use of computer procedures/systems. They are the first line of defence in the operational risk monitoring system.

The individual process owners are responsible for the line controls; they are in charge of evaluating the plans and efficiency of the measures adopted to reduce risk in the operational processes.

Second-level controls

The second-level controls are carried out by different structures that have no connection with the production units; the aim is to:

- agree on the definition of the risk measurement methods, checking compliance with the limits assigned, including in terms of consistency of the work with the pre-defined risk-reward targets (RAF);
- agree on the definition of the risk compliance measurement/evaluation methods, identifying suitable procedures to prevent the risks found and requesting their adoption;
- confirm/declare the company accounting information in accordance with the provisions of the law.

These controls are mainly focused on risk monitoring, auditing compliance with risk limits and the external and internal regulatory provisions, checking the consistency of various transactions with the strategic risk-reward goals, and providing alerts on behaviour or events that depart from usual operations.

The Risk Management Office (as the department that manages risk) and the Compliance Office (which incorporates the regulatory compliance department and anti-money laundering department) carry out a portion of their work within the scope of the second-level controls. In order to ensure the effectiveness of the performance of their duties, the departments that carry out the second-level controls are equipped with the necessary independence, authority and professional competence.

Third-level controls

The third-level controls are carried out by different structures to the production units, and are aimed at identifying anomalous trends, breaches of procedures/regulations and evaluating the function of the entire internal control system.

Third-level controls are carried out by the Internal Audit Department.

The audits aim to identify anomalous performance, violation of procedures and regulations, and assessment of the overall performance of the internal control system. This activity was performed continuously during the year, either periodically or exceptionally, and by means of both onsite and remote audit tools, in accordance with regulatory instructions.

QUANTITATIVE INFORMATION

Internal reporting activities in 2016 recorded 151 new reports with a gross loss of Euro 2,580,908, for which 19.4% of cases were due to internal or external fraud (amounting to 2.5% of the value), 41.9% from processing errors (93.7% of the value), and 38.7% due to other factors, forged banknotes, system errors, and legal disputes etc. (3.9% of the value).

By way of comparison, 108 events occurred in 2015, corresponding to gross losses equal to Euro 1,989,238.

PART F INFORMATION ON CAPITAL

Section 1 COMPANY CAPITAL

A. QUALITATIVE INFORMATION

Capital adequacy is governed by the strategic planning activity, within which the optimum amount of regulatory assets are defined in conformity with applicable provisions.

Banca Popolare - Volksbank assigns overriding importance to capital adequacy, with particular reference to the governance of operations and risk control. The growth strategy and objectives are defined in relation to the capacity to create value within a context of sufficient profitability, capital strength, and liquidity.

Continuous compliance with capital requirements is monitored regularly and is assumed as a constraint during planning, representing an inviolable condition for banking activity.

The governance of current and prospective capital strength therefore takes into account both the regulatory and operational constraints.

Capital adequacy over time therefore reflects the capital requirements correlated with the multiyear objectives set in the strategic plan. In the process of defining the objectives for the annual budget, a compatibility test is performed with the level of capitalisation, as a function of the expected dynamics of the balance sheet and income statement aggregates.

Capital adequacy is the result of several managerial decisions, such as the dividend policy, the definition of extraordinary financial transactions (share capital increases, issuing of convertible loans, optimisation of assets, etc.) as well as the loan policy in relation to the riskiness of the lending counterparties.

Compliance with the capital base levels is monitored on a quarterly basis, each time identifying the main deviations in order to arrange for necessary guidance and control activities on the aggregate balance sheet items.

B. QUANTITATIVE INFORMATION**B.1 Company capital: breakdown**

Items/Amounts (thousands of Euro)	31.12.2016	31.12.2015
1. Share capital	199,440	179,536
2. Share premium reserve	383,159	307,527
3. Reserves	276,644	267,738
- retained earnings:	246,501	237,595
a) legal	115,400	113,000
b) extraordinary	121,892	109,773
c) treasury shares	-	-
d) other	9,209	14,822
- other	30,143	30,143
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	(5,543)	(16)
- Financial assets available for sale	(3,354)	1,636
- Property and equipment	-	-
- Intangible assets	-	-
- Foreign investment hedges	-	-
- Cash flow hedges	-	-
- Exchange differences	-	-
- Discontinued operations	-	-
- Actuarial gains (losses) on defined benefit plans	(2,189)	(1,652)
- Portion of valuation reserves of equity-accounted investees	-	-
- Special revaluation laws	-	-
7. Net income (loss) for the year	7,722	22,368
Total	861,422	777,153

B.2 Valuation reserves of financial assets available for sale: breakdown

Asset/Value (thousands of Euro)	31.12.2016		31.12.2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	3,117	(5,521)	5,504	(841)
2. Equity securities	1,218	(19)	1,241	(9)
3. UCITS units	1,867	(4,016)	413	(4,672)
4. Loans	-	-	-	-
Total	6,202	(9,556)	7,158	(5,522)

