Banca Popolare dell'Alto Adige
Società cooperativa per azioni

Annual Financial Report
2013 financial year

Banca Popolare dell'Alto Adige
società cooperativa per azioni

Registered office and head office: Via Siemens, 18 – I-39100 Bolzano
Share Capital as at 31 December 2013: Euro 152,508,440 fully paid up
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

CONTENTS

BANCA POPOLARE · VOLKSBANK – OUR NETWORK

BANCA POPOLARE DELL'ALTO ADIGE

Società cooperativa per azioni
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 Siemens 18 – Bozen, Siemensstraße 18
Tel. + 39 0471 – 996111 – Telefax 0471 – 979188
www.bancapopolare.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 Telser 1 - Telsergalerie 1	tel. 0471-944170
Bolzano – Bozen Piazza Mazzini 2 - Mazziniplatz 2	tel. 0471-944020
Bolzano – Bozen Piazza Parrocchia 4 - Pfarrplatz 4	tel. 0471-944050
Bolzano – Bozen Via C. Augusta 5 - C.-Augusta-Str. 5	tel. 0471-944250
Bolzano – Bozen Via del Macello 23/bis - Schlachthofstraße 23/bis	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 Str. 2	tel. 0471-996151
Bolzano – Bozen Via Resia 130 - Reschenstraße 130	tel. 0471-944290
Bolzano – Bozen Via Roma 45 - Romstraße 45	tel. 0471-944200
Bolzano – Bozen Via Sassari 4 b/c - Sassaristraße 4 B/C	tel. 0471-944100
Bolzano – Bozen Viale Druso 64 - Drususallee 64	tel. 0471-944340
Bressanone – Brixen Portici Maggiori 2 - Große Lauben 2	tel. 0472-811213
Bressanone – Brixen V. Rio Scaleres 26 - Am Schalderer Bachl 26	tel. 0472-811630
Bressanone – Brixen Via Dante 51 - Dantestr. 51	ATM
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 Ospedale 11 - Spitalstr. 11	ATM
Brunico – Bruneck Via S.Nicolò 14 - St.-Nikolaus-Str. 14	tel. 0474-544790
Brunico S. Giorgio – Bruneck St. Georgen Via Valle Aurina 30 - Ahrntaler-Straße 30	tel. 0474-544760
Cadipietra – Steinhaus Cadipietra 105 - Steinhaus 105	tel. 0474-544800

BOLZANO PROVINCE

Caldaro – Kaltern P.zza 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 V.le S. Giovanni 23 - St.-Johannes-Str. 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 Piazza del Grano 3 - Kornplatz 3	tel. 0473-254106
Merano – Meran Piazza Stazione - Bahnhofsplatz	ATM
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 P.zza 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 Valles 116 - Vals 116	tel. 0472-811660
S. Leonardo in Passiria - St. Leonhard in Passeier Via Passiria 14 - Passeirer Straße 14	tel. 0473-254380
S. Lorenzo di Sebato - St. Lorenzen Via	tel. 0474-544780

BOLZANO PROVINCE	
Josef Renzler 17 - Josef-Renzler-Str. 17	
Scena – Schenna P.zza Arciduca Giovanni 7 - Erzh.-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
Siusi – Seis Via Sciliar 16 - Schlernstraße 16	tel. 0471-944300
Vandoies – Vintl Via J. A. Zoller 8 - J.-A.-Zoller-Straße 8	tel. 0472-811640
Varna – Vahrn Via Brennero 101 - Brennerstraße 101	tel. 0472-811650
Velturno – 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 Caffi 1a/3	tel. 0437-356719
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
Dosoledo 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
Sappada Via Borgata Cottern 22	ATM
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

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 Corso Vicenza 47	ATM
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 Piaz 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 V. Damiano Chiesa 4/g-h	tel. 0464-912560
Rovereto Via della Vittoria 11	tel. 0464-912550
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
Trento Via S. Croce 44	tel. 0461-211040

TRENTO PROVINCE	
Villa Lagarina Via degli Alpini 8	tel. 0464-912540

TREVISO PROVINCE	
Castelfranco Veneto Borgo Treviso 62	tel. 0423-974610
Conegliano Via Cesare Battisti 5	tel. 0438-907740
Conegliano Via Cristoforo Colombo 42	tel. 0438-907720
Crocetta del Montello Via Andrea Erizzo 64	tel. 0423-974620
Mogliano Veneto Via degli Alpini 16/g/f/e	tel. 0415-446660
Oderzo Via degli Alpini 24/26	tel. 0422-508100
Paese Via Cesare Battisti 3	tel. 0422-508140
Pieve di Soligo Via Nubie 3/d	tel. 0438-907700
Preganziol Piazza Gabbin 16	tel. 0422-508120
Spresiano Piazza Luciano Rigo 49	tel. 0422-508130
Treviso Viale IV Novembre 13/a	tel. 0422-508110
City of Treviso Via San Vito 12	tel. 0422-508150
Valdobbiadene Foro Boario 21-23-13	tel. 0423-974600
Vittorio Veneto Galleria Tintoretto 3	tel. 0438-907710

VENICE PROVINCE	
Fossò Via Roncaglia 1	tel. 0415-446690
Marcon Viale della Repubblica 2	tel. 0415-446680
Martellago Via Friuli 28	tel. 0415-446780
Mira Via Alfieri 9/c	tel. 041-5446790
Mira Via Venezia, 120	tel. 0415-446730
Mirano Via Cavin di Sala 39	tel. 0415-446710
Noale Via Tempesta 31	tel. 0415-446630
Portogruaro Via S. Agnese 28	tel. 0421-480810
San Donà di Piave Via Vizzotto 92	tel. 0421-480800
Spinea Piazza Marconi 17	tel. 041-5446670
Venezia Mestre P.zza Mercato 51 - Fraz. Marghera	tel. 041-5446800
Venezia Mestre Via Rovereto 8 - Fraz. Chirignago	tel. 0415-446600
Venezia Mestre Via Torre Belfredo 23 - Villa Toesca	tel. 041-5446750

Corporate Officers and Independent Auditors

BOARD OF DIRECTORS		
	Chairman	OTMAR MICHAELER
	Deputy Chairmen	ARNO EISENDLE LORENZO SALVÀ (**)
	Directors	MARCELLO ALBERTI (**) RUDOLF CHRISTOF (*) DAVID COVI (*) PHILIP FROSCHMAYR WERNER GRAMM (**) LUKAS LADURNER ALESSANDRO MARZOLA (**) MARGIT TAUBER (*) GREGOR WIERER (**)
		(*) Independent directors as per art. 29 (6) of the articles of association (**) Members of the Credit Committee
BOARD OF STATUTORY AUDITORS		
	Chairman	HEINZ PETER HAGER
	Standing Auditors	JOACHIM KNOLL GEORG HESSE
	Substitute Auditors	MASSIMO BIASION EMILIO LORENZON
BOARD OF ARBITRATORS		
	Chairman	MAX BAUER
	Standing Arbitrators	GINO BERNARDI WALTER KOMPATSCHER
	Substitute Arbitrators	HANSJÖRG CIMADOM RICHARD STAMPFL
MANAGEMENT		
	General Manager	JOHANNES SCHNEEBACHER
	Deputy General Manager	STEFAN SCHMIDHAMMER
INDEPENDENT AUDITORS		BDO S.p.A.

Banca Popolare dell'Alto Adige

Società cooperativa per azioni

Head Office: Bolzano - via Siemens, 18
tax code 00129730214

ORDINARY SHAREHOLDERS' MEETING

NOTICE CALLING THE SHAREHOLDERS' MEETING

Dear Members,

The Board of Directors called the Ordinary Shareholders' Meeting of Banca Popolare dell'Alto Adige Soc.coop.pa, on first call, for 28 April 2014 at 08.00 at the bank's head office, and, on second call, for

Tuesday, 29 April 2014, at 18.00

at the premises set up for the shareholders' meeting in Merano - Kurhaus, Corso Libertà 31, to discuss the following

Agenda

1. Reports by the Board of Directors and by the Board of Statutory Auditors for the 2013 financial year; presenting of the financial statements and subsequent resolutions;
2. Determination of the 2014 share premium on Banca Popolare dell'Alto Adige shares, based on art. 10 of the articles of association;
3. Report on the 2013 implementation of the remuneration policies;
4. Renewal of the Board of Directors as per articles 29, 30 and 55 of the articles of association;
5. Renewal of the Board of Arbitrators as per article 48 of the articles of association.

Notes

The proceedings of the meeting are regulated by the regulations approved by the general shareholders' meeting held on 19.04.2013, which can be obtained at www.bancapopolare.it

Presentation of Lists for appointment of the Directors

Concerning item 4 on the Agenda, the Shareholders are reminded that they are entitled to submit candidate lists under the terms and manner laid down by art. 30 of the Articles of association.

Every list should contain twelve candidates sorted progressively. At least three candidates from the first seven on the list must comply with the independence requirements set out under article 29 (5) of the articles of association.

The lists should be filed at the head office of Banca Popolare dell'Alto Adige in Bolzano, via Siemens 18, no later than Friday, 18 April 2014, together with the documentation required by the bank under art. 30(4) of the articles of association, and they should be signed by:

a) at least four hundred submitting Shareholders,

   or, alternatively

b) by one or more submitting Shareholders who hold, also jointly, at least 190,636 shares in Banca Popolare dell'Alto Adige in order to comply with the provisions of art. 30(5)(a) or (b) of the Articles of Association; if necessary, as at 31 December 2013 there were 37,574 shareholders listed on the shareholders' register of Banca Popolare dell'Alto Adige with voting rights and the bank's share capital amounted to Euro 152,508,440, divided into 38,127,110 shares with a par value of Euro 4.00 each.

The signatures of submitting Shareholders should be authenticated by a notary or certified by an employee of Banca Popolare dell'Alto Adige who has been granted such power by the Board of Directors. Submitting Shareholders who hold signature certification in Banca Popolare dell'Alto Adige can go to the following professional figures

- at the branches:

  Area Manager; Branch Manager; Assistant Branch Manager; Agency Owner;

  Head of Corporate Services, Head of Private Services;

- at the head office:

  General Administration Executive.

Facsimile forms and information for shareholders can be found at www.bancapopolare.it.

Valid candidate lists submitted for the appointment of directors shall be made available at the bank's head office and published at www.bancapopolare.it by Friday, 18 April 2014.

Candidacy for the position of arbitrator for appointment to the Board of Arbitrators

In relation to point 5 on the agenda, candidature for the position of arbitrator should be filed at the head office of Banca Popolare dell'Alto Adige in Bolzano, via Siemens 18, no later than Friday, 18 April 2014, together with the documentation required by the bank under art. 48(2) of the articles of association and art. 14(4) of the Shareholders' Meeting Regulations.

Participation at Shareholders' Meetings

Persons entitled to participate at the shareholders' meeting are shareholders in possession of broker certification filed in accordance with prevailing law; the Bank shall take care of shares that have already been placed for custody and administration at Banca Popolare dell'Alto Adige.

Only shareholders who have been registered in the book of shareholders for at least 90 days shall be eligible to exercise their voting rights.

Shareholders who are eligible to participate and vote can be represented by proxy by another shareholder who is entitled to participate and vote at the same meeting, unless there is any incompatibility or restrictions laid down by law and art. 25 of the Articles of association. The signatures of shareholders represented by proxy should be authenticated by a notary or by an employee of Banca Popolare dell'Alto Adige who has been granted such power by the board of directors; the signature of such shareholders with share certificates not deposited at Banca Popolare dell'Alto Adige can be authenticated by the broker holding the certificates.

Shareholders represented by proxy that have their signature authenticated at Banca Popolare dell'Alto Adige sign the proxy form available at the bank's branches and head office before an employee as follows:

- at the branches:

  Area Manager; Branch Manager; Assistant Branch Manager; Agency Owner;

  Head of Corporate Services, Head of Private Services;

- at the head office:

  General Administration Executive.

It should be pointed out that each shareholder can represent by proxy a maximum of five shareholders, with the exception of cases laid down by law.

The original proxy should be submitted at first entry to the meeting.

For legal representation suitable documentation should be submitted at first entry to the meeting.

Bolzano, 28 February 2014

Banca Popolare dell'Alto Adige Soc.coop.pa
Chairman of the Board of Directors

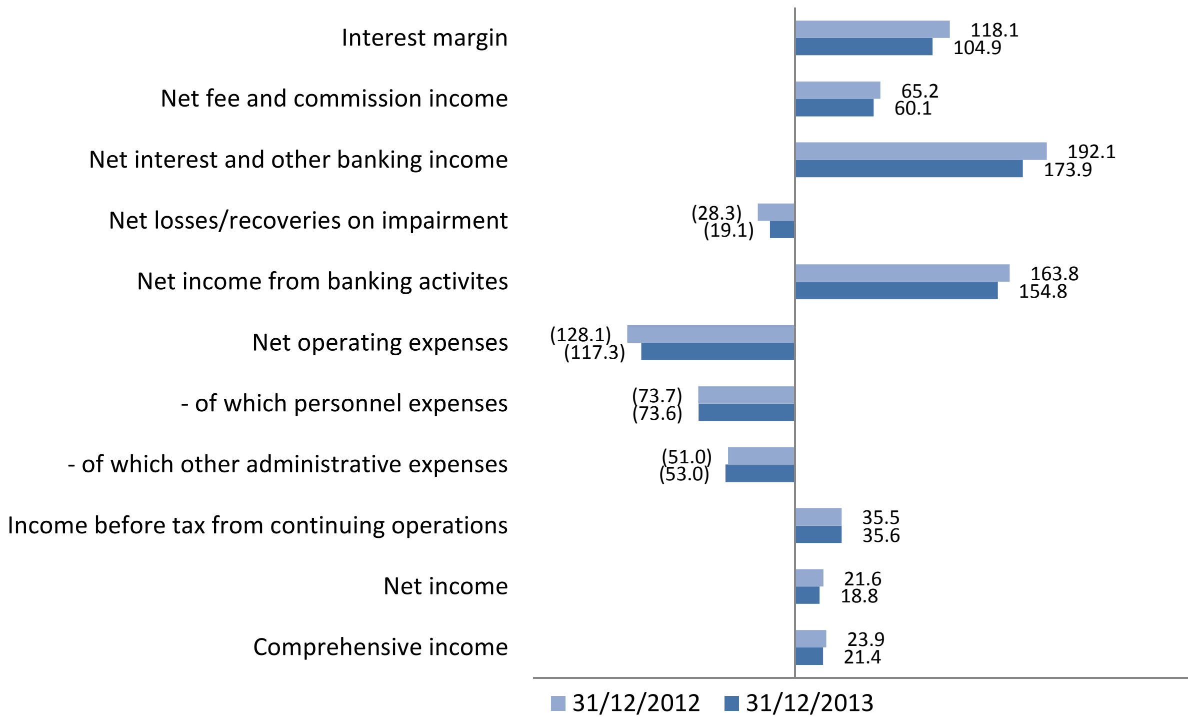
Otmar Michaeler

YEAR-END REPORTS AND FINANCIAL STATEMENTS

OUTLINE OF ECONOMIC-FINANCIAL DATA AND INDICES

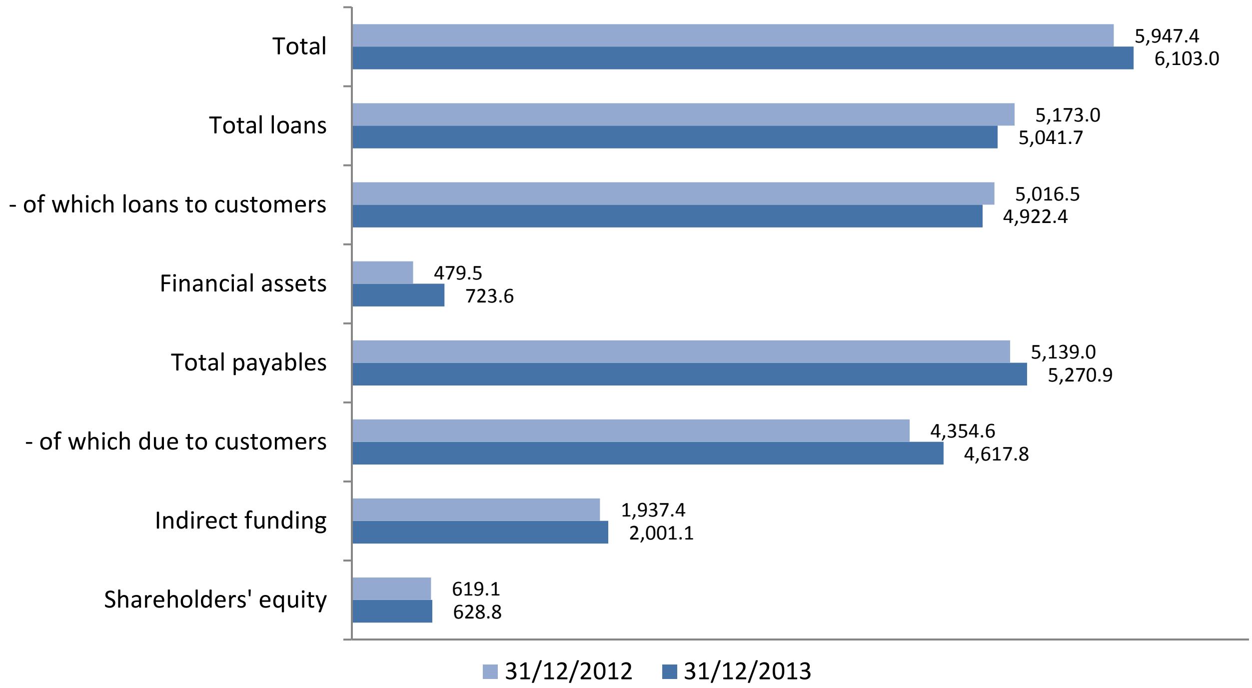
Below is an outline of bank data and indices calculated on the basis of accounting records.