B.3 Valuation reserves of financial assets available for sale: annual changes

<i>(thousands of Euro)</i>	Debt securities	Equity securities	UCITS units	Loans
1. Opening balance	4,663	1,232	(4,259)	-
2. Positive changes	2,087	-	4,182	-
2.1 Increases in fair value	1,960	-	3,992	-
2.2 Reclassification to profit or loss of negative reserves	127	-	190	-
- from impairment	-	-	-	-
- from disposal	127	-	190	-
2.3 Other changes	-	-	-	-
3. Negative changes	9,154	33	2,073	-
3.1 Decrease in fair value	5,663	33	2,073	-
3.2 Losses on impairment	-	-	-	-
3.3 Reclassification to income statement from positive reserves: from disposal	3,491	-	-	-
3.4 Other changes	-	-	-	-
4. Closing balance	(2,404)	1,199	(2,150)	-

B.4 Valuation reserves relating to defined benefit plans: annual changes

<i>(thousands of Euro)</i>	31.12.2016		31.12.2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
Defined benefit plans	-	(2,189)	-	(1,652)
Total	-	(2,189)	-	(1,652)

<i>(thousands of Euro)</i>	2016
1. Opening balance	(1,652)
2. Positive changes	470
2.1 Profits from changes to discount rates	268
2.3 Other changes	202
3. Negative changes	(1,007)
3.1 Decrease in fair value	(1,004)
3.3 Other changes	(3)
4. Closing balance	(2,189)

Section 2 OWN FUNDS AND ADEQUACY RATIOS

As from 1 January 2014, the harmonised provisions for banks and investments companies are applicable, contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which were followed by the provisions issued by the Bank of Italy under Circular No. 286 dated 17 December 2013 – 6th update of 7 August 2015, by means of which the harmonised provision for banks and insurance companies was reviewed and under Circular No. 285 dated 17 December 2013 – 14th update of 24 November 2015, by means of which the instructions for the compilation of prudent reporting were indicated.

2.1 Own funds

A. QUALITATIVE INFORMATION

Own funds represent the first safeguard against the risks associated with all the banking activities and represent the main reference parameter for the assessments in terms of banking solidity. They comprise:

- Class 1 capital, in turn broken down into:
 - Common Equity Tier 1 - CET1;
 - Additional Tier 1 - AT1;
- Tier 2 - T2.

The new provisions envisage a transitory regime with the gradual introduction (phase-in) of the new regulations on own funds and on capital requirements, which will complete in 2017, and grandfathering regulations for the partial computability, with gradual exclusion by 2021, of the prior capital instruments which do not satisfy all the requirements laid down by the CRR for the CET1, AT1 and T2 capital instruments. Banca Popolare - Volksbank's capital instruments are fully included in CET1.

The capital instruments issued, in order to be included in Common Equity, must guarantee the absorption of the on-going concern losses, by means of observance of the following characteristics:

- maximum level of subordination;
- possibility of suspension of the recognition of dividends/coupons at the complete discretion of the issuing body and in a non-cumulative manner;
- irredeemability;
- absence of incentives to reimburse.

1. Common Equity Tier 1 Capital (CET 1)

The Common Equity Tier 1 capital (CET1) is made up of the following positive and negative elements:

- Share capital and associated share premium reserve;
- Retained earnings;
- Former OCI positive and negative valuation reserves;
- Other reserves;
- Prior CET1 instruments subject to transitory provisions (grandfathering);
- Prudential filters;
- Deductions.

The prudential filters comprise regulatory adjustment of the book value of the elements (positive and negative) of Common Equity Tier 1 capital elements. The deductions represent negative elements of the Common Equity Tier 1 capital. Therefore, in the calculation of the capital adequacy, no effects deriving from the application of the grandfathering regulations have come to light.

2. Additional Tier 1 capital (AT1)

Additional tier 1 capital (AT1) is made up of the following positive and negative elements:

- Equity instruments and related premiums;
- Prior AT1 instruments subject to transitory provisions (grandfathering);
- Deductions.

As a rule, the AT1 category includes the capital instruments other than ordinary shares which observe the legislative requirements for inclusion in this level of Own funds (for example, savings shares). Banca Popolare - Volksbank does not have instruments included in AT1.

3. Tier 2 capital (T2)

Tier 2 capital (T2) is made up of the following positive and negative elements:

- Equity instruments, subordinated loans and related premiums;
- Surpluses on the losses expected by the IRB banks for the value adjustments recorded, within the limit of 0.60% of the exposures weighted for the credit risk;
- Prior T2 instruments subject to transitory provisions (grandfathering);
- Deductions.

Banca Popolare - Volksbank does not have instruments included in T2.

B. QUANTITATIVE INFORMATION

	31.12.2016	31.12.2015
A. Common Equity Tier 1 capital (CET1) before application of prudential filters	861,421	762,192
- of which CET1 instruments subject to transitory provisions	-	-
B. CET1 prudential filters (+/-)	5	81
C. CET1 gross of deductible elements and effects of the transitory regime (A +/- B)	861,426	762,273
D. Elements deductible from CET1	(140,333)	(116,633)
E. Transitory regime - Impact on CET1 (+/-)	2,975	(3,691)
F. Total Common Equity Tier 1 capital (CET1) (C - D +/- E)	724,068	641,949
G. Additional Tier 1 capital (AT1) gross of deductible elements and effects of the transitory regime	-	-
- of which AT1 instruments subject to transitory provisions	-	-
H. Elements deductible from AT1	-	-
I. Transitory regime - Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 capital (AT1) (G - H +/- I)	-	-
M. Tier 2 capital (T2) gross of deductible elements and effects of the transitory regime	-	-
- of which T2 instruments subject to transitory provisions	-	-
N. Elements deductible from T2	-	-
O. Transitory regime - Impact on T2 (+/-)	-	-
P. Total Tier 2 capital (T2) (M - N +/- O)	-	-
Q. Total own funds (F + L + P)	724,068	641,949

Since the conditions envisaged by art. 26, paragraph 2 of EU Regulation No. 575 dated 26 June 2013 (CRR) were met for its inclusion in Common Equity Tier 1 capital, profit for the year was included in the calculation. In addition, it was assumed that a dividend would not be distributed for 2016 results.