Main Economic Data



Economic Data	31.12.2013	31.12.2012	Change	
(millions of Euro)			Absolute	%
Interest margin	104.9	118.2	(13.2)	-11.19%
Net fee and commission income	60.1	65.3	(5.2)	-7.89%
Net interest and other banking income	173.9	192.1	(18.2)	-9.50%
Net losses/recoveries on impairment	(19.1)	(28.3)	9.2	-32.61%
Net income from banking activities	154.8	163.8	(9.0)	-5.51%
Net operating expenses	(117.3)	(128.1)	10.7	-8.39%
- of which personnel expenses	(73.6)	(73.7)	0.1	-0.19%
- of which other administrative expenses	(53.0)	(51.0)	(2.0)	3.88%
Net income before tax	35.6	35.5	0.0	0.08%
Net income for the year	18.8	21.6	(2.8)	-13.05%

Main Financial Data



Financial Data	**31.12.2013**	**31.12.2012**	**Change**	
(millions of Euro)			**Absolute**	**%**
Total assets	6,103.0	5,947.4	155.6	2.62%
Total loans	5,041.7	5,173.0	(131.3)	-2.54%
- of which loans to customers	4,922.4	5,016.5	(94.0)	-1.87%
Financial assets	723.6	479.5	244.2	50.92%
Total payables	5,270.9	5,139.0	132.0	2.57%
- of which due to customers	4,617.8	4,354.6	263.1	6.04%
Indirect funding	2,001.1	1,937.4	63.8	3.29%
Shareholders’ Equity	628.8	619.1	9.7	1.57%

Main indices

Economic and financial ratios and other information	31.12.2013	31.12.2012
Financial Indicators		
Structural ratios (%)		
Loans to customers / total assets	80.66%	84.35%
Loans to customers / direct funding from customers (retail)	108.52%	119.47%
Fixed assets / total assets	2.49%	2.53%
Total risk-weighted assets (RWA) / total assets	72.80%	76.46%
Goodwill / total assets	0.66%	0.68%
Direct funding / total assets	75.66%	73.22%
Managed funding / indirect funding	41.25%	40.44%
Leverage (*)	11.88	11.54
Inter-bank balance (thousands of Euro)	(526,650)	(615,343)
Number of employees	1,061	1,077
Number of bank branches	134	134
Profitability ratios (%)		
ROE	3.08%	3.61%
ROA (net profit / total assets)	0.31%	0.36%
Cost to income ratio	70.13%	68.17%
Net adjustments to loans / net loans to customers	0.39%	0.53%
Basic EPS (earnings per share - earnings per share basis)	0.49	0.57
Diluted EPS (earnings per share - earnings per diluted share)	0.49	0.57
Risk ratios (%)		
Net doubtful loans / net loans to customers	3.09%	2.70%
Net substandard loans / net loans to customers	2.72%	2.67%
Value adjustments to doubtful loans / gross doubtful loans	40.89%	44.75%
Value adjustments to performing loans / gross performing loans	0.51%	0.46%
Regulatory capital (thousands of Euro) and capital ratios		
Core tier 1 capital	571,842	487,563
Regulatory capital including Tier 3 capital	573,305	562,771
Risk-weighted assets (RWA)	4,443,266	4,547,398
Core tier 1 ratio	12.87%	10.72%
Total capital ratio	12.90%	12.38%
Non-Financial Indicators		
Productivity ratios (in Euro)		
Direct funding per employee	4,352,289	4,043,303
Loans to customers per employee	4,639,437	4,657,834
Assets under management per employee	777,998	727,378
Administered assets per employee	1,108,096	1,071,470
Net interest and other banking income per employee	163,882	178,392

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

DIRECTORS' REPORT

1.1. Financial environment and Markets

1.1.1. The international and national economic environment (1)

There was a slow, but steady emergence from recession in the Eurozone in 2013, helped by the significant monetary policies adopted. Due to low inflation and consequent weak economic activity, the Governing Council of the ECB reduced interest rates on the main refinancing operations to 0.25% in November and resolutely confirmed that it would stay at levels equal to or below current levels for an extended period. The Council also repeated that it would use all the instruments at its disposal to maintain an accommodative monetary policy stance if necessary.

The recovery of the European economy, which was barely perceptible in the third quarter when GDP grew by just 0.1%, showed considerable improvement in the final quarter, with a 0.3% increase which rose above expectations (0.2%), and was higher than second quarter figures which had shown growth for the first time after two recessions following the economic crisis.

This recovery would appear to be especially important since no further monetary stimuli can be provided by the ECB. Even if we consider the risk of deflation, this return to recovery would appear to be of fundamental importance to reduce the high levels of debt accumulated by some Eurozone countries, including Italy.

Germany and France, whose economies account for about 50% of the GDP of the entire Eurozone, grew by 0.4% and 0.3% respectively. There was 0.1% growth in Italy in the final quarter, which meant that there was an overall drop of 0.8% between 2012 and 2013. Just as in the past, the proper economic policies have to be adopted in order to emerge from the recession.

Inflation in Italy continued to fall faster than expected, dropping to 0.7% in December. Even core inflation - that does not account for the more unstable components - dropped to 0.9%. Weakness in demand kept prices set by companies down to a greater extent than in the past; the VAT increase in October was not transferred to end prices to any great extent. Very moderate inflation trends and the fragility of the Italian economic framework limit the effectiveness of actions taken to reduce public and private debt, and therefore effective economic policies must be adopted.

Confidence indices in companies in Italy improved further in December, standing at levels that were last seen at the beginning of 2011. However, the economic situation is still highly diversified in accordance with the category of company and geographic location.

While prospects are improving for larger industrial companies and those focusing on foreign markets, the future is not quite so bright for smaller companies, service companies or those located in Southern Italy. Even though employment levels have stabilised slightly, with an increase in the number of hours worked, labour market conditions are still difficult. Unemployment rates, which normally lag behind the economic cycle, reached 12.3% in the third quarter, and were set to rise to 12.6% in the October-November period.

The current account portion of the balance of payments became positive once again in 2013. The surplus could increase further, even though increasing importance is given to the expected gradual strengthening of economic activity. The improvement in the balance between 2010 and 2013 was a result of both a reduction in imports due to the recession and an increase in exports.

In 2013, the state sector requirements increased considerably due to various extraordinary factors such as the payment of past current account debts of the public administration and loss of the effects of the unified treasury provision which reduced 2012 requirements. In accordance with the information available, the net debt of the public administrations stayed close to the 3% GDP threshold even though GDP fell. The official government forecasts - which take account of the 2014 stability law - that net debt will fall for each year of the three-year period 2014-16.

([1]) Formulated by the Banca Popolare dell'Alto Adige from sources taken from the International Monetary Fund, World Economic Forum, Bank of Italy, ISTAT, chamber of commerce information and financial news.

1.1.2. The Markets

The ECB reduced interest rates to a historical low of 0.25% in November. The marginal lending facility was unchanged at 0.75%, and the overnight deposit facility stayed at zero.

The ECB expressed its wish to keep interest rates at current levels “for the time it believes necessary” and repeatedly stated that it was prepared to use all the instruments at its disposal to ensure the stability of the currency. The repeated statements regarding the accommodative policy stance support the expectation that interest rates will remain at minimum levels for a prolonged period of time, due in part to particularly weak inflation with figures that continue to confirm a prolonged period of low inflation.

The average 3-month Euribor rate for December 2013 was 0.28% (+ 9 basis points over December 2012). The 10-year interest rate swaps rate was 2.08% in December 2013.

The spread between BTP yields and 10-year Bund rates was at 316 bps at the end of 2012 It reached 350 bps during 2013 mainly due to uncertainty surrounding national political developments, to then fall to 215 bps at year-end.

Despite the upbeat performance of the American economy, the Euro reached maximum levels against the dollar: at the end of 2012, the exchange rate amounted to 1.32 dollars, while at the end of 2013 it was 1.38 dollars. There was a significant increase in share indices in 2013. The FTSE MIB index rose by +16.5%. The significant amount of cash put into the system drove investors to reduce demand for bond market instruments and gold to the benefit of the stock market. Gold suffered its biggest drop since the 1980s. It fell from 1,676 dollars/oz. as at 31 December 2012 to a minimum of 1,196 dollars/oz. on 19 December 2013.

The FTSE MIB index was at 18,967.71 points at 2013 year-end, peaking at 19,372 on 22 October and hitting a low for the year of 15,057 on 25 June. Total market capitalisation of companies listed with Borsa Italiana stood at Euro 438.2 billion at the end of 2013, up 19.9% from the end of 2012.

At the same time, trading volumes increased in 2013, going to show the growing interest in securities, rising from an average daily amount of 2 billion in 2012 to 2.2 billion in 2013. There was renewed interest in the stock market in 2013 with respect to both trading volumes and also with respect to IPOs (20 new admissions), and this may provide a further contribution to the recovery of the Italian economy.

There was a steady increase in bond trading also in 2013. The MOT (Italian bond market) recorded a new historic high in amounts traded, at Euro 328.6 billion (+2.2% from 2012). The placement of the BTP Italia was particularly positive, and on 5 November 2013 established a new record for trading in a single sitting on the bond markets of Borsa Italiana with 252,688 contracts, amounting to over Euro 18.3 billion.

1.2. The Banking System (2)

1.2.1. Operating and regulatory background

The fragility of the economic system and the continuing uncertainty on recovery is reflected on the financial market. Italian banks have initiated a process to strengthen risk monitoring, first with respect to liquidity, and then for loans, in addition to significant strengthening of equity position - especially through share capital increases - along with strict cost-cutting policies. All these initiatives, supported by the Supervisory Authorities, will continue to characterise the year 2014.

The constant support provided by the ECB with substantial refinancing made available in 2012 and then in 2013 normalised the liquidity position of the banks.

The expectation of a progressive reduction in monetary stimulus measures, especially with respect to refinancing with the Eurosystem, will mean that these measures will have to be replaced with resources that will have to be independently obtained by the banking system.

(2) Formulated by the Banca Popolare dell’Alto Adige from sources taken from the International Monetary Fund, World Economic Forum, Bank of Italy, ISTAT, chamber of commerce information and financial news.

The exposure of Italian banks to government bonds has increased significantly since the beginning of last year due to the steep reduction in income corrected for loan risk, the relatively high returns from government bonds and the high liquidity achieved through the two 3-year Eurosystem refinancing transactions.

The recovery of the economy and the return to normal credit market conditions, specifically the progressive reduction of the cost of risk, should allow lending to increase again, also to support families and companies. The progressive rebalancing of the public accounts and the implementation of growth support reforms should help the country emerge from the current unbalanced situation without negative impacts on the monetary or financial markets.

Ongoing negative trends in lending are due to the prolonged negative economic situation, which curbs demand for credit and places conditions on supply due to the continued and significant deterioration of borrower creditworthiness, one of the main reasons behind the increased fragility of the financial statements of the banking system in the last few years.

In the second quarter of 2013, the annual rate of new doubtful loans reached 2.9%, especially in the corporate sector. In June 2013, gross impaired positions (doubtful, substandard, restructured and past-due loans) amounted to 300 billion. This amounted to about 190 billion after write-downs, of which a little more than 70 refers to doubtful loans. The percentage of gross impaired positions to the whole amounts to 14.7%, decreasing to 9.6% after write-downs. Losses on loans absorbed three-quarters of operating profit margins in the first half.

The difficulties in the credit system meant that repositioning processes had to be initiated, which will take some time to complete. The pressure on banks to deleverage their balance sheets continued to a significant extent in 2013 and through 2014.

The profound changes that have been occurring have changed the way that companies access the credit market. The pursuit of alternative sources of financing from banks - including mini-bonds for example - will continue to characterise credit markets for years to come.

Banks will be required to be more scrupulous in ensuring that their ALM (asset-liability management) is well-balanced, and especially to keep an acceptable balance between funding and loans.

The banking system as a whole is preparing to face more a more highly regulated, competitive arena in the future, also due to the strengthening of equity position over the past few years. This equity strengthening trend will continue for the foreseeable future. The Supervisory Authorities showed Italian banks a number of different ways to increase regulatory capital some time ago.

In December, the Bank of Italy published the new supervisory rules regarding the organisation and corporate governance of banks, and submitted them to the public for consultation. These rules, in line with the internal control system rules published in June 2013, require further significant reinforcement of governance instruments to monitor risk assumption processes, the proper supply of credit to the economy, management of conflicts of interest and to increase regulatory capital.

The revision of the governance structures of cooperative banks aims to encourage capital contribution by new members and so increase controls on the work done by management through a less fragmented shareholding structure.

The requests by the Supervisory Authority appear to be particularly significant in relation to the composition of the managing bodies, where significant simplification has been requested along with the progressive assumption of more responsibility by the individual directors who are requested to get more involved in bank governance activities.

The other aspect that will probably be decisive in order to adequately position the new competitive framework is to reduce operating expenses. Current cost-income ratio levels are no longer sustainable considering the current unit margin levels of day to day operations, and will probably fall further.

Therefore, there can only be a return to profitability if sharp cost cutting measures are put into place in the current situation of significant reductions in banking income, the high cost of risk, reduced margins and lower demand for investment services. It will be necessary to review processes and structures in both central departments and the distribution channels. On-line and automated channels should focus on distributing highly standardised services with low added value. The development of the branch network and customer service with staff-customer contact will increasingly focus on providing more complex products and higher added value services.

1.2.2. Loans and funding [3]

Euro funding from customers in all the banks in Italy, represented by resident customer deposits [4] and bonds (net of those repurchased) fell yoy by 1.8% as at the end of 2013. Bank funding from resident customers stood at 1,730.6 billion. At the end of 2007 - prior to the beginning of the financial crisis - it amounted to about 1,513 billion, with a 218 billion increase between the end of 2007 and now.

Funding fell by 30.9 billion between the beginning and the end of 2013. Resident customer deposits increased by +1.9% (+22.7 billion) while bond funding fell by -9.4%, with a reduction in absolute terms of 53.7 billion. Trends in deposits from abroad were still negative at the end of 2013.

	Funding (Deposits and bonds)		**Resident customer deposits [5]**		**Bonds [6]**	
	€ mln	Change % y/y	€ mln	Change % y/y	€ mln	Change % y/y
Dec. - 2012	1,761,548	1.62	1,192,391	6.21	569,157	-6.83
Jan. - 2013	1,751,470	2.46	1,178,952	6.66	572,518	-5.23
Feb. - 2013	1,755,949	2.44	1,193,959	7.18	561,990	-6.36
Mar. - 2013	1,758,562	1.09	1,209,344	6.29	549,218	-8.74
Apr. - 2013	1,745,574	1.23	1,212,197	6.94	533,377	-9.72
May - 2013	1,737,611	1.14	1,207,184	6.80	530,427	-9.75
Jun. - 2013	1,733,538	0.55	1,204,581	5.69	528,957	-9.49
Jul. - 2013	1,720,989	0.25	1,198,500	5.70	522,489	-10.34
Aug. - 2013	1,726,178	0.78	1,206,488	6.17	519,690	-9.86
Sep. - 2013	1,718,173	-1.11	1,201,102	3.33	517,071	-10.08
Oct. - 2013	1,732,851	0.19	1,212,160	5.06	520,691	-9.57
Nov. - 2013	1,733,884	0.60	1,216,431	5.69	517,453	-9.63
Dec. - 2013	1,730,591	-1.76	1,215,084	1.90	515,507	-9.43

The average interest rate of bank funding from customers (including the return from the deposits, bonds and repurchase agreements in euros, applied to the family and non-financial company sector) amounted to 1.89% at the end of 2013 (2.08% at the end of 2012). The deposit rate in euros applied to families and non-financial companies stood at 0.98% (1.25% in December 2012). The rates on repurchase agreement transactions fell to 1.50% from 3.03% at the end of 2012, while the bond yields rose to 3.44% from 3.36% at the end of 2012.

(figures in %)	**Bank interest rates: families and non-financial companies**				
	Deposits in Euro	**Deposits in current accounts in Euro**	**Repurchase agreements**	**Bonds**	**Funding (deposits, repurchase agreements and bonds)**
Dec. - 2012	1.25	0.54	3.03	3.36	2.08
Jan. - 2013	1.17	0.49	2.97	3.37	2.05
Feb. - 2013	1.16	0.49	2.64	3.39	2.03
Mar. - 2013	1.16	0.52	2.58	3.43	2.03
Apr. - 2013	1.14	0.49	2.33	3.43	2.00
May - 2013	1.09	0.49	2.18	3.43	1.97
Jun. - 2013	1.08	0.49	2.18	3.42	1.96
Jul. - 2013	1.05	0.47	2.18	3.41	1.94
Aug. - 2013	1.04	0.47	2.15	3.43	1.93
Sep. - 2013	1.02	0.44	2.03	3.43	1.92
Oct. - 2013	0.99	0.42	2.05	3.46	1.91
Nov. - 2013	0.99	0.42	1.74	3.44	1.89
Dec. - 2013	0.98	0.43	1.50	3.44	1.89

3

At the end of 2013, the rate of decline in bank loan trends began slowing down. Figures show that total loans to residents in Italy (private sector plus the public administration not including repurchase agreements with central governments) stood at 1,845.5 billion, down 4.3% (1,927.8 billion at the end of 2012). At the end of 2007 - before the crisis began - these loans amounted to 1,673 billion, with an absolute increase in value of 172.3 billion.

Loans to residents in Italy in the private sector stood at 1,587.2 billion, compared to the 1,660.1 billion at the end of 2012 (-4.4%). They amounted to 1,450 billion at the end of 2007 (+137 billion approximately between 2007 and now).

Loans to families and non-financial companies stood at 1,424 billion, down 3.4% from the end of 2012 (1,474.7 billion). The balance was 1,279 billion at the end of 2007, with an increase in the period of over 145 billion in absolute terms.

	Total private sector and public administration loans		**Private sector**			
			Total		**of which: to families and non-financial companies**	
	€ mln	Change % y/y	€ mln	Change % y/y	€ mln	Change % y/y
Dec. - 2012	1,927,860	-1.07	1,660,085	-1.85	1,474,704	-2.50
Jan. - 2013	1,916,099	-1.58	1,649,645	-2.52	1,474,188	-2.79
Feb. - 2013	1,911,873	-1.46	1,646,984	-2.13	1,472,083	-2.60
Mar. - 2013	1,910,896	-1.95	1,643,217	-2.26	1,461,799	-2.54
Apr. - 2013	1,896,146	-2.73	1,631,054	-3.01	1,458,066	-3.11
May - 2013	1,893,103	-2.71	1,627,067	-3.13	1,455,154	-3.14
Jun. - 2013	1,884,046	-3.23	1,621,155	-3.62	1,446,366	-3.44
Jul. - 2013	1,877,207	-3.58	1,616,955	-3.79	1,448,442	-3.20
Aug. - 2013	1,860,407	-3.80	1,600,592	-3.97	1,433,730	-3.51
Sep. - 2013	1,861,583	-3.89	1,601,542	-3.91	1,432,796	-3.17
Oct. - 2013	1,850,473	-4.13	1,592,599	-4.11	1,426,142	-3.70
Nov. - 2013	1,843,000	-4.51	1,584,890	-4.72	1,419,042	-4.46
Dec. - 2013	1,845,514	-4.27	1,587,244	-4.39	1,424,000	-3.44

The average weighted interest rate of loans to families and non-financial companies processed by the Italian Banking Association "ABI" amounted to 3.83% as at December 2013, up by 4 bps from December 2012. It was 6.18% at the end of 2007. The interest rate on new loans in Euro to non-financial companies stood at 3.54% in December 2013 (3.65% in December 2012). It was 5.48% at the end of 2007. The interest on loans to families to buy homes in Euro stood at 3.40% in December 2013 (3.69% at the end of 2012). It was 5.72% at the end of 2007.

(figures in %)	**Bank interest rates on loans in Euro to families and non-financial companies in Italy**				**ECB reference interest rate**	**Interbank rates for the Eurozone**	
	Total	**of which: active current accounts and revolving loans**	**of which: to non-financial companies (new operations)**	**of which: to families to buy homes (new operations)**		**3-month Euribor**	**10 year IRS**
Dec. - 2012	3.79	5.48	3.65	3.69	0.75	0.19	1.62
Jan. - 2013	3.79	5.61	3.62	3.70	0.75	0.20	1.76
Feb. - 2013	3.77	5.56	3.48	3.76	0.75	0.22	1.85
Mar. - 2013	3.76	5.49	3.50	3.69	0.75	0.21	1.71
Apr. - 2013	3.78	5.54	3.60	3.72	0.75	0.21	1.57
May - 2013	3.77	5.50	3.52	3.71	0.50	0.20	1.62
Jun. - 2013	3.76	5.47	3.35	3.64	0.50	0.21	1.90
Jul. - 2013	3.78	5.48	3.53	3.68	0.50	0.22	1.94
Aug. - 2013	3.78	5.48	3.49	3.63	0.50	0.23	2.12
Sep. - 2013	3.81	5.52	3.56	3.68	0.50	0.22	2.21
Oct. - 2013	3.82	5.58	3.50	3.60	0.50	0.23	2.11
Nov. - 2013	3.80	5.46	3.44	3.54	0.25	0.22	2.00
Dec. - 2013	3.83	5.42	3.54	3.40	0.25	0.28	2.08

1.2.3. Assets under management

The figures available on the validity of the total administered assets with Italian banks (assets under management and administered assets) show a balance of 1,454.7 billion at the end of 2013 (about 49 billion less than the end of 2012, and -3.3%).

43.3% of the wealth is held by consumer families (-8.6% from the end of 2012), 22.2% by financial institutions (down 2.4%), 23% by insurance companies (up 5.5%), 5.3% by non-financial companies (down 4%) and about 3.5% by the public administration and family businesses.

About 2.7% of total securities from non-residents increased by about 10% over the past year.

Asset management stood at Euro 89.2 billion at the end of the third quarter (+approx. 12.1 billion over the third quarter of 2012). At the end of the third quarter, the total assets of the individual assets under management of the banks, the stock brokerage companies and the UCITs in Italy amounted to about Euro 599.6 billion, up by about 46% and +189 billion over the third quarter of 2012. Asset management of the stock brokerage companies, amounting to about 10.2 billion in the third quarter of 2013, showed growth of +12.7% over the same period in 2012 (+1.1 billion) while asset management for the UCITs, amounting to Euro 500.2 billion is up 54.2% (+175.8 billion compared to the third quarter of 2012).

The open-end fund assets governed by Italian and foreign law amounted to Euro 559 billion at the end of 2013, 29.9% of which comprising Italian governed funds and the remaining 70.1% by funds governed by foreign law. The composition of the assets by type of funds was as follows: flexible funds amounted to 17.8% as at December 2013 (it was 14% at the end of 2012), equity funds, 21.1% (it was 20.6% at the end of 2012), bond funds, 48.5% (it was 51.6%), hedge funds, 1.1% (it was 1.5%), and money market funds amounted to 4.8% (it was 6.7%). The portion of balanced funds increased to 5.8% from 4.3% at the end of 2012. Finally, there was a positive flow of net funding from open-end funds of Euro +2.7 billion, with an increase of 48.7 billion compared to the end of 2012.

Financial assets of families in Italy stood at about Euro 3,713 billion in the third quarter of 2013, with an increase over the third quarter of 2012 of 1.7%. More specifically:

- banknotes, currency and bank deposits (both on demand and term) are up by 3.8%. The percentage of this with respect to total financial assets of families is 32.1% (31.5% in the third quarter of 2012);
- the percentage of mutual funds is up by 17%. The percentage of this with respect to total financial assets of families is 8.2% (7.1% in the third quarter of 2012);
- life insurance, pension funds and post employment benefits are up by 2.8%. The percentage of this is 18.0% (17.8% in the third quarter of 2012);
- shares and equity investments are up by 4.8%. The percentage of this is 20.7% (20.1% in the third quarter of 2012);
- bonds are down by 10.4%. The percentage of this with respect to total financial assets of families is 16.9% (19.2% in the third quarter of 2012).

1.3. The competitive position of Banca Popolare · Volksbank

On the one hand, Banca Popolare • Volksbank has had to stay as close as possible to customers in recent years, while simultaneously ensuring that shareholders obtained adequate profitability and remuneration. Aspects related to risk control, the strengthening of capital adequacy and constant cost control have taken on increased importance.

We believe that these issues will continue to be important in the future. The ability to identify and adapt to the phases of the economic cycle and identify long-term trends will underlie the strategic framework in which Banca Popolare • Volksbank will operate in coming years.

However, long term objectives will be pursued in tandem with short term requirements in accordance with the operating environment and context. Profit margins are expected to continue to fall in the foreseeable future. In addition, it will be necessary to continue with cost control measures and capital strengthening in order to achieve success in the future. Developments in the economic and competitive framework, which are subject to constant change, will determine what other actions need to be taken.

At the same time, Banca Popolare • Volksbank will continue to develop its core operations, trusting in its capacity to serve both private customers and companies, with particular focus on the small and medium sized enterprises which formed the basis of the positive results achieved in recent years. The capacity to continue to offer bank services and products that meet contemporary needs of customers, especially in the complex market situation that exists nowadays, will be a strategic factor for success.

Since it is a cooperative bank, the business model of Banca Popolare • Volksbank is based on strengthening the relationship with its shareholders, introducing innovation into the bank-customer relationship, aiming to meet customer requirements through a multi-channel approach, constant development of the branch operating model directing it towards customer service, and reducing the administrative tasks of staff in contact with customers to a minimum while simultaneously enhancing the use of alternative channels to the counter service in order to minimise the costs related to providing this type of service.

The challenges linked to development of the wealth management department will be based on the capacity to create instruments that meet specific requirements of the different types of customer served, and reducing execution times.

Long-term trends, including developments in the law and integrated markets, regulatory capital management and technological developments will continue to have wide ranging effects on the economy and the reference market of Banca Popolare • Volksbank.

The goal of Banca Popolare • Volksbank is to ensure increased profitability in a context of risk control, maintaining adequate levels of growth in share value and profitability for the shareholders.

1.4. Long Term Trends

1.4.1. Unified European supervision and competitive context

Banking union is a fundamental step in the process of integration of the European Union. As things stand, it provides for a single supervision mechanism, a single resolution mechanism and in view of the budgetary union, single deposit guarantee schemes.

The single supervision mechanism - in which the ECB and national supervisory authorities will play a central role - is scheduled to start up at the end of 2014. It provides that the ECB will supervise the most significant banks in tandem with the work carried out by national supervisory authorities.

The banks that are not subject to supervision by the ECB will be subject to direct supervision by the national authorities. However, this national supervision will also be carried out under a new set of rules based on the guidelines established by the ECB. Banca Popolare • Volksbank is a bank that will be supervised by the national authorities.

The new supervisory context will therefore affect all banks, including those that are not supervised directly by the ECB even though initially to a lesser extent. We expect this single supervision to develop towards increasingly greater integration.

ECB's supervision will inevitably be directed towards supranational application of the analysis and measurement instruments of bank risk in order to monitor the systemic risks that were behind recent imbalances.

This system will have effects on monetary policies and the financial markets, accelerating the integration processes in particular. Even the gradual definition of single resolution mechanisms in crisis situations and deposit guarantee schemes will lead to a significant acceleration in the integration of the banking system and the markets. The competitive arena is set to change radically in the next few years.

In the first half of this year, the ECB will initiate a check on the condition of the supervised intermediaries on a centralised basis, prior to introducing the single supervision mechanism. Bank balance sheets will be reviewed and there will be asset quality reviews carried out also, along with a stress test. Other aspects will also be examined such as the financial leverage, governance and more generally, the organisation. The need to check the condition of the individual banks using a rigorous process, and the transparency of these conditions with respect to the markets, will have significant effects on the competitive context and will guide the strategic and management choices of those banks, including in the short term.

Issues now being focused on such as standardisation of supervision and accounting procedures, especially in the identification and measurement of impaired positions, measurement of weighted risk assets, off-balance sheet items and level 3 financial instruments (unlisted and without measurement models based on market parameters), are already directing management choices and changing the market context in which Banca Popolare • Volksbank works.

More specifically, the significant capital strengthening initiated by many banks subject to single supervision will require an extraordinary market commitment. Limitations in the distribution of dividends, the sale of assets, cost control and strong monitoring of remuneration policies will be other factors that support the capitalisation efforts.

1.4.2. Regulation and Capital Management

The new requirements expected from adoption of the new Basel III regulatory framework on capital adequacy and liquidity risk will make it increasingly important to use capital efficiently. The ability to allocate capital as efficiently as possible to the various activities will have a decisive impact on development of the Banca Popolare • Volksbank business.

The new regulations require further improvement of the weighted risk capital management instruments. Introduction of capital allocation instruments based on adequate risks returns, the ability to develop the most profitable segments and eliminate or reduce segments with low profitability will take on increasing relevance.

Therefore a gradual increase in the use of instruments that can analyse the allocation of capital at a more microscopic level, supported by adequate technology for both the loan portfolio instruments and the individual financial instruments of the owned portfolio, will affect the decision-making processes which must be integrated with evaluation of the capital absorption required by the various alternatives.

These changes in the decision-making processes will have potential effects on customer relations also. Capital absorption and profitability will take on greater importance when deciding on the products and services to make available, and in the customer segmentation, including by diversifying the service profiles. The sales processes may develop customer profiling that takes account of the risks assumed, their weighting and other absorption factors that could change the assessment of their potential profitability.

Even though Basel III provides for an introduction on a phased basis, which will only be completed by 2019, Banca Popolare • Volksbank expects its individual capital requirement to be significantly higher than the minimum required by law, already starting from 2014.

1.4.3. Technology

Technology is a strategic factor in the ability to respond to developments in the regulatory framework, to offer new products and services and to optimise operating efficiency and risk management. Banca Popolare • Volksbank has always placed great importance on adopting innovative technological solutions. In addition to the instruments made available to the customers, the Bank uses hi-tech platforms to manage own portfolios, liquidity risk and for back-office activities.

In order to keep up with technological developments, the Banca Popolare • Volksbank must continuously seek ways to improve operating and procedural efficiency. The gradual automation of the back-office procedures should follow on naturally from the progressive increase of highly automated on-line channels employed. We therefore expect an increasing volume of transactions to be completely automated, including with respect to back-office procedures.

It is essential to avail of technological developments in order to efficiently deal with risks also. Even though subjective evaluation is decisive in these matters, the speed with which information is processed, the completeness of the databases available and the accuracy of the data acquired are all essential to ensure that the risk management process is as effective as possible.

The ability to adequately express the fair value of financial instruments is especially relevant, also in relation to development of the regulatory framework, for the preparation of the required stress scenarios for various products and cases.

The ability to gradually adapt to changes in the regulatory environment which is becoming increasingly demanding in terms of risk control and the overall adequacy of the internal control system, must be accompanied by the gradual development of the integrated risk management, compliance and internal audit computer systems.

1.5. The business plan

On 13 December 2013, the Board of Directors decided on the 2014 - 2016 strategic plan which identifies the guidelines and actions to take over the next few years.

The competitive framework provides for a scenario of a gradual return to normalisation. The availability and cost of funding - for which certain signals of a return to normality emerged already in 2013 - also show that competitive pressure is expected to continue for the foreseeable future, with modest growth in retail funding, and return to more stable components.

Credit volumes should improve slightly: a return to growth for families and companies is expected for 2015, albeit to a limited extent. Further limiting factors will be regulatory restrictions on capital and liquidity, and the consequent need to monitor any funding gaps.

The ongoing weak economic situation means that levels of credit risk will have to stay higher than average for the long term. The re-absorption of this risk will mean that levels of adjustment will have to stay high for the foreseeable future.