With reference to the choices made relating to the prudential filters, the amount of the exposure to third party securitisations was deducted in the calculation of the CET1, which totalled Euro 0.7 million as at 31 December 2016.

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

Counter-cyclical capital buffer

With its letter of 16 December 2016, Bank of Italy decided to maintain the counter-cyclical capital buffer at 0% for the first quarter of 2017, having analysed the reference indicators.

Capital conservation buffer

Bank of Italy communicated on 18 January 2017 its decisions regarding the application of the capital conservation buffer. In October, the supervisory authority decided to adopt the transitory regime envisaged in Directive EU/2013/36 (Capital Requirements Directive, CRD 4) for application of the capital conservation buffer (CCoB), which allows a gradual introduction of the requirement. The decision modified the choice made in 2013, in implementation of CRD 4, to bring forward the application of the full amount of the reserve (equivalent to 2.5% of risk-weighted assets) to banking groups at the consolidated level and banks not belonging to groups.

The decision reflects the need to align domestic regulations with those of the majority of EU Member States. As such, this ensures the equality of treatment between intermediaries of different countries, while reducing the differences between national regulations, in line with the activity launched by the Single Supervisory Mechanism (SSM) to minimise the differences in prudential regulation applicable to banks.

Following the regulatory intervention, the Bank is obliged to apply the minimum coefficient for the capital conservation buffer, both at the separate and consolidated levels, which is equal to:

- 1.250% from 1 January 2017 to 31 December 2017;
- 1.875% from 1 January 2018 to 31 December 2018;
- 2.500% from 1 January 2019;

Prudential treatment of unrealised gains and losses from AFS exposures to central administrations

With its letter of 23 January 2017, Bank of Italy indicated that, following the enactment of EU Regulation no. 2016/445 of the European Central Bank on the exercise of options and discretion envisaged by the right of the EU (ECB Regulation) and EU Regulation no. 2016/2067 of the European Commission endorsing IFRS 9, clarifications were necessary on the prudential treatment of net accumulated balances of gains and losses on exposures to central administrations classified in the financial assets available for sale portfolio, recognised, in accordance with IAS 39, in the AFS reserve.

In fact, EU Regulation no. 575/2013 (CRR) establishes that banks, as a general rule, must include in/deduct from own funds, respectively, the unrealised gains and losses on assets recognised in the AFS portfolio. For a transition period, CRR allows these gains and losses to be only partially included in or deducted from CET1 capital, according to a gradually increasing approach, to reach full inclusion/deduction effective 1 January 2018.

In derogation of this transition regime, with exclusive reference to gains and losses from exposures to central administration in the AFS portfolio, the CRR - in continuity with the previous regime - allowed supervisory authorities to permit banks to not include unrealised gains or deduct unrealised losses in a certain element of own funds if this treatment had been applied prior to the entry into force of the CRR (1 January 2014). Upon first application of the CRR in Italy, this discretion was exercised by Bank of Italy and Banca Popolare - Volksbank.

As expressly provided in the regulation, the allocation of gains and losses can be applied until the European Commission "adopts a regulation based on EC Regulation no. 1606/2002, which approves the international standard of financial reporting as a replacement to IAS 39" (i.e., IFRS 9). In this context, the following interventions occurred:

- ECB Regulation, effective from 1 October 2016, with which banks subject to direct supervision from the ECB ("significant banks") may not exercise the discretion and, thus, must apply the ordinary transitory regime also to exposures to central administrations. However, banks that are not subject to direct supervision by the European Central Bank ("less significant banks") may continue to apply national regulations.
- IFRS 9, published in the Official Journal of the European Union on 29 November 2016, with which the European Commission endorsed IFRS 9.

Pursuant to art. 467(2), paragraph 2 of the CRR, the right exercised by Bank of Italy to allow banks to opt for the total allocation of gains and losses from exposures to central banks recognised in the AFS portfolio has a time limit, that is, until the adoption of the accounting standard that replaces IAS 39 (i.e., IFRS 9).

IFRS 9 entered into force on 19 December 2016. However, in accordance with art. 2 of the regulation, IFRS 9 must be applied, at the latest, from the start date of the first financial year that begins on or after 1 January 2018.

There is a question on the interpretation of whether the "adoption of the accounting standard that replaces IAS 39", which the CRR refers to as the moment at which the effects of the removal of the allocation becomes effective, is intended as the date IFRS 9 entered into force or the date of its effective application by supervised entities. Bank of Italy has clarified that, if the latter interpretation applies, less significant banks could continue to apply the allocation filter to the full amount of unrealised gains and losses from exposures to central administrations (AFS). In order to resolve the interpretative doubts, Bank of Italy advised that it will formally request a clarification from the competent European authorities. Pending formal clarification by European authorities, Bank of Italy confirmed that, until such clarification is received, right of discretion will continue to apply, and thus, Banca Popolare - Volksbank, belonging to the category of "less significant banks", may continue to exclude gains and losses from exposures to central administrations in the AFS portfolio in own funds.