There will still be pressure on profit margins, also due to the delicate balance that exists between profitability and credit risk.

Pressure from competitors will continue to build, also due to more aggressive commercial policies, both for the retail customers and the corporate customers. The possible stages of consolidation that could involve the banking system would probably lead to only temporary or short-term benefits. There will be increased competitive pressure in the next few years.

Continued development of shareholder relations will be a strategic factor for consolidation and growth in the medium-long term.

The following strategic guidelines have been identified for the 2014-2016 period:

1. optimisation of liquidity and capital (capital adequacy, optimisation of capital allocation, regulatory leverage adequacy);
2. wide-ranging initiatives to manage risks (measurement procedures and risk allocation, strengthening of the internal control system, lending policies, loan granting and management procedures, monitoring market and operating risks);
3. review of the distribution model (customer segmentation, review of the range of products/services, planning and training of the resources, review and reinforcement of the commercial procedures, strengthening of management control with a focus on productivity and profitability, branch development and multi-channel systems);
4. development of the commercial potential with customers to increase the productivity/profitability (focus on the areas of expansion, increase in market share, diversification and focus on long-term relationships, specific development aimed at customers, reinforcement of image and brand, optimisation of pricing and development of innovative channels);
5. improvement in behaviour and interpersonal skills of the human resources (motivation of the staff, development of management personnel and the key figures in the network, planning of growth paths and development of succession planning process);
6. development of corporate culture;
7. rationalisation of costs and operating processes (operating efficiency, automation of non-value added operations, review of the main cost items with a view towards optimising them).

1.6. Significant Events during the year

Renewal of corporate offices

The shareholders' meeting of 19 April appointed the directors for the positions which had to be renewed. The four candidates from the list submitted by the Board of Directors were elected: Arno Eisendle, Philip Froschmayr, Lorenzo Salvà and Margit Tauber.

Free share capital increase

The extraordinary shareholders' meeting of 19 April 2013 decided on a free share capital increase in accordance with article 2442 of the Civil Code, for a total nominal amount of Euro 76,274,700.00, to be made by transfer of following available reserves to the share capital:

a) reserve for the revaluation of the property to fair value as deemed cost upon first application of the international accounting standards for a total amount of Euro 46,061,148.04;

b) reserve for the monetary revaluation of the property made in accordance with the special revaluation laws for a total amount of Euro 28,388,433.73;

c) other profit reserves for a total of Euro 1,825,118.23.

The free capital increase was made through the increase of the nominal value of each ordinary share from Euro 2.00 to Euro 4.00. Therefore there was no increase in either the number of shares in circulation or in the amount of shareholders' equity.

The transaction allowed the reserves set out in points a) and b) above to be included in the Core Tier 1 calculation for the purposes of the prudential supervisory provisions, previously only included in the Tier 2 calculation.

At the same time the Shareholders' Meeting approved the consequent changes to the articles of association.

The charges related to the free share capital increase were entirely borne by the Bank.

General inspection of the Bank of Italy

The Bank of Italy commenced a general inspection of all divisions of the Company on 15 October 2012, which ended on 31 January 2013.

An inspection report was delivered on 5 April 2013 which gave important indications on how to improve the governance, control systems and overall corporate efficiency in the perspective of the maximum collaboration and transparency that there has always existed between the bank and the Supervisory Authority.

New head office

Work began on building the new head office of the Bank during 2013. This will be in Via Macello, 55, in the same area where the previous head office had been located. The work should be finished by December 2014.

The total cost of the work is estimated to be Euro 21 million, after VAT. The main figures relating to the building are as follows:

Main summary data relating to the new head office

No. of floors in building:	7, with 3 underground and 4 above-ground
Energy certification	Energy certification (casa clima) "A"
Date first stone laid	16 September 2013
Date offices expected to be ready	31 December 2014
Total cubic metres	70,000 m^3 , of which 42,000 m^3 underground and 28,000 m^3 above-ground
Amount of investment	Euro 21 million, after VAT

Without recourse transfer of a portfolio of doubtful loans

In January, Banca Popolare • Volksbank initiated a competitive procedure to transfer a portfolio of loans classified as “doubtful”.

The loans mainly relate to advances given on current bank accounts, advances on current bank accounts with collateral, advances on bills of exchange and invoices, unsecured loans and mortgage loans.

The transfer was finalised in February and involved transactions relating to 421 counterparties for a nominal capital value of Euro 14.7 million.

This transfer led to the cancellation of the aforesaid transactions from the financial statements.

Display of Interest for a possible business combination with Banca Popolare di Marostica

In the second half of the year, Banca Popolare • Volksbank initiated a feasibility study regarding a possible business combination with Banca Popolare di Marostica S.c.p.a. a r.l., including specific due diligence checks and analysis of possible structures to carry out the transaction, including through external advisors.

Banca Popolare di Marostica ended the negotiations in December, including with reference to the Shareholders’ Meeting held on 19 January 2014 which had renewed the corporate bodies.

The Board stated that the possible business combination between the two banks would be a significant strategic option that could create value for both companies, their shareholders, employees and both territories covered, considering the sizes and operating characteristics of the two banks.

During the year, further expressions of interest were made relating to possible growth areas via external lines, also following specific in-depth investigations, however, the necessary conditions were not met and the transactions did not go ahead.

Banca Popolare • Volksbank is still interested in evaluating possible business combinations, which, in the interest of the shareholders, would allow it to achieve further growth which is necessary to ensure that it meets its goal to create value.

1.7. Results of Operations

1.7.1. Profit/loss

Presentation of economic results

Below is an outline of the reclassified income statement for a better understanding of the economic results. As required by Consob communication no. DEM/6064293 of 28 July 2006, following is a description 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 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 and 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

The results of operations in 2013 confirm the well-balanced position of aggregate balance sheet items, the solid financial position and adequate liquidity.

Earnings were positive in the finance segment, in line with the positive result achieved the previous year. Considering the deeply rooted crisis and the lack of economic growth that has continued for a particularly long period, day to day operations fell back considerably even though they made a significant contribution towards the overall profitability. Even in the year just ended, as before, the reduction in total profitability, mainly due to the significant write-downs on loans and other assets, is due to the deep links between the Bank and the territory it operates in.

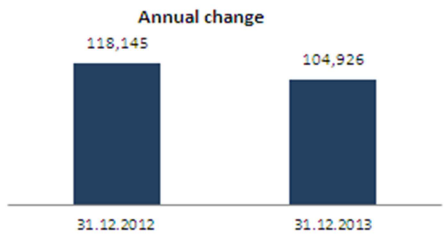
Retail banking performance - which is the core business of the Company - is down compared to 2012. More specifically, interest margin and net fee and commission income have decreased mainly since the market has substantially stable funding costs and interest rates applied to customers have been reduced.

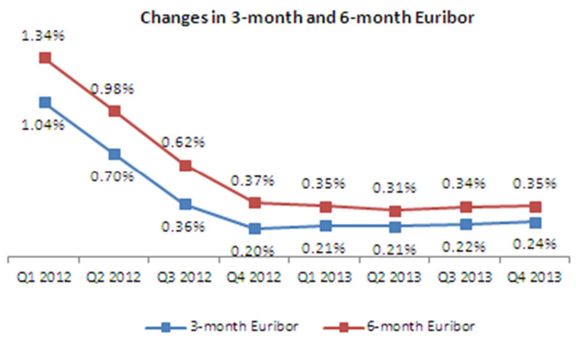
Fee and commission expense also included the charges related to the liabilities issued by the Company and used for the Long Term Refinancing Operations promoted by the European Central Bank.

Losses on impairment of loans are down compared to the previous year, due in part to the particular focus on credit risk oversight during the year. The cost of risk stood at 38 bps in 2013.

Reclassified income statement	**31.12.2013**	**31.12.2012**	**Change**	
(thousands of Euro)			**Absolute**	**%**
Net interest	104,926	118,145	(13,219)	-11.2%
Dividends and profits (losses) on investments carried at equity	(462)	(6)	(456)	7135.5%
Financial margin	**104,463**	**118,139**	**(13,675)**	**-11.6%**
Net fee and commission income	60,096	65,246	(5,150)	-7.9%
Net financial result	7,162	8,407	(1,244)	-14.8%
Other operating expenses/income	16,548	12,602	3,946	31.3%
Other operating income	**83,806**	**86,254**	**(2,448)**	**-2.8%**
Net operating income	**188,269**	**204,393**	**(16,124)**	**-7.9%**
Personnel expenses	(73,601)	(73,740)	138	-0.2%
Administrative expenses	(52,993)	(51,015)	(1,979)	3.9%
Net adjustments to property and equipment and intangible assets	(6,949)	(14,803)	7,854	-53.1%
Operating expenses	**(133,544)**	**(139,558)**	**6,014**	**-4.3%**
Operating profit (loss)	**54,725**	**64,835**	**(10,110)**	**-15.6%**
Net adjustments to loans, guarantees and commitments	(18,529)	(26,359)	7,830	-29.7%
Net adjustments to other assets	(352)	(1,839)	1,487	-80.8%
Net provisions for risks and charges	(311)	(1,096)	785	-71.6%
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	32	(5)	38	-723.5%
Income (loss) before tax from continuing operations	**35,566**	**35,536**	**30**	**0.1%**
Taxes on income from continuing operations	(16,799)	(13,954)	(2,846)	20.4%
Net income (loss)	**18,767**	**21,583**	**(2,816)**	**-13.0%**

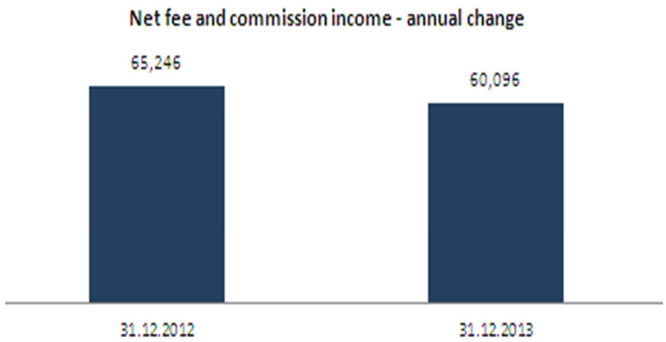
Net interest is down by 11.2% to 104.9 million (-13.2 million compared to the 118.1 million in 2012) The year 2013 was characterised by a historically minimum interest rate, partly due to the particularly acute recession. In this context, lending volumes stayed substantially the same even though it was necessary to keep strict control over the assumption of risk. The reduction was mainly due to the reduction in interest rates applied to the customers: interest income from customers fell by 7.5% (-12.5 million) while interest expense on amounts due to customers and debt securities issued increased by 13.7%. Interest income on financial instruments increased by 8.5% mainly due to the increase in volumes invested.





Dividends and profits (losses) on investments carried at equity includes the dividends approved in the year and the adjustments to investments in associates and companies subject to joint control due to adjustment of the carrying amount to the losses incurred in the year.

Net fee and commission income, amounting to Euro 60.1 million, is down (-7.9%) mainly due to the reduction in income from landholdings and management of current accounts, down 8.5% (-3.1 million) due to the aforementioned reduction in the terms and conditions applied to the customers. Fee and commission expense includes the costs related to the guarantee issued by the Ministry of Economy and Finance on bonds used as collateral for refinancing transactions with the ECB.



The net financial result was significantly positive, standing at +7.2 million compared to +8.4 million in the previous year.

In particular, profits (losses) on trading was positive, amounting to Euro 1.5 million, compared to the 2012 result (+3.3 million) in a particularly complex and highly volatile market, along with the result from instruments classified as AFS, Euro +4.9 million, up 2.8 million from 2012.

The slight increase in interest rates in 2013 for the first time since 2010, partly due to the lack of new liquidity measures (apart from Japan), made it necessary to identify the right sectors to achieve positive or satisfactory income. 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.

Since the stock market had a particularly positive year, the investments made in that area showed the benefits. More specifically, certain share funds that we selected exceeded the reference benchmark, showing a positive performance. The diversification of the bond portfolio and investment funds with a share component were further balanced with currency positions - to a limited extent - and alternative investment products in order to optimise the risk/return profile.

The profits on disposal or repurchase of financial assets available-for-sale referred to profits deriving from the sale of AFS securities, especially towards the end of the year in order to benefit from the particularly positive market situation.

The profits on disposal or repurchase of financial liabilities fell by 51.9% to 566 thousand (1.2 million in 2012) and were related to the profits from the repurchase of bank bonds at a lower price than the issue price.

The profits on financial assets and liabilities designated at fair value through profit and loss amounted to 206 thousand (1.1 million in 2012) and were related to the net result from the 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. The measurement amount reflected the type of hedging used in those transactions.

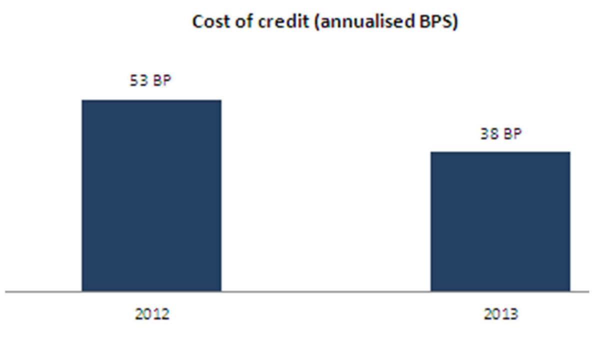
Other operating expenses/income amounting to 16.5 million (12.6 million in 2012) increased by 31.3%, partly due to the increase in the amounts recovered from third parties for costs incurred.

Overall, other operating income stood at 83.8 million, down by 2.8% compared to the 86.3 million in 2012.

Operating expenses amounted to 133.5 million, down by 4.3% compared to the 139.6 million of the previous year. More specifically:

- personnel expenses were 73.6 million (-0.2%). As already mentioned above, and as detailed in the financial statements, actuarial losses (gains), amounting to -2.8 million, were recognised under a specific reserve in shareholders' equity starting from 2012, according to the new version of IAS 19, applicable as of last year;
- administrative expenses amounted to 53.0 million (+3.9% compared to the 51.0 million of 2012) mainly due to the increase in stamp duty charges (+1.9 million). Since the customers have to incur this duty, it is not an administrative charge for the bank. Without that component, administrative expenses amounted to 51.1 million, substantially unchanged from the previous year;
- net adjustments to/recoveries on property and equipment and intangible assets were down by 53.1% to 6.9 million. This decrease can mainly be attributed to non-recurring components related to the 6.8 million write-down of owned properties in the previous year. Without this effect, operating charges would be down by 1.1 million and 7.1% compared to 2012, proving the constant attention paid by the bank to controlling costs.

Net losses on impairment of loans or other financial activities stood at 18.5 million, down by 29.7% compared to the 26.4 million of the previous year. Due to the constant monitoring of risk assumption, the reduction during the year corresponds to the significant reduction in the profit margin, partly due to the constant efforts made to support local businesses and families. The overall cost of credit was 38 bps, down from the 53 bps of 2012.



The increase in loan monitoring was continued through 2013, having been started in 2012. The total adjustment provisions amount to 3.00% of gross loans (2.98% in 2012). The hedging of doubtful loans is 40.89% (44.75% in 2012), which is also down because of the sale of a portfolio of doubtful loans which had already been fully written-down. The hedging of substandard loans is 9.81% (9.71% in 2012) and the percentage of write-down for performing loans stood at 0.51%, up from 0.46% in 2012.

Other minor components of the item were as follows:

- profits on disposal or repurchase of low value loans for 188 thousand mainly relate to the aforementioned sale of the portfolio of doubtful loans;
- the net recoveries on impairment of other financial activities, amounting to 609 thousand, mainly refer to net recoveries on adjustments for loan guarantees and commitments.

Net adjustments to other assets, related to losses on impairment of investments classified as AFS instruments, amounted to 352 thousand.

Net provisions for risks and charges amounted to 311 thousand (1.1 million in 2012). The reduction compared to 2012 is mainly due to the loss of the provisions made in 2012 to hedge expected losses in petitions and lawsuits and the loss of the provision relating to the negative shareholders' equity of the subsidiary VOBA Invest S.r.l. in liquidation.

Gross income for the year is substantially the same at 35.6 million (35.5 million in 2012).

Taxes on income amounted to Euro 16.8 million (14.0 million in 2012). The net tax rate of 47.2% (39.3% in 2012) was significantly higher, primarily because of the increase in the 2013 IRES tax rate to 36.0%, compared to 27.5% in the prior year. Overall, the increase in the tax rate resulted in higher tax charges of 2.7 million.

Net income amounted to Euro 18.8 million, down by 13.0% compared to the 21.6 million in 2012.

1.7.2. Financial position

Presentation of the financial position

A reclassified balance sheet was also prepared in order to facilitate the reading of the balance sheet. The reclassification exclusively involved combining balance sheet items. More specifically, we 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 reclassified liabilities and net shareholders' equity item “Due to customers, debt securities issued and liabilities designated at fair value through profit and loss” includes the balance sheet liability items “Due to customers”, “Debt securities issued” and “Financial liabilities designated at fair value through profit and 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”;
- finally, the shareholders' equity “Share capital and reserves” includes the shareholders' equity items recorded under the liability items “Valuation reserves”, “Reserves”, “Share premium reserve” and “Share capital”.

Reclassified asset items	**31.12.2013**	**31.12.2012**	**Change**	
(thousands of Euro)			**Absolute**	**%**
Cash and cash equivalents	54,320	49,607	4,713	9.5%
Financial assets and investments	723,629	479,475	244,155	50.9%
Due from banks	119,225	156,512	(37,287)	-23.8%
Loans to customers	4,922,443	5,016,488	(94,045)	-1.9%
Property and equipment	104,397	103,090	1,307	1.3%
Intangible assets	42,581	43,658	(1,077)	-2.5%
Other assets	136,414	98,587	37,827	38.4%
Total	**6,103,009**	**5,947,416**	**155,592**	**2.6%**

Reclassified liability items	31.12.2013	31.12.2012	Change	
(thousands of Euro)			Absolute	%
Due to banks	645,875	771,855	(125,980)	-16.3%
Due to customers, debt securities issued and liabilities designated at fair value through profit and loss	4,617,779	4,354,637	263,141	6.0%
Financial liabilities held for trading	7,276	12,476	(5,200)	-41.7%
Other liabilities	203,293	189,385	13,908	7.3%
Shareholders' Equity:				
- Share capital and reserves	610,019	597,480	12,540	2.1%
- Net income (loss)	18,767	21,583	(2,816)	-13.0%
Total	**6,103,009**	**5,947,416**	**155,592**	**2.6%**

Bank Payables and Receivables

Interbank Relations	31.12.2013	31.12.2012	Change	
(thousands of Euro)			Absolute	%
Due from banks	119,225	156,512	(37,287)	-23.8%
Due to banks	645,875	771,855	(125,980)	-16.3%
Net banking position	**(526,650)**	**(615,343)**	**88,693**	**-14.4%**

The Company used the interbank market during the year only to ensure its short-term and immediate needs. As regards treasury activity, the net liquidity position on the interbank market at the end of the year showed a negative balance of 526.7 million, a further improvement on the 615.3 million in 2012.

Loans to Customers

Customer lending amounted to a total of 4,922.4 million, down by 1.87% compared to 31 December 2012, when the item stood at 5,016.5 million (-94.0 million).

Financing	31.12.2013	31.12.2012	Change	
(thousands of Euro)			Absolute	%
Current accounts	1,357,920	1,464,550	(106,630)	-7.28%
Repurchase agreements	19,635	34,074	(14,439)	-42.38%
Mortgages	2,987,456	2,933,125	54,331	1.85%
Credit cards, personal loans, and loans on salary	78,513	69,935	8,578	12.27%
Other transactions	478,919	514,804	(35,885)	-6.97%
Total	**4,922,443**	**5,016,488**	**(94,045)**	**-1.87%**

Short-term loans amounted to 1,856.5 million, up by 5.19% (+99.2 million) compared to the 2,013.4 million at the end of the previous year; the medium and long term loans, mainly represented by mortgage loans, showed an increase of 54.3 million (+1.85%) to 2,987.4 million.

Concerning loans to customers, the mortgage loans comprise 60.7% of net unimpaired loans, up compared to the 58.5% at 31 December 2012.

Current accounts comprised 27.5% of net customer lending, down from last year's 29.2%.

The continuing support to the economy and households is clearly seen by the distribution and trend of lending. Private lending rose compared to last year, by 2.01%. Lending to the business sector was down as a whole by -1.93%.

Customer Lending	31.12.2013	31.12.2012	Change	
(thousands of Euro)			Absolute	Absolute
Private individuals	1,760,589	1,725,892	34,697	2.01%
Manufacturing industry	1,448,710	1,461,636	(12,926)	-0.88%
Sales	375,565	402,246	(26,681)	-6.63%
Services	1,229,626	1,250,157	(20,531)	-1.64%
Public authorities, financial and insurance sector	107,953	176,557	(68,604)	-38.86%
Total	**4,922,443**	**5,016,488**	**(94,045)**	**-1.87%**

However, the ongoing support to the territory can be seen by the growth in impaired loans, a clear sign that the company, albeit profitable, was affected by the crisis. Net impaired loans at 31 December 2013 amounted to 366.2 million, up by 9.4% compared to 334.7 million of the previous year. The percentage on the total of net customer lending was 7.4%, significantly up compared to last year's 6.7%.

Impaired Loans	**31.12.2013**	**31.12.2012**	**Change**	
(thousands of Euro)			**Absolute**	**Absolute**
Gross amounts	494,991	467,025	27,966	5.99%
Adjustments	(128,827)	(132,300)	3,473	-2.63%
Net Balance	**366,164**	**334,725**	**31,439**	**9.39%**

Net doubtful loans rose by 12.3% to 152.1 million, compared to 135.5 million of the previous year. The degree of hedging was 40.9% compared to last year's 44.8%. The percentage of net doubtful loans to the total of net lending was 3.1%, significantly up from the 2.7% of the previous year. Risk monitoring means that the increase in the percentage of impaired loans to total loans can be limited.

Net substandard loans amounted to 133.9 million, substantially similar (+0.1%) compared to the 133.7 million of the previous year. The percentage of hedging stood at 9.8%, a slight increase on the 9.7% of the previous year. The percentage of net substandard loans over net lending stood at 2.7%, the same as the previous year.

Net restructured loans amounted to 41.8 million, a significant increase compared to the 27.3 million of the previous year. The percentage of write-downs stood at 14.4%, a decrease compared to the 20.1% the previous year.

Past-due and overdue loans amounted to 38.4 million, only a slight increase compared to the 38.2 million of the previous year. The percentage of write-downs stood at 4.8%, up from the 3.2% the previous year.

Net performing loans amounted to 4,556.3 million, a 3.1% rise over the 4,681.8 million of the previous year. The estimate of the collective impairment of performing loans led to a 23.3 million adjustment, up from the 21.6 million in 2012. The percentage of collective write-downs stood at 0.51%, up compared to 0.46% the previous year.

The percentage of gross impaired loans compared to gross lending stood at 9.8%, a 9.0% rise over the previous year.

The main indicators of hedging and asset quality are shown below:

Indices of loan hedging	**31.12.2013**	**31.12.2012**
Hedging of doubtful loans	40.89%	44.75%
Hedging of substandard loans	9.81%	9.71%
Hedging of restructured loans	14.48%	20.13%
Hedging of past-due loans	4.83%	3.24%
Hedging of performing loans	0.51%	0.46%

Asset quality	**31.12.2013**	**31.12.2012**
Gross impaired loans / gross loans	9.75%	9.03%
Net impaired loans / net loans	7.44%	6.67%
Gross doubtful loans / gross loans	5.07%	4.74%
Net doubtful loans / net loans	3.00%	2.62%
Gross substandard loans / gross loans	3.09%	2.70%
Net substandard loans / net loans	2.93%	2.86%
Degree of doubtful loan hedging	2.64%	2.59%
Degree of substandard loan hedging	2.72%	2.67%
Degree of impaired loan hedging	40.89%	44.75%
Degree of substandard loan hedging	9.81%	9.71%
Degree of impaired loan hedging	26.03%	28.33%

Financial assets

Treasury securities portfolio	31.12.2013	31.12.2012	Absolute	
(thousands of Euro)			Change	%
Financial assets held for trading (HFT)	57,807	104,184	(46,377)	-44.51%
Financial assets available-for-sale (AFS)	605,540	370,247	235,293	63.55%
Investments held to maturity (HTM)	55,126	1,080	54,045	5,003.35%
Investments in associates and companies subject to joint control	5,157	3,964	1,193	30.10%
Total	**723,629**	**479,475**	**244,155**	**50.92%**

This segment showed the following trends:

- financial assets held for trading, consisting of 43.7 million in debt securities and 14.1 million in financial trading derivatives (of which 9.3 million pertaining to the fair value option), amounted to 57.8 million, down by 44.5% compared to 104.2 million in 2012;
- financial assets available-for-sale, consisting of 520.9 million in debt securities, 19.7 million in equity instruments and 64.9 million in investment funds, amounted to 605.5 million, a considerable increased compared to 370.2 million in 2012 (+83.7%);
- the investments the Company is capable and intends to hold to maturity amounted to 5.1 million, a rise compared to 3.9 million in 2012, due to the recognition of Italian government securities under such item.

Investments in associates and companies subject to joint control

Within the scope of rationalising equity investments, in December Banca Popolare • Volksbank in liquidation acquired the interests in the companies Valpolicella Agricola S.r.l. and Tre S.r.l. from its subsidiary Voba Invest S.r.l.

The investments acquired are described in more detail in the notes to the financial statements, and will be managed directly by the Banca Popolare • Volksbank structures.

On 3 February 2014, the Bank sold the investment in the company Acquazzurra S.r.l, with respect to the construction of a property - residential complex in the centre of Pordenone.

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%
3. Orizzonti del Lago S.r.l.	Bolzano	0.00%	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. Acquazzurra S.r.l.	Verona	48.98%	48.98%
4. Tre S.r.l.	Trento	30.00%	30.00%

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

The Company manages nursing homes, and has its registered office in Merano (BZ). Its company 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 holds a 35.00% interest in the share capital.

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).

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 lands, buildings, prefabricated structures, infrastructures and property in general. The company is currently developing a property product which involves the demolition of a dilapidated property complex and building 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. The amount paid was Euro 0.6 million, including 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 for a total value of Euro 0.6 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 lands, buildings, prefabricated structures, infrastructures and property in general. The company is currently developing a property project in Cles (TN).

Orizzonti del Lago S.r.l.

The company was established on 31 May 2002 and its registered office is in Bolzano (BZ), via Alto Adige 40/VII. The share capital subscribed to and paid in amounts to Euro 25,000.00. The company - in which Banca Popolare • Volksbank does not have any interest - should be regarded as a subsidiary due to the lien with voting rights held by the Bank on all the shares of Orizzonti del Lago S.r.l. This company operates in property trading sector (purchase and sale of properties on own assets).

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. The liquidation proceedings started up in 2011 continued also in 2013 with the disposal of the subsidiary's assets.

Since the disposal of the assets held by the company has been virtually completed, the Board of Directors of Banca Popolare • Volksbank decided to merge the company with Banca Popolare • Volksbank on 21 March 2014.

Property and equipment Property and equipment amounted to 104.4 million, a 1.3 million increase compared to 103.1 million at the end of December 2012 (+1.3%). The expenditure for capitalised improvements amounted to a total of 4.6 million for the year, while further 2.3 million can be attributed to the purchase of movable assets and electronic systems. The recorded depreciation amounted to a total of 5.6 million (6.6 million in 2012).

The decrease in depreciation reflects the cost control underway in recent financial years, which, starting in 2010, made it possible to benefit from lower depreciation.

Intangible assets

Intangible assets comprise goodwill for 40.4 million, the same as the previous year, and intangible assets with a finite useful life amounting to 2.2 million (3.3 million at year-end 2012). There were no significant investments in intangible assets during the year. Amortisation amounted to 1.3 million.

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.

Funding from customers

At 31 December 2013 customer administered assets, comprising direct and indirect funding with institutional counterparties, amounted to 11,541.4 million, a rise of approximately 2.1% over 11,308.5 as at 31 December 2012.

Direct funding from customers amounted to 4,617.8 million, a rise of 263.1 million (+6.4%) over the figure at 31 December 2012 (4,354.6 million). The significant increase shows how well the Bank is regarded in its territory.

Amounts due to customers (3,025.1 million), rose by 11.9% compared to 2,702.9 million the previous year (+322.2 million).

Direct funding	**31.12.2013**	**31.12.2012**	**Change**	
(thousands of Euro)			**Absolute**	**%**
Savings and current accounts, certificates of deposit	2,830,505	2,556,596	273,909	10.71%
Debt securities issued	1,592,682	1,651,734	(59,052)	-3.58%
Other payables	159,646	50,338	109,308	217.15%
Reverse repurchase agreements on securities	34,945	95,970	(61,024)	-63.59%
Total	**4,617,779**	**4,354,637**	**263,141**	**6.04%**

Breaking down the figure there was an increase in demand deposits, comprising current accounts and demand deposits (+273.9 million and +10.7%), which makes up 61.3% of direct funding, against a 3.58% decrease in time deposits, comprising debt securities issued (-59.1 million).

Out of the total amount of debt securities issued, 81.6 million pertained to bonds issued under the EMTN programme and were subscribed to by institutional customers, of which 1.7 million were subject to fair value hedging.

There was an increase in other payables to 159.6 million (+217.2%), mainly due to the placement of liabilities relating to securitisations with third counterparties, for which the Bank had initially subscribed to the entire issue. Repurchase agreements, which amounted to 34.9 million, were down by 63.6% compared to 2012 (-61.0 million).

At 31 December 2013 indirect funding from private customers amounted to about 2,001.1 million, up by 3.3% compared to 1,937.4 million in the previous year (+63.8 million).

Indirect funding - technical forms	**31.12.2013**	**31.12.2012**	**Change**	
(thousands of Euro)			**Absolute**	**%**
Administered indirect funding	1,175,689	1,153,973	21,716	1.88%
Investment funds	692,426	648,914	43,512	6.71%
Insurance products	133,030	134,472	(1,442)	-1.07%
Total	**2,001,145**	**1,937,359**	**63,786**	**3.29%**

Administered indirect funding amounted to 1,175.7 million, an increase of 1.9% compared to the previous year, also due to an increase of value of financial instruments during the year.

Assets under management, standing at 825.4 million, were up by 5.4% compared to 783.4 million of 2012 (+42.1 million).

Shareholders' Equity

At the date of these financial statements the Company held share capital amounting to Euro 152.5 million, divided into 38,127,110 ordinary shares at a par value of Euro 4.00 each. They were up by Euro 76.2 million due to the free capital increase decided by the shareholders' meeting which led to an increase in the par value of the shares to Euro 4.00 from the previous 2.00 by the use of the valuation reserves available. For further information, reference should be made to the section on significant events of the year.

Shareholders' Equity at 31 December 2013, including year-end profit of 18.8 million, amounted to 628.8 million, (+ 1.5 million compared to 619.5 million at year-end 2012).

Regulatory capital stood at 573.3 million, up by 10.5 million compared to 562.8 million as at 31.12.2012.

Regulatory Capital	**31.12.2013**	**31.12.2012**	**Change**	
(thousands of Euro)			**Absolute**	**%**
Tier I capital	571,842	487,563	84,279	17.3%
Tier II capital	1,463	75,208	(73,745)	-98.1%
Regulatory Capital	**573,305**	**562,771**	**10,534**	**1.9%**

The ratio of tier 1 capital to total weighted assets (Core Tier 1 Ratio) was 12.87% compared to 10.72% as at 31 December 2012. The ratio of regulatory capital to total weighted assets (Total Capital Ratio) stood at 12.90%, up compared to last year's 12.38%. The Company's capital is more than sufficient to meet the minimum requirements set by the Supervisory Authority.

CAPITAL RATIOS	**31.12.2013**	**31.12.2012**	**Change**
Core Tier 1 ratio	12.87%	10.72%	215 b.p
Total capital ratio	12.90%	12.38%	52 b.p
Risk-weighted assets (RWA)	4,443,266	4,547,398	-104,132

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

On 18 February 2014, the rating agency DBRS gave Banca Popolare • Volksbank a Senior Long-Term Debt and Deposit Rating of BBB and a Short-Term Debt and Deposit Rating of R-2 (high). The trend for both ratings was negative. At the same time, DBRS gave an IA - Intrinsic Assessment rating of BBB, an issuer rating of BBB and a Support assessment rating of SA-3 to the Bank.

The agency also reported that the rating assigned reflected the solid and stable presence of Banca Popolare • Volksbank in some of key industrial and commercial districts of the province of Bolzano, along with the profitability, the resilient quality of the credit and the adequate capitalisation. The rating also includes an assessment of the weakest competitive positions in the Veneto and Friuli Venezia-Giulia regions and the current support given to the Bank from ECB loans and the requirement to improve operating efficiency.