B. QUANTITATIVE INFORMATION

Banca Popolare - Volksbank uses the standard method to calculate the capital requirements on credit risk. The main innovations introduced in the regulatory portfolios and the related weighted factors specifically concern the introduction of a supporting factor of 0.7619 to be applied to the prudential requirement for the retail exposure to counterparties represented by SMEs and the introduction of a new capital requirement on the “credit valuation adjustment” (CVA) risk, or rather against the risk of losses deriving from the adjustments to the market value of the OTC derivatives further to the changes in the credit worthiness. The standard method was used with regard to the operational risks.

Category/Values	Unweighted amounts		Weighted/required amounts	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	9,591,923	9,057,571	5,748,208	5,332,079
1. Standard method	9,591,923	9,057,571	5,748,208	5,332,079
2. Internal rating-based method	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk		459,857	426,566	325,575
B.2 Credit valuation adjustment risk	-	-	-	-
B.3 Regulation risk	-	-	-	-
B.4 Market risk		1,174	764	1,765
1. Standard method		1,174	764	1,765
2. Internal models		-	-	-
3. Concentration Risk		-	-	-
B.5 Operational risk		33,077	24,754	24,754
1. Basic method		-	-	-
2. Standard method		33,077	33,129	24,754
3. Advanced method		-	-	-
B.6 Other calculation items		-	-	-
B.7 Total prudential requirements		494,108	460,459	352,094
C. RISK ASSETS AND ADEQUACY RATIOS				
C.1 Risk-weighted assets (RWA)		6,176,347	5,755,746	4,401,166
C.2 Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio)	11.72%	11.15%	11.15%	13.32%
C.3 Tier 1 capital/Risk-weighted assets (T1 capital ratio)	11.72%	11.15%	11.15%	13.32%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)	11.72%	11.15%	11.15%	13.35%

PART G BUSINESS COMBINATIONS CONCERNING COMPANIES OR BUSINESS BRANCHES

Section 1 BUSINESS COMBINATIONS CARRIED OUT DURING THE YEAR

No business combinations were carried out during the financial year

Section 2 BUSINESS COMBINATIONS CARRIED OUT AFTER THE END OF THE FINANCIAL YEAR

No business combinations were carried out after the end of the financial year

Section 3 RETROSPECTIVE ADJUSTMENTS

No retrospective adjustments were made during the financial year.

PART H TRANSACTIONS WITH RELATED PARTIES

1. Information on the remuneration of Directors, Statutory Auditors, and key personnel

The table below summarises the remuneration paid to Directors, Statutory Auditors, and key personnel, i.e. to the most significant employees, directly or indirectly, in planning, management and control of the Company's activities.

The remuneration paid is governed by the remuneration policies approved by the shareholders' meeting resolutions.

<i>(thousands of Euro)</i>	31.12.2016
Directors	907
Key personnel	3,605
Statutory Auditors	284
Total	4,796

Remuneration of key personnel <i>(thousands of Euro)</i>	31.12.2016
of which	
- short-term benefits	3,044
- post-retirement benefits	308
- long-term benefits	253
- employment termination benefits	-
- share-based payments	-
Total	3,605

The amount refers to the total cost incurred by the Company. Where the Statutory Auditors are remunerated, the amounts also include any VAT due.

2. Disclosure on transactions with related parties

Based on the specifications of IAS 24, applied to the Bank's organisational and governance structure, the following individuals and legal entities are considered related parties:

- subsidiaries, companies over which the Bank directly or indirectly exercises control, as defined by IAS 27;
- associates, companies in which the Bank directly or indirectly exercises significant influence, as defined by IAS 28;
- joint ventures, companies over which the Bank directly or indirectly exercises joint control, as defined by IAS 31;
- the key management personnel and the supervisory body, i.e. the Directors, Statutory Auditors, General Manager, and Deputy General Manager;
- the other related parties, which include:
 - close relatives (up to second degree) and spouse or common-law spouse and children of Directors, Statutory Auditors, the General Manager and the Deputy General Manager of the Bank;
 - subsidiaries, subject to joint control, or subject to significant influence by Directors, Statutory Auditors, the General Manager, and the Deputy General Manager of the Bank, as well as their close relatives, as previously defined.

Transactions with subsidiaries and associated companies

The main balance sheet and income statement transactions in place with subsidiaries and associated companies are shown below.

Transactions with subsidiaries

<i>(thousands of Euro)</i>	Loans granted	Subscribed bonds	Loans obtained	Bonds issued	Guarantees	Commitments
31.12.2016	4,707	-	1,675	-	188	-
Impact	0.07%	0.00%	0.02%	0.00%	0.04%	0.00%
	Interest received on loans granted	Interest received on subscribed bonds	Interest paid on loans obtained	Interest paid on bonds issued	Fees and commissions and other revenues	Fees and commissions and other costs
						0.00%
2016	37	-	-	-	21	-
Impact	0.02%	0.00%	0.00%	0.00%	0.02%	0.00%

Transactions with associated companies

<i>(thousands of Euro)</i>	Loans granted	Subscribed bonds	Loans obtained	Bonds issued	Guarantees	Commitments
31.12.2016	5,329	-	287	-	22	-
Impact	0.08%	0.00%	0.00%	0.00%	0.01%	0.00%
	Interest received on loans granted	Interest received on subscribed bonds	Interest paid on loans obtained	Interest paid on bonds issued	Fees and commissions and other revenues	Fees and commissions and other costs
						0.00%
2016	86	-	1	-	4	-
Impact	0.05%	0.00%	(0.00%)	0.00%	0.00%	0.00%

Transactions with Directors, Statutory Auditors and members of General Management

The main balance sheet and income statement transactions in place with Directors, Statutory Auditors and members of General Management are reported hereunder.

<i>(thousands of Euro)</i>	Directors		Statutory Auditors		Strategic managers		Total	
	Direct	Indirect	Direct	Indirect	Direct	Indirect		
Agreed credit limit	3,049	70,782	2,890	15,535	66	86	92,408	
Commitments	2,816	65,855	2,751	10,717	46	83	82,268	
	Impact	0.04%	0.98%	0.04%	0.16%	0.00%	0.00%	1.22%
Credit commitments	-	5,311	-	46	-	-	5,357	
	Impact	0.00%	1.24%	0.00%	0.01%	0.00%	0.00%	1.25%
Direct funding	1,424	75,989	55	1,553	92	315	79,428	
	Impact	0.02%	1.07%	0.00%	0.02%	0.00%	0.00%	1.12%
Indirect funding	1,738	9,366	38	55	11	138	11,346	
	Impact	0.05%	0.27%	0.00%	0.00%	0.00%	0.00%	0.33%
Interest income	40	1,822	50	174	-	1	2,087	
	Impact	0.02%	1.03%	0.03%	0.10%	0.00%	0.00%	1.18%
Interest expense	5	238	-	2	1	2	248	
	Impact	-0.01%	-0.63%	0.00%	-0.01%	0.00%	-0.01%	-0.65%
Fee and commission income and other income	2	9	-	1	-	-	12	
	Impact	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%	0.01%

3. *Management of transactions with related parties*

Transactions with related parties are governed by the Consob Regulation pursuant to resolutions nos. 17221 of 12 March 2010 and 17389 of 23 June 2010 and the Provisions of the Bank of Italy dated 12 December 2011 "Risk assets vis-a-vis related parties".

The Bank adopted - by means of a Board resolution, with the prior favourable opinion of the Independent Directors Committee and the Board of Statutory Auditors - the internal regulation entitled "Risk assets and conflicts of interest vis-a-vis related parties and the associated policies governing controls" authorised by the Board of Directors on 23 October 2015, published on the websites www.bancapopolare.it and www.volksbank.it.

Transactions with related parties, identified in accordance with the provisions of IAS 24, of the aforementioned Consob Regulation and of the provisions of the Bank of Italy, fall under the normal operations of the Bank.

No transactions entered into with related parties during the period in question had a significant impact on the balance sheet or income statement results of the Bank. In addition, no changes and/or developments were recorded in related party transactions completed by 31 December 2016.

In 2016, no significant non-recurring transactions subject to the regulations governing associated parties/related parties were entered into. Furthermore, during the same period of time, there were no positions or transitions, i.e. those that do not form part of the normal day to day operations of the Company, and which, due to their significance and/or relevance, nature of the counterparties, methods for calculating the transfer price or timing of the event, could give rise to doubts regarding the completeness of the information in the financial statements and safeguarding of the Company's assets and protection of shareholders.

PART I SHARE-BASED PAYMENT ARRANGEMENTS

A. QUALITATIVE INFORMATION

The Board of Directors of Banca Popolare - Volksbank approved a new incentive plan that includes the valuation of a portion of the variable component of compensation for “key personnel” through assignment of ordinary shares of Banca Popolare - Volksbank, provided that certain specific objectives are achieved during the year.

The plan, approved by the Remuneration Committee on 18 February 2015 and by the Board of Directors on 1 April 2016, was resolved by the Ordinary Shareholders’ Meeting of 9 April 2016.

The beneficiaries of the 2016 plan are the Board of Directors, the General Manager, the Management Committee, and key personnel. Specifically, the process was undertaken by analysing individual roles (responsibilities, hierarchical levels, activities performed, operational delegations, etc.) and according to qualitative and quantitative criteria, which identified the following individuals as plan beneficiaries:

- the General Manager;
- managers of the principal business areas, business functions, or geographical areas, as well as those who report directly to bodies charged with strategic supervision, management, and control;
- other individuals who have a substantial impact on the Bank’s risk profile.

In accordance with the Bank’s remuneration policies, managers of control functions are excluded from incentive mechanisms linked to financial results.

The entire compensation policy is based on a logic that is coherent with strategies for sustainability, aimed at maintaining a connection between compensation and the effective stability of results and the level of capitalisation.

The compensation structure includes variable components in the form of:

- incentives (incentive system) for categories of personnel that more directly influence the global performance of the Bank, as they are able to assume risk positions, generate profits, or have an impact on other financial statement items for relevant amounts, and
- performance bonuses (bonus system) for the categories of employees that, in accordance with national or Bank trade union contracts, contribute to the Bank’s overall result and achieve a high level of individual qualitative/quantitative performance.