On 28 October 2013, the ratings agency Standard & Poor's confirmed the rating of BBB- assigned to Banca Popolare • Volksbank, and confirming the negative outlook. The strong points of the assessment included the strong roots of the bank in an economically robust territory, in the quality of the assets which are higher than average and in a consistent funding base from the retail customers. On the other hand, the weak points included the limited geographic and business diversification and the impact of costs on profitability - which could be improved. The negative outlook stemmed from the general state of the Italian banking system which is expected to worsen.

On 13 January 2014, the ratings agency Moody's also confirmed its previous rating of Ba1 assigned to Banca Popolare • Volksbank, confirming the negative outlook which was unchanged from 14 May 2012. This corresponds to one of the best ratings assigned by Moody’s to an Italian bank. Confirmation of the rating followed confirmation of the negative outlook assigned by Moody’s to the Italian banking system as a whole, which, according to the agency, was still under pressure in a context of very limited economic growth. The credit opinion recognised that Banca Popolare • Volksbank had satisfactory capitalisation and a higher quality of assets than average, but it considered its profitability to be still weak.

1.9. Corporate governance

Organisation and Corporate Governance, Application of Supervisory Rules

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 in accordance with its corporate strategy and confident 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 in compliance with the supervisory provisions and were amended into the version approved by the Board of Directors on 22 March 2013. They especially take into account the rules on company organisation structure.

Changes to the articles of association

Upon proposal by the Board of Directors and considering the supervisory provisions regarding corporate governance, the specific indications and suggestions received during the inspection and having considered the best practices adopted by the banking system in this area, the extraordinary shareholders’ meeting of 19 April 2013 voted on a series of changes to the articles of association, with the main points summarised here below:

a) the composition of the Board of Directors can vary from a minimum of nine to a maximum of twelve directors. There must be at least three “independent” directors, and at least three “non executive” directors for the sake of symmetry;
b) the Board will be fully renewed every three years. The term of office will expire at the same time as the Shareholders’ Meeting called to approve the financial statements for the financial year ended as at 31 December 2013;
c) the quorums needed to submit the lists will stay the same;
d) if any individual candidate does not meet the necessary requirements, only the candidate, and not the list, will be excluded in order to ensure certainty and stability;
e) the number of minority representatives has been increased to two;
f) the minority directors will both be taken from the only minority list that obtains the quorum of votes or from the two minority lists with the highest number of votes on condition that both obtain the voting quorum;
g) directors who leave office during the term of office will be replaced in accordance with “second chance” voting procedures in the order in which the candidates appeared on the list from which the director to be replaced was taken; the Board will only use the co-option method up to the next Shareholders’ Meeting after this procedure has been completed;
h) the statutory auditors shall be appointed with list voting; the chairman of the Board of Statutory Auditors, a standing auditor and a substitute auditor will be taken, in the order in which they are listed, from the list

that obtains the highest number of votes (the majority list) and will therefore be taken from the list with the most votes, and therefore most representative of the wishes of the shareholders' meeting. The remaining statutory auditors are taken from the minority list. If no minority list reaches the threshold described above, or only one list is presented, the Chairman, standing auditors and substitute auditors will be taken from the majority list;

i) the same quorum of signatures and votes provided for the Board of Directors will be necessary to create the lists of the Board of Statutory Auditors and to appoint the statutory auditors;

j) the articles of association introduce a regulation - which the Shareholders' Meeting must decide - regarding the limitation of positions held in third party companies at the same time as holding a position of auditor in Banca Popolare • Volksbank;

k) the limit to the amount of shares held, on a direct or indirect basis, has been raised from 0.5 per cent to 1 per cent of the share capital;

l) in addition, 100 shares must be held on a continuous basis by the shareholders, otherwise the shareholder will lose the status of shareholder. This condition applies from 1 January 2014 in order to give the necessary time to form the shareholding structure and allow any integration of the percentages held up until the threshold is reached.

Remuneration Policy Update

On 30 March 2011 the Bank of Italy issued new legal rules on remuneration policies and practices and incentives in banks and bank groups in order to implement the EU regulatory framework. The provisions govern the incentive systems that apply to banks and the disclosure obligations on remuneration given to personnel that have the greatest effect on the riskiness of the banking activities, through consistent corporate rules.

When presenting the new remuneration policies for voting at the shareholders' meeting in April 2012, the Board had recognised the need for a complete review of the top management incentive system: more specifically, and with reference to best practices for the sector, a more adequate representation of the sustainability link would have to be found between objectives, results and incentives, and the outer limit of the staff with most impact on the risk profile of the Bank would have to be reviewed with more reference to the Bank's risk profile and its organisational-structural development.

The review led to the updated 2013 edition of the remuneration policies of Banca Popolare • Volksbank in the version voted on by the Board of Directors and approved by the Shareholders' Meeting of 19 April 2013.

The main changes to the corporate governance in the 2013 edition of the remuneration policies of Banca Popolare • Volksbank regard:

a) partial reform of the internal organisation of the Board of Directors for a more transparent definition of the executive roles and non-executive roles, through an initial reorganisation of the committees and the advisory commissions;

b) the permanent establishment of an independent Directors' Committee that would take on greater responsibility in the remuneration decision-making process, giving advice in board decisions relating to payments for top management and opinions on how to achieve the performance objectives underlying the incentive system.

c) monitoring the outer limit of the key personnel, which only maintains the incentive system for the executive directors in the advisory committees with decision-making powers. A review of the individual professional profiles also led to the consideration that the Controlling department and staff in the finance area were not relevant for the purpose of supervisory restrictions on their variable remuneration.

d) the structure of the fixed remuneration components now provides that the shareholders' meeting will decide on the annual remuneration and the attendance fees for the directors. The allowances for taking part in the advisory committees are registered by the Board in the remuneration policies.

e) the review of the incentive system for key personnel, including in accordance with best practices for the sector, led to a new modelling of alignment between objectives, results and incentives which reflects the sustainability of the system in a better, more transparent way. More specifically:

    the percentage of incentives to the fixed salary was reviewed;

an access threshold to the incentive was introduced, i.e. the incentives are given depending on the alignment of the economic-financial result and risk management to asset, performance and liquidity metrics;

the method for obtaining the theoretical variable was specified in order to get the actual incentive when the access threshold has been reached;

the postponement of a portion of the incentive was redefined, i.e. the rules of supply to "when" and "to the extent which" the performance is intended to have been definitively acquired.

In accordance with supervisory rules, the heads of the internal control departments are not evaluated on their achievement of economic-financial objectives. The access threshold and postponement of the portion of the variable remuneration was therefore not applied to these departments.

f) The verification process and drafting of the new remuneration policies in 2013 was carried out with the support of an external company specialised in these matters, and in accordance with the principle of the separation of departments and power, various Departments and bodies of the Bank were involved.

Management of Conflict of Interest and Transactions with Related Parties

The "Risk assets and conflict of interest with respect to related parties" Rules decided on by the Board of Directors on 22 June 2012 were amended into the version approved by the Board of Directors on 25 October 2013. The amended Document now summarises the following in a new body of rules:

- the prudential limits of the risky 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 and 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 personal interest or the interest of third parties;
- 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 Banca Popolare • Volksbank intends to apply with respect to Transactions with Related Parties in accordance with prevailing Consob and Bank of Italy regulations. Specifically, the aim is to govern identification, approval and enforcement of Transactions with Related Parties and to ensure compliance that the prudential limits that apply to the Risk Assets are being complied with. The Rules aim to monitor the risk that the closeness of these parties to the decision-makers of the Bank could compromise the objectivity and impartiality of decisions with respect to loans granted and other transactions with these parties, potentially distorting the procedures followed in the allocation of resources, exposing the Bank to risks which have not been adequately measured or monitored, and potential harmful to depositors and shareholders.

The procedures and rules to manage, communicate, control and give notice of the following transactions were therefore defined and formalised into this single set of Rules:

- 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 law and prevailing regulations that apply (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 authorisation, disclosure and reporting procedures towards supervisory authorities, the Bank implemented IT systems for automatic acquisition and notification of agreements and transactions undertaken with any counterparties defined by the company rules concerning "Risky operations and conflicts of interest with related parties".

Adoption of Organisation and Management Model

The organisation model of Banca Popolare • Volksbank, which was fully revised and approved by the Board of Directors on 21 December 2010 and further amended following new provisions dated 27 January 2012 and 25 January 2013, complies with the specific prescriptions laid down by 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 against the person committing the offence and the Company;
- reiterate 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 responsibility 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 whoever works at 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 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 comprises the following members:

- Compliance Manager;
- Internal Audit Manager;
- Legal Department Manager;
- One standing member of the Board of Statutory Auditors;
- One external legal expert (attorney) in possession of specific skills and experience.

1.10. The distribution model

1.10.1. Integrated approach to customers and multi-channel banking

Banca Popolare • Volksbank is involved in credit brokerage in Italy 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 in the best tradition of people's banks and maximising the potential of the specific aspects of the local area.

The distribution model is based on an integrated multi-channel concept. By using all the points of contact between the customer and the bank, constant dialogue is established 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 definite consultancy service models are assigned to, specifically trained collaborators and specialised consultancy centres for specific client segments.

Distribution channels (no.)	31.12.2013	31.12.2012
Traditional branches	134	134
Bank4fun branches	1	1
Corporate consultancy centres	7	7
Private consultancy centres	7	7
ATM	156	153
POS	4,537	4,168
Total	**134**	**134**

As at 31 December 2013, Banca Popolare • Volksbank had about 195,000 customers, of which about 137,000 private individuals, 15,000 businesses and 32,000 young customers of up to 27 years old.

Customer breakdown (no. of customers)	31.12.2013	31.12.2012
Private (incl. young customers)	**173,695**	**169,089**
- of which Retail / Universal (incl. young customers):	*163,241*	*158,586*
Businesses	**16,187**	**15,559**
- of which Small Businesses:	*14,345*	*14,201*
Other (public administration, associations…)	**4,257**	**4,263**
Total	**194,332**	**188,884**

Customer relations were strengthened further in 2013. The strengthening of the role of the consultants through identification of specific relationship managers was accompanied by an initiative extended to all the customers to create regular opportunities for the bank and the client to meet. The multi-channel system and automation of low added-value services is increasingly freeing up the time available for the customers, to the benefit of the consultancy activities. In the second half of the year, the Bank established a specific initiative aimed at further strengthening dialogue and the opportunities to meet the customers, planning meetings aimed at finding out more about specific requirements and needs, with a view towards continual development of demand-driven products to offer.

Banca Popolare • Volksbank develops its products in accordance with a model that is based on customer requirements. The specific initiatives that are constantly being developed to distinguish the Bank's services from the competition focuses on ensuring 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 offer.

Segmentation of the customers means that each client can benefit from a personalised approach; staff who are in contact with customers are also trained for this. The consultancy centres in particular will have staff with specific skills. The products and services on offer are increasingly aimed at the specific requirements of customers. Specific IT instruments are also employed to provide a fully comprehensive specialised consultancy service.

Banca Popolare • Volksbank aims at constantly strengthening its territorial roots as a regional bank through a close involvement by the locals as shareholders and stakeholders in the Bank.

The Bank has established itself as an economic operator that does not just create value for shareholders but wants to make a significant contribution towards development of the local economy.

An in-depth review of the distribution model is planned for 2014 in order to examine the organisational development (corporate culture), develop the brand profile, the concepts of “regional identity” and the “common good”.

1.10.2. Our Network

Banca Popolare • Volksbank is a regional bank in Northeast Italy and its original market was based in Alto Adige. It has 134 branches in the Provinces of Bolzano, Trento, Belluno, Treviso, Pordenone and Venice.

Territorial distribution of branches	31.12.2013	31.12.2012
Trentino-Alto Adige	**84**	**84**
- Bolzano	64	64
- Trento	20	20
Veneto	**47**	**47**
- Belluno	21	21
- Treviso	13	13
- Venice	13	13
Friuli Venezia Giulia	**3**	**3**
- Pordenone	3	3
Total	**134**	**134**

The sales network is currently organised into geographical areas and by segmentation of the customers:

- centres in the individual geographical markets (provinces, with the exception of Alto Adige which is divided into 3 Centres);
- the geographic market is divided into market areas within each Centre (Head office) and branches/agencies sometimes with sub-branches;
- there are two offices - one for private customers and one for larger companies - in each Centre, along with the retail network.

The retail customers and universal customers are mainly catered for 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 highly-ranked companies (Private Banking or Corporate Banking customers) are mainly catered to in the consultancy centres and are followed by the specifically trained consultants that are in each Head office.

The consultancy service is carried out by following specific service standards (“SLAs”) which provide for an annual structured interview among other things, and supported by specific consultancy applications.

Branches with low productivity and/or profitability (criteria: volumes, current accounts and contribution margins for FTE, CSI and CIR) have been followed on a systematic basis since Summer 2012 through a specific development program, aimed particularly at acquiring new customers. Analyses showed that the presence of consultants from the area, an active referral system and continuous development of initiatives by the branch owner were critical factors to ensure success.

The 2013 - 2015 commercial strategy defines the increase in productivity in the “less well performing” branches as a key point. A specific analysis model was drafted which is updated on a half-yearly basis and which analyses and compares developments on the basis of objective indicators. In a first phase, the emphasis was on branches outside the Province of Bolzano: in Autumn 2012, a total of 16 “less well-performing” branches were identified who were followed by a structured approach continuing through 2013.

With the assistance of the market development service, the head office owner and the Area manager, these branches were analysed with respect to the market structure, identifying the most significant targets in terms of appeal (volumes and acquisition of new clients) and the possibility of access (“door openers”). Commercial activities were identified for these targets in order to develop them; they were put in place with the continued support of the central services (market development, marketing/advertising). Numerous branches which took part in the programme improved their productivity through higher commercial returns and cost savings.

The programme was extended to a further 14 branches during 2013, meaning that a total of 30 branches are now involved, including 6 branches in Alto Adige (2 per centre).

The main focus was on the reactivation of relationships with inactive customers for the branches in historical areas, in addition to improving the efficiency of the commercial procedures in the branches and applying an active referral system through existing customers, and a multi-channel approach.

1.11. Banking

1.11.1. Bank products

Product Management

With a careful and detailed process of analysing and interpreting the needs of the market the Product Management Office can always offer cutting-edge products and services. It also ensures that the products are always kept up-to-date by both monitoring application standards in the retail network and constantly monitoring the needs of customers.

This aspect is very important to assess whether to introduce a new product or service and always remain competitive while giving a complete and thorough answer to the retail network, which handles customer queries and ensures the right product for their needs.

The Product management service added new products in 2013, enhancing the multi-channel approach in order to give greater value to the information, instruction and communication functions with the customers. The radical changes taking place in the company, growing awareness, the ever increasing needs of customers and the current technological challenges required a thorough analysis of marketing strategies and the current commercial structures of Banca Popolare • Volksbank.

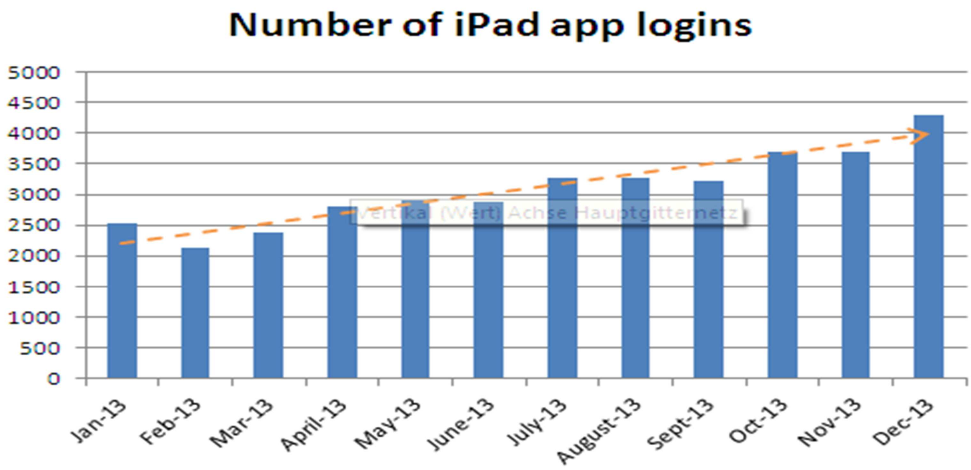
The task was to compare customer behaviour as a member of the company (demand) with bank behaviour (products on offer) in order to identify the meeting point in view of the many ways possible for the two parties to interact. The work concluded by drafting a staff development plan that aims at increasing the convergence between the Bank’s strategy - aimed at innovation and a multi-channel approach - and customer development.