The incentive system for key personnel is subject to access conditions and adjustments for risks assumed. Moreover, ex-post mechanisms for risk alignment are envisaged, which associate the variable remuneration disbursed with the sustainability of results over time.

Incentives are recognised in cash and financial instruments or correlated instruments that reflect the Bank’s economic value (hereafter, “financial instruments” or “instruments”). Cash incentives represent 75% of the incentive and 25% is recognised in financial instruments or correlated instruments whose value reflects the Bank’s economic value.

The use of shares or equity instruments of the Bank is dependent on prior authorisation by the Shareholders’ Meeting and requirements of the Articles of Association and relevant regulations. During the period of deferment and/or unavailability, dividends and interest are not recognised. Financial instruments are subject to an availability restriction for both the upfront component and the deferred component.

Variable compensation due to Executive Directors, General Managers, Central Management, managers of company control functions, managers of support functions, and other relevant risk takers is recognised as follows:

- 50% upfront, immediately following the approval of the financial statements, and
- for 25% plus 25%, with deferment of 1 plus 1 year, when the underlying performance can be considered definitively obtained so that the access thresholds are met, for the first and second year following.

When the “entry gates” that condition the activation of the plan are lower than the access thresholds, the upfront portion and the deferred portions of the incentive are not recognised. Recognition of the deferred portions depends on the verification of the same conditions of asset sustainability, in the presence of business profits and the liquidity conditions described above for each deferment year.

Deferred components are cancelled should events occur that result in the restitution of amounts already disbursed. Financial instruments recognised upfront are subject to an availability restriction for two years from the assignment date. Financial instruments recognised with deferment of 1 plus 1 year are subject to an availability restriction of 1 year from the assignment date.

B. QUANTITATIVE INFORMATION

At the approval date of the financial statements, the process for determining the amount of share-based payments was not yet concluded, including for the criterion to calculate the fair value of the assigned shares, for which certain conditions that are essential to the calculation have yet to be defined.

Hence, the amount of the bonus was estimated and recognised in item 150 b) “Personnel expenses”, with contra-entry in “Other liabilities”. The amount to be paid in shares, as well as the number of shares to be assigned, will be reported when the aforementioned process is complete.

PART L SEGMENT REPORTING

Segment reporting was prepared in accordance with IFRS 8, which replaced the former IAS 14. IFRS 8 is also based on identifying operating segments and the relative methods of management reporting adopted for purposes of business governance to identify the operating segments that must be included in segment reporting.

The organisational and governance model of Banca Popolare - Volksbank entails the centralisation of management decisions with General Management, where the strategies, new products and services, and sales initiatives are outlined and addressed centrally and applied indistinctly to all regional sales departments.

Hence, planning processes and reporting systems are managed at the business level, without being broken down into operating segments. Furthermore, financial risk is managed centrally and there are no distinct operating divisions or operating segments for homogeneous markets or sectors or based on economic or geographic characteristics.

As a result of the highly centralised structure, revenue flows are governed by business policies that are formulated centrally, based on balanced growth of the entire Bank entity.

Due to the single management design, each segment is identified in consideration of the nature of the products and services offered and the types of reference customers, so that the segment has appropriately homogeneous characteristics in terms of risk profile and profitability.

Considering the significant differences between products and services offered, and the substantial absence of differentiations at the geographic distribution level, the primary framework refers to sectors of economic activity while the geographic area is not relevant for the Bank's business, as it is not reflected in a corresponding management structure.

Criteria for identifying and combining operating segments

The identification and combination of operating segments in conformity with IFRS 8 was conducted, unlike that anticipated by IAS 14, by identifying the operating segments in accordance with the "operational approach" used by management when measuring performance:

- Private customers (including consumer families);
- Businesses (including non-financial companies and producer families);
- Finance (asset portfolio and cash management).

A residual segment in which the amounts not specifically referring to the business segments were specifically attributed to the other business segments was also identified.

The segments were identified based on the similarity of the economic characteristics as well as of the similarity of the sector with reference to the nature of the products and processes, the type of customers, the distribution methods, and the regulatory context.

For the purpose of reconciling the sector results with the Company's income, note that the measurement criteria for the sector disclosure reported in this section are consistent with those used in the internal reports, as required by the reference accounting standards. They are also consistent with the accounting standards used for preparing the financial statements for the year, in that they are deemed more suitable for the purpose of attaining a true and fair view of the Company's financial position.

A. PRIMARY FRAMEWORK*Analysis by business segments: income statement figures*

<i>(thousands of Euro)</i>	Private individuals	Businesses	Finance	Other	Total
Interest margin	30,411	97,143	11,344	-	138,898
Net fee and commission income	35,965	46,129	-	-	82,094
Financial margin	-	-	22,368	-	22,368
Net interest and other banking income	66,376	143,272	33,712	(1)	243,359
Net losses/recoveries on impairment	(1,949)	(87,255)	(2,686)	-	(91,890)
Net income from financial activities	64,427	56,017	31,026	(2)	151,468
Administrative expenses	-	-	-	(181,564)	(181,564)
Provisions for risks and charges	-	-	-	(672)	(672)
Amortisation of intangible assets and depreciation of property and equipment	-	-	-	(9,216)	(9,216)
Other operating income/expenses	-	-	-	20,951	20,951
Profits (losses) on investments in associates and companies subject to joint control / on disposal of investments	-	-	-	4,993	4,993
Income (loss) before tax from continuing operations	64,427	56,017	31,026	(165,511)	(14,041)

Analysis by business segments: balance sheet figures

<i>(thousands of Euro)</i>	Private individuals	Businesses	Finance	Other	Total
Due from banks	-	-	41,917	-	41,917
Loans to customers	2,221,283	4,341,251	164,689	-	6,727,223
Own securities and investments	-	-	1,907,950	-	1,907,950
Due to banks	-	-	1,085,006	-	1,085,006
Direct funding	4,239,125	2,043,942	715,353	112,127	7,110,547
- Due to customers	3,200,698	1,983,314	713,353	104,421	6,001,786
- Securities issued	1,038,427	60,628	2,000	7,706	1,108,761
Indirect funding	3,307,300	160,483	-	-	3,467,783

Note that operating income and the business activities are performed in Italy, confirming that the Company is rooted in the reference territory, a factor of strategic significance in company development.

B. SECONDARY FRAMEWORK

As previously noted, a geographic segmentation is not included, as this does not correspond to any management or reporting structure within the Bank.

Specifically, note that in the provinces in which the Bank operates, there are no particular elements of differentiation in the composition of reference customers, which is reflected in the complete uniformity of products and services offered and the standardisation of sales and management policies.

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

Disclosure in accordance with art. 149 – duodecies of Regulation No. 11971 of 14 May 1999 (Issuers' Regulation)

The fees of the 2016 financial year for auditing services and for those other than auditing paid to the Independent Auditors or to companies within its network are shown below.

Type of service (thousands of Euro)	Party that performed the service	Beneficiary	Consideration (1)
Independent Audit	BDO Italia S.p.A.	Banca Popolare - Volksbank	83,070
Fairness opinion on the withdrawal right	BDO Italia S.p.A.	Banca Popolare - Volksbank	50,000
Loan securitisation proposal	BDO Italia S.p.A.	Banca Popolare - Volksbank	30,000
Certification services	BDO Italia S.p.A.	Banca Popolare - Volksbank	5,000

(1) The amounts are net of VAT and accessory expenses.

Financial statements of the subsidiary VOBA Invest S.r.l. in liquidation

Voba Invest S.r.l. in liquidation

Voba Invest S.r.l. - Single shareholder company in liquidation

Offices in Bolzano (BZ) Italy, Via del Macello no. 55

Share capital of Euro 30,000, fully paid in

Listed in the Bolzano Business Register

Tax code 03340170277

*A company under the management and coordination of Banca Popolare dell'Alto Adige Soc. Coop. p.a. with registered office in Bolzano, Italy***FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016****BALANCE SHEET**

ASSETS	31.12.2016	31.12.2015
<i>(amounts in Euro)</i>		
A. Share capital not paid in	-	-
B. Fixed assets		
I. Intangible assets		
II. Property and equipment		
1. Land and buildings	158,711	184,076
4. Other assets	-	29
Total	158,711	184,105
III. Financial investments		
1. Investments in:		
b. associated companies	1	1
2. Loans and receivables:		
b. from associated companies	-	32,465
3. Other securities	100	100
Total	101	32,566
Total fixed assets (B)	158,812	216,671
C. Current assets		
I. Inventories		
4. Finished products and goods for resale	1,167,980	1,124,277
Total	1,167,980	1,124,277
II. Loans and receivables		
1. Due from customers	-	1,221
4.bis Tax receivables	541,156	108,519
5. Other	345,272	66,595
Total	886,428	176,335
III. Financial assets under current assets		
IV. Cash and cash equivalents		
1. Bank and post office deposits	1,675,471	-
3. Cash and equivalents on hand	58	58
Total current assets (C)	3,729,937	1,300,670
D. Accrued income and prepayments	6,607	8,449
TOTAL ASSETS	3,895,356	1,525,790

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016
BALANCE SHEET

LIABILITIES	31.12.2015	31.12.2014
<i>(amounts in Euro)</i>		
A. Shareholders' equity		
I. Share capital	30,000	30,000
IV. Legal reserve	-	
VII. Other reserves		
15. Reserves from rounding off	(2)	
16. Reserves from tax amnesty		
17. Sundry other reserves	(45,000)	(45,000)
VIII. Retained earnings/(accumulated losses)	(262,396)	(182,378)
IX. Net income (loss) for the year	2,537,341	(80,018)
Total	2,259,943	(277,396)
B. Provisions for risks and charges		
3. Other	45,000	45,000
Total	45,000	45,000
D. Payables		
3. Due to shareholders for loans	1,519,492	1,739,252
7. Trade payables	1,477	525
12. Tax payables	1,035	-
14. Other payables	68,409	18,409
Total	1,590,413	1,758,186
TOTAL LIABILITIES	3,895,356	1,525,790