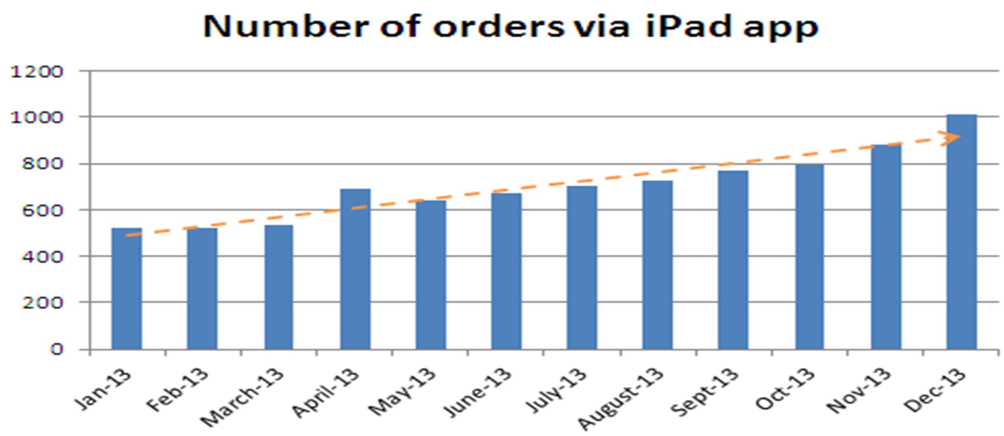
This will ensure a more adequate response to the needs of customers on the one hand, and will seize all opportunities offered by technological development on the other, so that the bank will be able to guide its customers in the digital age.

On-line banking

The concepts identified in the strategic document on the integrated multi-channel system in 2012 began to be put into place during 2013. The development of new on-line functions and services is guided by greater awareness of new requirements and the changing behaviour of customers who have increasing need of simplicity, practicality and speed in their interactions with the Bank and use of its services. This gave rise to various initiatives such as strengthening and simplifying the ability of customers to consult their banking documents online, including with a view towards reducing costs and protecting the environment.

The latest market tendencies show an increase in the use of tablets, at the expense of personal computers and laptops. This is why developments are focused on strengthening the App functions for iPads, such as allowing customers to consult their security portfolios or the new postal pay slip function that acquires the data using the in-built camera.





With respect to e-money, developments have been focused on creating a new ATM ("bancomat") product for shareholders; it has an impressive layout that also allows shareholders to enjoy specially reserved advantages with the operators, who have their on-line window on the new platform for the Volksbank-Lounge shareholders.

In order to encourage the circulation of e-commerce, all the new bancomat cards now have an Internet payment function which had only been available for credit cards and prepaid cards to date. This function can be activated using the direct b@nking service, and is guaranteed by the Mastercard SecureCode security system.

Basic products and loans

There were a number of new initiatives launched in 2013 to optimise the range of products. An analysis of the products available was made, with the aim of rationalising, simplifying and improving the individual products. A review of the range of products for private customers, companies, and young people certainly represented an important step for the future. The *Conto Uni* and *Conto Start* targets were accurately established for the area of current accounts. The two products were also adapted to the specific needs of customers, identifying a flexible, good value solution, easy to access and exempt from stamp duty. At the same time, the updated products facilitate branch management and give more time and space to the consultants to consult on an individual basis with customers.

In order to more closely meet the requirements of the increasing number of target customers who use on-line channels for their daily banking activities, all the documents for all areas were digitised and made available through the e-post service.

Another new development: our deposit account *Conto Plus* is now visible in direct b@nking. Our customers can easily consult all details of the operations carried out from home 24 hours a day.

A special commercial package offer was developed for consumer customers in the new branch in Treviso, which includes a bancomat card and direct b@nking along with the current account. This product should help the branch in building up a numerous, loyal customer base and make Banca Popolare • Volksbank more competitive as a retail bank in the areas where it wishes to expand.

The start up of e-credit with digital signature developed by Banca Popolare • Volksbank as a pioneer in the sector was the greatest innovation in 2013. Customers can request personal loans from the comfort of their own homes, through a user-friendly process and completely online, for amounts of up to Euro 15,000, directly over the Internet. They will not have to visit the branch, and the amount will be available on the customer’s account a few short days later.

With regard to facilities for businesses, the circulating fund operations managed by the Bolzano Province and the Regional finance company Veneto Sviluppo continued, which involved the granting of subsidised loans to small and medium enterprises (SMEs). Banca Popolare • Volksbank gives concrete help to companies in the territory by making cash available through the “anti-crisis” measures put in place by the Veneto Region.

Insurance and pension funds

The insurance consultancy work continued throughout 2013; this consultancy is increasingly focused on the individual requirements of customers. This commitment has been rewarded by a notable increase in requests for insurance cover. The main policies placed have enjoyed great success with 11% of customers taking them out.

For example, “policy H” where we had to adjust the monthly premium following the new provisions regarding repayments of the Autonomous Province of Bolzano. The customers welcomed the expansion of the insurance cover with the inclusion of a series of services of the new “Assistance” guarantee in the policy.

A new *CPI Imprese* policy was initiated starting from October 2013. This insurance allows companies and/or individuals to obtain insurance cover for the loans they take out with our bank. The insured parties are the key figures in the companies such as the legal representative, the CEO, general or sales managers, shareholders and members.

With respect to car liability insurance (which increased by 8% in 2013) the tacit renewal of contracts was abolished by law starting from December 2012. In order to facilitate customers who wish to continue their insurance cover, a system was made available - which is the only one available among banks - which sends the customer notification via SMS allowing the customer to renew their insurance cover by simply answering the message. The car liability insurance discount applied for our shareholders was also favourably received.

Social security matters have enjoyed success with positive take up trends for the open *Arca Previdenza* pension fund continuing through 2013 with a 43% increase in subscribers to the fund, confirming the expected results of the project.

Finally, but no less important, we should point out the significant training given by the Bank to consultants who are in day to day contact with customers and therefore need continuous updating and support to respond correctly and effectively to the questions asked, and to be able to propose the most suitable products in accordance with specific customer requirements.

1.11.2. Provision of investment services

The work aimed at strengthening financial management with instruments capable of providing investment services continued throughout the year, also with a view towards providing advanced portfolio consulting services to the customer.

This will be organised into the following main phases: detailed analysis of the initial customer portfolio, association of a model portfolio on the basis of the specific goals stated by the customer, formulation of portfolio optimisation proposals aimed at aligning the initial portfolio with the model portfolio agreed with the customer, and continuous monitoring over time. This new service will be aimed at the private customers in the initial stage, to then be progressively extended to the other customer segments, and will be supported by a specific computer platform integrated with the other Finance Division sub-systems.

The Banca Popolare • Volksbank offers specific, professional consulting services through its Private Banking brand, to about 9,000 customers in four regions. The Wealth management service also provides expert consulting services to private managers upon request. The service includes but is not limited to the following: portfolio analysis and assistance in choosing products (including insurance products) and a fund and asset management analysis, in addition to a series of other services that can assist in the choice of investment.

A significant portion of the work is aimed at identifying and obtaining a detailed understanding of the customer requirements in order to optimise the investment portfolio.

The portfolio is defined in accordance with the customer's investment profile which is evaluated on the basis of the customer's risk appetite, awareness of the financial instruments, the time period and asset situation at that time. The risk/return ratio must be balanced. The consultancy service aims to provide a solid, diversified portfolio since the consultant's job is to provide the customer with all the information, without making any investment decisions on behalf of the customer.

The range of investment instruments that we offer our private customers is expanded every year, for example also regarding both Italian and foreign asset management companies.

As from 2010, Banca Popolare • Volksbank is an ordinary member of the Italian Private Banking Association (AIPB). It joined this association in order to develop its private banking services further.

Banca Popolare • Volksbank has collaborated with the Istituto Centrale Banche Popolari Italiane (Central Institute of Italian people's banks) for the last three years. This partnership mainly involves the composition and structure of the model portfolios, in addition to the analysis and indication of individual financial instruments to recommend to our customers. At a more general level, for all customer segments, an integrated consultancy software is being developed which allows us to provide the following high added value services:

- processing and analysis of the information gathered;
- analysis of the current portfolio of the Customer and of its financial instruments in terms of risk and return;
- analysis of portfolio exposure in terms of financial asset class types;
- definition of a risk profile that is suitable for the Customer;
- definition of a customised strategy proposed by the Company and chosen by the customer;
- assessment and evaluation of the transactions already carried out by the customer and not yet matured;
- setting up a portfolio and financial instruments that are suitable for the Customer;
- setting up an investment proposal;
- provision of customised recommendations;
- illustration and explanation of the reports produced;

Using a specific, independent consultancy contract for the Upper Private customers, Banca Popolare • Volksbank provides extra quality to its consultancy and customer management services.

1.11.3. Own portfolio management

The own portfolio management goals are important for the portfolio which traditionally provides significant support to the overall profitability of Banca Popolare • Volksbank, and are as follows:

- to ensure the strategic asset allocation and tactics relating to the bank's own securities portfolio (for example fixed income securities, bonds, funds and derivative products)
- to trade a number of different financial instruments within the limits established by the financial operating plan
- to define, in association with the departments involved, management policies for the assets/liabilities and prepare the proposals to submit to the decision-making bodies

The parameters and objectives are generally defined on the basis of the following principles: minimum performance, risk capital available, LCR (liquidity coverage ratio) and NSFR (net stable funding ratio) imputability, liquidity available, possibility of ECB refinancing and reserves held that can be easily liquidated.

This - including the specific risk limits taken on - is governed internally by specific rules, with the most significant including the Financial Operating Plan and the Policy on Limits and Operational Powers for Finance and Liquidity that are updated on an annual basis.

The main objectives of the Bank Portfolio are to maintain the liquidity reserves (in general and to meet the LCR and NSFR requirements) and to achieve a positive return after the refinancing.

The objectives to create added value are based on an investment strategy and system of diverse instruments and measurement models. This relies to a great extent on making investment decisions that focus on and are compliant with the growth strategies and the risk objective limits defined in the strategic plan. The choices are therefore based on an independent decision-making process which does not tend to be influenced by external opinion and essentially:

- risk-management concepts;
- interest-rate and credit-spread sensitivity (DV01/CR01) of the entire bond portfolio;
- basic analyses and identification of efficiency measures;
- macroeconomic analysis;
- technical analysis;
- identification of the “ideal” timing;
- analysis of market sentiment;
- “optimal” diversification (also investing in other asset classes through funds).

Generally, operating procedures provide for the execution of individual transactions in order to obtain a focused position of the entire portfolio rather than specifically focus on the performance of the individual securities. This approach is also adopted for positioning through derivative instruments.

With specific reference to the operating limits adopted in the various trading systems, the operating limits for the trading desk were further defined and decided on in 2013. The Financial Operating Plan will provide guidelines for:

- the time span of the positions;
- allowed products/securities;
- the maximum amounts permitted.

1.11.4. Research and Development

Banca Popolare • Volksbank does not normally carry out research and development since it is a bank. Therefore, there are no intangible assets or charges related to this type of activity. The research and update of products, in order to provide a complete, competitive product range compared to our main competitors, and the review of procedures and internal processes in order to ensure adequate functioning of the operating structure, do not involve the creation of new products, services or processes, or significantly improve ones that are already on the market, since - strictly speaking - they do not result from research and development. Similarly, there was no intellectual type work carried out (patents, copyright, etc.) that could be recorded as independent intangible assets in the financial statements.

1.12. Governance activities

1.12.1. Liquidity Management and Funding

Liquidity management followed the indications given in the “Strategic Plan” and the “Liquidity and funding plan” also in 2013. The transactions took due account of the timetables for the bonds subscribed to by institutional investors, and the planning of the expected customer movements, with suitable adjustments during the course of the year.

The significant increase in direct funding from customers meant that a quarterly refinancing transaction for 25 million with the ECB did not have to be renewed, that it could repay 94.1 million on the Bond and "*Schuldscheine*" (hybrid debt securities) on the capital market in February and another 4 million of "*Schuldscheine*" in the following months, without the need for new significant debt transactions.

With respect to liquidity, recourse was made to the remaining portion of the line of credit with the EIB for an amount of 8.22 million in April only.

Certain sales of securities from self-issued securitisations made in previous years led to a positive net liquidity flow of about 130 million, in addition to a new issue of a "*Schuldschein*" loan for a nominal value of 1 million. These resources were mainly invested in the securities portfolio with extremely liquid instruments, and to a lesser extent to meet the high requirements due for year-end taxes. The EMTN programme was only considered as an "operating reserve" for all of 2013, but no bond issues were made.

The amount of "eligible" securities which had not yet been pledged to secure funding stayed the same. The further purchase of Italian bonds and the new securitisation of mortgage loans which will be concluded in the first half of 2014 will result in increasing the Bank's position further in "eligible" securities.

The market continued to be highly complex in 2013 even though there were signs that the most critical phase experienced in previous years was coming to an end. The positive rating assigned to the bank, within the context of the Italian banking system meant that it was easier to meet liquidity requirements through the interbank market. The overall debt position on the interbank market fell to 527 million from the 615 million the previous year.

1.12.2. Personnel

The Workforce

The most important resource held by the Company is its workforce. They determine the company 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 that the resources required by the branches throughout the territory are made available and that workers are replaced when necessary by means of internal rotation and new recruits.

To achieve this objective special training courses are organised for each professional profile. Furthermore, yearly mandatory interviews are held to assess performance and behaviour, understand training needs and assess the potential of each worker. Development is considered professional, cultural and personal, with the objective to lead workers to cover roles with increasingly more responsibility.

At year-end 2013 there were 1,061 workers, down slightly by 16 workers from 2012 (1,077).

Given the reduced working hours of workers with a part-time contract (180 – up compared to 169 from 2012), absences due to maternity leave and unpaid leave, the average number of workers working in 2013 was 951 FTE (full-time equivalent), also down from 2012 (average of 977). The negative employment average of 23 workers (-0.7%) compared to 31 December 2012 is due to the effect of the resizing in the headcount in the sales network and internal services.

68.9% of workers pertained to the network. The remainder (31.1%) pertained to internal services. Compared to previous years there was a decrease in internal service workers due to reorganisation schemes, despite the continuing centralisation of administration.

In accordance with the regional banking model, with its associated strategies, Banca Popolare • Volksbank prefers to select its workforce from its traditional heartland. The table below shows the breakdown of internal service and branch workers by province compared to the previous financial year.

Province	31.12.2013		31.12.2012	
	No. Workers	%	No. Workers	%
Bolzano - internal services and branches	743	70.3 %	757	70.3 %
Trento	87	8.5 %	92	8.5 %
Belluno	87	8.3 %	89	8.3 %
Venice	70	6.4 %	69	6.4 %
Treviso	64	5.5 %	59	5.5 %
Pordenone	10	1.0 %	11	1.0 %

Banca Popolare • Volksbank is a young company. The average age of its employees is just under 43.

Banca Popolare • Volksbank has always placed great importance on hiring and creating mixed work teams. Currently, 43.2% of the bank's workforce is female. Of these, 23 women cover leadership positions in the Bank (six at headquarters and 17 in the branch network). The head of human resources since October 2013 is a woman, and is therefore also a member of the management committee. Two female colleagues have been in charge of the Bolzano and Bressanone / Brunico branches since 2012, in important leadership positions in the commercial 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 an opportunity to these workers to provide a real contribution, and not simply to fulfil legal obligations. About 3.5% of the employees in 2013 were disabled.

Banca Popolare • Volksbank undertakes to keep work-related activities compatible with family obligations. Within the scope of obtaining family-work compatibility certification, various measures were adopted to obtain certification of the Bank as a family-friendly company; the process lasted three years and the certificate was obtained in 2011. It appointed a family representative in 2012, and a project involving a collaboration with psychologists was concluded. Further measures were developed by the team for 2013.

The Bank agreed new part-time contracts in 2013, just as in previous years. These types of contracts allow mothers to reconcile work commitments with family commitments as best as possible. This project was also extended to fathers, and all employees who have family responsibilities.

There were 29 employees on maternity or paternity leave as at the end of 2013; another 24 employees were on unpaid expectant mother leave. In addition, two employees were on leave to assist family members with disabilities (Law 151/2001).

The percentage of graduates employed is 22.0% while 68.9% have a secondary school diploma.

The objective of Banca Popolare • Volksbank is to ensure all employees are adequately motivated, including through training programs, in order to ensure that the relationship is fruitful and long-lasting. An adequate generational mix helps reinforce the skill set in the Bank, and maintain it.