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

INCOME STATEMENT

INCOME STATEMENT ITEMS	31.12.2016	31.12.2015
<i>(amounts in Euro)</i>		
A. Production value		
1. Revenues from sales and services	16,501	17,133
2. Change in inventories of work in progress semi-finished and finished products	43,702	14,003
5. Other revenues and income	17,733	9,179
Total	77,936	40,315
B. Production costs		
6. Raw, ancillary and consumable materials and goods for resale	10	-
7. Services	100,973	57,649
8. Use of third party assets	27,335	24,603
9. Personnel:		
a. salaries and wages	-	-
b. social security costs	-	-
e. other costs	-	-
10. Amortisation, depreciation and write-downs		
b. depreciation of property and equipment	25,393	25,518
d. write-down of current receivables and of liquid funds		-
	25,393	25,518
14. Other operating charges	167,296	12,205
Total production costs	321,007	119,975
Difference between production value and costs (A-B)	(243,071)	(79,660)
C. Financial income and expenses		
15. Income from investments	-	-
of which from associated companies		
16. Other financial income		
d. income other than the above	2,781,628	465
of which from associated companies		
17. Interest and other financial charges	1,217	822
of which from associated companies		
of which from parent companies		
Total financial income and expenses	2,780,411	(357)
D. Adjustments/recoveries on investments		
E. Extraordinary income and expenses		
20. Income	1	-
21. Charges	-	-
Total extraordinary items	1	(1)
Income before taxes (A-B+C+D+E)	2,537,341	(80,018)
22. Taxes on income - current, deferred and prepaid	-	-
23. NET INCOME (LOSS) FOR THE YEAR	2,537,341	(80,018)

Financial statements of the subsidiary Valpolicella Alta Società Agricola S.r.l.

Valpolicella Alta Società Agricola S.r.l.

Valpolicella Alta Società Agricola S.r.l. - Single shareholder company

Offices in Bolzano (BZ) Italy, Via del Macello no. 55

Share capital of Euro 10,000, fully paid in

Listed in the Bolzano Business Register

Tax code 02625480211

*A company under the management and coordination of Banca Popolare dell'Alto Adige Soc. Coop. p.a. with registered office in Bolzano, Italy***FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016****BALANCE SHEET**

ASSETS	31.12.2016	31.12.2015
<i>(amounts in Euro)</i>		
A. Share capital not paid in	-	-
B. Fixed assets		
I. Intangible assets	-	-
II. Property and equipment		
1. Land and buildings	2,812,642	2,812,642
4. Other assets	1,181,697	1,246,054
5. Construction in progress and advances	62,994	-
Total	4,057,333	4,058,696
III. Financial investments		
Total fixed assets (B)	4,057,333	4,058,696
C. Current assets		
I. Inventories		
II. Loans and receivables		
1. Due from customers	216,466	236,686
4.bis Tax receivables	57,037	-
5. Other	47	699,459
Total	273,550	936,145
III. Financial assets under current assets		
IV. Cash and cash equivalents		
1. Bank and post office deposits	11,375	12,212
3. Cash and equivalents on hand	-	302
Total		11,375
Total current assets (C)	273,550	947,520
D. Accrued income and prepayments	1	1
TOTAL ASSETS	4,330,884	5,006,217

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

BALANCE SHEET

LIABILITIES	31.12.2016	31.12.2015
<i>(amounts in Euro)</i>		
A. Shareholders' equity		
I. Share capital	10,000	10,000
IV. Legal reserve	2,000	
VII. Other reserves	146,228	4,660
1. Extraordinary and optional reserve	141,568	-
11. Payments to cover losses	4,660	4,660
VIII. Retained earnings/(accumulated losses)		
IX. Net income (loss) for the year	(140,935)	143,568
Total	17,293	158,228
B. Provisions for risks and charges	37,500	699,412
3. Other	37,500	699,412
C. Employee termination indemnities	-	-
D. Payables		
3. Due to shareholders for loans	1,040,180	997,363
5. Due to banks	3,187,916	3,081,429
7. Trade payables	47,874	8,514
12. Tax payables	84	51,606
14. Other payables	37	532
Total	4,276,091	4,139,444
E. Accrued expenses and deferred income	-	9,133
TOTAL LIABILITIES	4,330,884	5,006,217

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016
INCOME STATEMENT

INCOME STATEMENT ITEMS	31.12.2016	31.12.2015
<i>(amounts in Euro)</i>		
A. Production value		
1. Revenues from sales and services	196,778	215,151
5. Other revenues and income	29,000	320,673
Total	225,778	535,824
B. Production costs		
6. Raw, ancillary and consumable materials and goods for resale	29,817	15,246
7. Services	126,627	121,509
10. Amortisation, depreciation and write-downs		
a. amortisation of intangible assets		
b. depreciation of property and equipment	64,356	64,356
	64,356	64,356
12. Provisions for risks	37,500	
14. Other operating charges	3,078	40,291
Total production costs	261,378	241,402
Difference between production value and costs (A-B)	(35,600)	294,422
C. Financial income and expenses		
16. Other financial income		
d. income other than the above	18	
17. Interest and other financial charges	105,353	145,163
Total financial income and expenses	(105,335)	(145,163)
D. Adjustments/recoveries on investments		
E. Extraordinary income and expenses		
Income before taxes (A-B+C+D+E)	(140,935)	149,259
22. Taxes on income - current, deferred and prepaid	-	(5,691)
23. NET INCOME (LOSS) FOR THE YEAR	(140,935)	143,568