The percentage of workers over 50 amounted to 21.9% in 2013. The significant increase compared to 2012 (when it was 18.7%) is partly due to the change in the retirement age.

The Bank organises a meeting every year with its retired employees. The most recent meeting was a staff party held in Merano in the Kursaal convention centre.

Remuneration

The Bank paid a total of 73.6 million in wages in 2013, which comprises a distribution to the local community of about 44% 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.

Base pay is the same for men and women. Banca Popolare • Volksbank uses set salary ranges for the different categories of employment which are applied equally to both men and women.

New entries onto the management committee

During the year, Ms Tatiana Coviello took over as Human Resources Manager, with responsibility for the administration, management and development of human resources, and development of corporate and managerial culture and organisational development. Ms Coviello was previously employed with Würth Italia in Egna as head of HR. After having studied in Treviri in Germany (Rhineland-Palatinate), she began her professional career in Volkswagen AG in Wolfsburg. She moved to the Volkswagen Group in Italy in 2002 where she held managerial positions in the training, communication and marketing areas prior to being hired by Würth in 2008.

Staff Training and Development

Banca Popolare • Volksbank carried out a number of staff training initiatives in 2013. There was a total of over 50,000 training hours invested in the training and development of staff over the course of 2013.

Bank managers are included among the main agents to develop customer relations. The following three approaches were identified: values, dialogue practice and focus on vitality. A new model was therefore introduced to check the staff training requirements. The assessment process allows an overall picture of the strong points and opportunities for development to be provided for each staff member.

On the basis of this staff leadership profile, a training plan is then developed in line with the specific short-term objectives and the strategic medium-term goals.

Relationship Manager

A four-day training programme was organised for all resources employed in the sales area through seminars, individual coaching and practical experience related to their day-to-day work. Central importance was given to the creation and maintenance of personal relations between the consultant and the client on the basis of creating added value. All employees in the 134 branches of the Bank took part in this training.

Most of the specialist bank training was carried out by internal teachers. A training programme for internal teachers was organised in order to improve the efficiency of the training and reduce the duration of the course. About 20 teachers took part in the course and over 70 specialised courses on banking matters were held in 2013.

Finally, during the year, the area managers and senior consultants of the corporate centres were offered a certification course in collaboration with our partner CUOA (University Centre of Business Administration, Vicenza). 13 colleagues took part in the training course and passed the certification exam.

665 employees obtained or renewed their ISVAP / IVASS certification for almost ten-thousand hours of e-learning and over sixteen thousand hours of specialised seminars in classroom settings. Therefore 94% of the sales staff are now able to offer specialised consultancy services to customers on insurance and social security products.

Training Management

All workers are provided with a special integrated database. The courses are organised by professional profile, which acts as an essential guideline for selecting training programmes.

The database includes a detailed description on scheduled courses, past courses attended, test results, feedback monitoring and registration forms.

Yearly Worker Interview

The yearly interview with workers at the Bank is an essential tool for managing human resources and for determining training needs. The interview enables direct worker assessment and also provides an internal tool (forum) for superiors and human resource managers.

1.12.3. Legal consultation service

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.

This is why the Company signed an agreement with leading offices for most ordinary debt collection. Credit that is minimal, irrecoverable or difficult to collect is generally treated en masse and subjected 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 21.5 million during the course of 2013, settling about 530 doubtful positions.

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 the problematic issues experienced by the branches with respect to actual cases will be resolved, such as the rules and regulations regarding cheques, donations, inheritance matters if particularly delicate, minors, disabled persons, disqualified persons, corporate law, property, personal and atypical guarantees, bankruptcy law.

With reference to the internal offices, they give consultancy advice 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. It 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 (from advanced e-signatures to the member platform), 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 that the bank is involved in from the legal standpoint, ensuring that the preliminary investigations are carried out, adequate allocations are made in the financial statements and coordinating the work of external professionals with whom fee arrangements are made. It takes the initiative to make out-of-court settlement of disputes, entering into relations 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.

1.12.4. Technological and Administrative Services

The Bank collaborates with the IT outsourcer SEC from Padua for the management, development and innovation of the entire IT system supporting all bank processes, both internal and at branch level. The satisfactory collaboration with our outsourcer allows for high levels of service by the IT system and continuous development and innovation sponsored and promoted primarily by the Bank. The introduction of new technologies and the modernisation of existing IT applications, especially at branch level, continued in 2013.

By now Banca Popolare • Volksbank leads the market in innovation for online products and services, and there were a number of important innovations made in 2013 both for products and processes.

E-credit and advanced services

Customers using the Internet banking service of this bank, the first one in this region and among the first ones (one of the few) in Italy and Europe, can easily request personal loans for up to Euro 15,000 online as of September 2013 by signing all agreements directly online using their remote digital signature and without any need for printed documents. The customer loan requirements are checked in real time with automatic mechanisms so that the customer can receive an immediate response to its loan request. If the request is approved, the customer can receive the loan directly onto his or her current account already the next day.

The customers will be sent the products purchased online directly to their home addresses. More products are being added to these first ones to extend the existing range.

The expansion of the information and order functions also continued for the entire Internet banking platform, linked to both PCs and portable devices (Apps for smartphones and tablets). The new "family budget" function is very significant, where the customer can automatically classify, in accordance with his or her own preferences, all the bank movements, generating reports and spending plans, family budget management and graphs.

The list of documents that customers can get on-line through the Internet banking service has expanded further, and stands are being prepared in the bank branches where all the documents that can be found on-line can be printed. These were set up in 2013 and will enter into operation in 2014. The customer can now view 98% of his or her documents on-line, thereby eliminating the need to send paper copies, with savings for both the customer and the bank, in addition to the fact that it receives them immediately.

Expansion of Next Generation ATMs

The installation of Next Generation ATMs continued throughout 2013, which accept banknote payments and cheques. There were a total of 17 Next Generation ATMs installed at 16 branches by the end of 2013 (one branch has two). The take-up by customers of this service has been so enthusiastic that half of the cash payment transactions are already being done on the Next Generation ATMs in these 16 branches. Banca Popolare • Volksbank is therefore continuing with these investments.

Information systems

Most of the application developments in 2013 involved amendments which had to be made in accordance with numerous new regulations which came into effect during 2013 or in the first few months of 2014. The numerous regulations included repeated innovations and amendments on "anti money laundering" and "adequate checking", the introduction of monitoring and new tax communications on payments, balances and movements of the customers, complete reconstruction of the revenue stamp calculation on current accounts, dossiers of securities and life insurance policies, new tax rules for the purchase of derivatives, the USA-Italy FATCA agreement on giving notice of the accounts and movements of US citizens, fine-tuning of the application of MIFID regulations.

Still in the area of financial consultancy, the Objectway web platform was further improved to allow financial consultancy services "by objectives".

As a whole, in 2013, about three quarters of the investments in application amendments made by the SEC on behalf of the Bank related to new regulatory obligations or that had been subject to profound changes.

Branches

All operational processes of the Bank have been documented in graphic form for many years, in accordance with three key principles: customer orientation, efficiency, risk minimisation. Based on analyses carried out, processes can be continuously optimised according to three criteria and following the appropriate strategic indications of the Bank.

Given the predominance of human resources at branch level, the analyses and process improvements have focused mainly on the commercial network. Along the lines of the bureaucracy-easing measures introduced in 2012 for contracts, the number of signatures needed on security dossier contracts was halved in 2013 (from 12 to 6) and contracts for most insurance products (from 3 to 2 contractual copies, of which only 1 is signed by the customer).

In addition, the obligation to put the date and place of birth on most of the loan contracts/forms was eliminated, just as in 2012 for the other bank contracts (current accounts, ATM cards, etc.).

Tablets

The Bank was the first (and still the only) regional bank to introduce electronic tablets in May-July 2013 for the signature of the statements of account at all the branches. Customers can now sign for over 90% of cash transactions on a tablet instead of on paper, thereby helping to protect the environment. The customer will receive the statement of account on his or her Internet banking account or to his or her e-mail address within a few seconds of signing the tablet. If necessary, the customer may request a paper copy of everything that has been signed for online. All the most common cash transactions can be signed for on the tablet: payments, withdrawals, bank transfers, giros, cheque payments or other types of payments.

For the Bank, in addition to protecting the environment, the tablet improves operational quality since it is no longer possible to omit the signature or lose the statements of account. In addition, it simplifies searches on statements of account and reduces the need for huge paper files with the relative space advantages and less use of physical space.

As at 31 December 2013, already half of the customers that used to use the branch were signing for their transactions on their tablets.

The tablet project continued through 2014 in order to add other types of transaction (for example F24, Mav, Rav, Riba and Freccia), and to make it also possible to sign banking contracts.

Cash automation for small-medium sized branches (“Cash recycler with touchscreen”):

Banca Popolare • Volksbank was the first bank in Italy to introduce an automatic cash device that allows all the workforce in a branch to work on a single physical central bank vault even though they are sitting in their consultancy offices where there is no cash. This is a new concept in branches, where the entire workforce carries out - on a reduced basis - teller activities even though they are mainly engaged in customer consultancy activities. The role of the bank teller has been abolished in these branches.

The entire workforce are consultants and only carry out teller activities to a reduced extent. The automatic cash device interacts with all the consultancy offices where both withdrawals and deposits of cash are accounted for. The device was devised and developed by a specialised supplier on commission and specific to Banca Popolare • Volksbank; it is called the “cash recycler with touchscreen”.

Thanks to this device, the workforce can concentrate on their consultancy activities, but at the same time, customers who do not wish to make deposits by themselves at the Next Generation ATM are not “left to their own devices”. The staff member will accompany them to the cash recycler with touchscreen and carry out the transaction with the customer in front of the machine. This will help customers to become more used to using automated bank systems, in full compliance with the need to progressively learn how to work with this new system. Customers can use both the Next Generation ATM on a fully independent basis, and the cash recycler with touchscreen with the assistance of a staff member.

The cash recycler with touchscreen is suitable for small-medium sized branches where it can replace the single bank teller that had previously been there. The advantage for the workforce is that they can almost exclusively dedicate their time to consultancy work, while still staying in continuous contact with the customers. The advantage for the Bank - along with the obvious savings in human resources due to the automation - is that it gets a team of branches that are more motivated and concentrated on providing consultancy services so they can get to know customers better and satisfy their requirements.

The cash recycler with touchscreen was introduced into the newly opened “Treviso-city” branch in October 2013 and both the customers and workforce there are very happy with it. In view of the positive response, this cash automation system will be extended to a further 15-20 branches during the course of 2014.

Payment Systems

The e-payment market in Europe has undergone radical change in the last few years: with the introduction of the European directive on payment services (PSD), the legal basis was created for the creation of a Single Euro Payments Area (SEPA).

The habits of many European consumers have also changed very significantly in the last few years. The advantages of greater market integration at European level have become more tangible for the consumer.

Since the SEPA was introduced, Banca Popolare • Volksbank has worked hard on migrating towards the new payment instruments. Already starting from the end of 2012, the Bank was one of the first operators to offer its customers management of all bank transfers in SEPA mode, with the direct European debit (SEPA Direct Debit).

In addition to updating the systems used by the bank, it was especially necessary for companies to prepare for migration towards the new European payment systems in 2013. Companies had to adjust their IT systems, operating procedures and give customers enough advance notice to collect the receivables due. We supported companies during this transition phase through focused information and communication campaigns, with our most qualified consultants on hand for advice.

Many other innovations in the area of international payments are now being introduced and developed. Banca Popolare • Volksbank promises that it will stay constantly abreast of these developments: innovations in the world of payment systems can trigger/introduce significant changes in the services market and the Bank’s goal is to provide shareholders and customers with the best solutions to meet their requirements.

1.13. Mutual Nature and Initiatives for Shareholders

1.13.1. Shareholders

As at 31 December 2013 the shareholding structure comprised 37,574 Shareholders and 853 Banca Popolare • Volksbank shareholders not listed on the shareholders’ register. In 2013 there were 7,893 new Shareholders while 649 Shareholder positions were cancelled.

The total number of shares increased from 38,127,110 shares to 38,137,350 shares.

The 2013 shareholders’ meeting, which involved the participation of 2,500 shareholders, set the issue price of shares at Euro 18.85, which includes Euro 4.00 nominal value, and Euro 0.30 per share as the dividend paid in 2013 for 2012.

In 2013, 1,583,241 shares were traded using the trading platform, which corresponds to 4.20% of share capital as at 31 December 2013.

The Company operates in accordance with the “open door” principle, pursuant to article 2528 of the Italian Civil Code (“Admission procedure and open nature of the Company”) for cooperative companies.

We focus our attention on the shareholders. Numerous initiatives were undertaken in 2013 to promote the association between the Bank and its shareholders. In addition to the advantages introduced in previous years, the new Volksbank-Lounge was introduced as a distinctive element of the package that we offer our shareholders: an online meeting place. The online community Volksbank-Lounge was launched in November 2013 (“www.volksbank-lounge.it”), which allows Shareholders to enjoy specific advantages, which are regularly updated, and include the following:

- taking advantage of exclusive offers;
- staying in contact with other Shareholders and exchanging ideas through discussion groups;
- reading the latest news from press reviews;
- putting up notices and finding them;
- staying up-to-date on the latest news from the bank;
- shareholder companies can advertise their products and services and take the opportunity to find new customers.

We wish to offer Shareholders significant added value with Volksbank-Lounge. In addition, with this on-line community, the Bank wishes to strengthen local economic cycles and the networks of relations in our catchment area of North East Italy.

A new “shareholder card” was introduced for all the Shareholders. The distinctive design of the card unequivocally identifies the Shareholders. The new card was issued in ATM card format with withdrawal and payment functions or in a simple version. Shareholders can use the card to take advantage of exclusive offers reserved to them in Volksbank-Lounge and with partner companies.

The Shareholders are kept up to date with the latest Bank news through the magazine NEWS4YOU especially for them. The magazine is published on a quarterly basis. Shareholders have a special communication channel reserved to them, where they can receive the online newsletter which provides timely information on the new products and most important news related to the bank and its corporate relations.

Special welcoming events are held for new Shareholders in the territory, which allows the Shareholders to get to know the board of directors, the management council and the area managers. In addition, information and discussion meetings are organised on current matters of interest along with representatives of the local economy and the members of top management, giving the Shareholders the opportunity to maintain continuous dialogue with the Bank.

The Shareholders also have other advantages besides the initiatives described above:

- exemption from payment of stamp duties for underage Shareholders. Banca Popolare • Volksbank pays the stamp duty charges for security dossiers held by underage Shareholders who deposit Bank shares only on them (up to a maximum of Euro 34.20 per year)
- cartaSi Gold with special conditions;
- free telepass;
- car liability insurance with special conditions.

1.13.2. Sponsorships and donations

Sponsorships

Banca Popolare • Volksbank actively supports numerous sponsorship projects in order to help develop the local community, and at the same time making its presence felt in the area.

The value of sponsorships made during 2013 was for a total of Euro 482 thousand. The sponsorship ranges from sporting activities to culture, socially beneficial initiatives and training. One of Banca Popolare • Volksbank's strong points is promoting youth sporting associations.

Sponsorship activities 2013	**Amount**	**% of total**
(in Euro)		
Sport	370,174	76.73%
Culture	70,097	14.53%
Social	31,600	6.55%
Other	10,565	2.19%
Total	**482,436**	**100.00%**

Donations

Banca Popolare • Volksbank supports the area through donations also, supporting worthy causes.

Generally, the donations are for public benefits, and can also be given to cultural institutions. Traditionally, the Bank contacts local structures receiving such donations directly within their catchment area. A total of Euro 270 thousand was given in 2013. The beneficiaries included parishes, lay voluntary associations and local institutions.

Environment, saving resources and climate protection

All the stakeholders (customers, workers, shareholders, suppliers, public authorities, etc.) expect the Bank to both drive innovation and demonstrate productive capacity and also for it to protect natural resources and maintain high standards in terms of health and safety.

Environmental protection and energy saving are very important to the Bank, which requests the collaboration of its customers in some cases. For example, all customers have the option of waiving their right to receive paper-based statements of account and notifications and to receive them in electronic format only.

Banca Popolare • Volksbank worked hard to activate the highest number possible of online accesses to statements of account and other banking documents through the E-Post service in 2013. The first paperless branch was also opened, in order to ensure brighter prospects for future generations.

1.13.3. Annual report on the mutual nature of the cooperative company under art. 2545 of the Italian Civil Code

In compliance with art. 2545 of the Civil Code, a description of the shareholder management policies pursuant to the mutual objectives is provided below.

The purpose of a cooperative company like Banca Popolare • Volksbank is much more than simply trying to optimise profit, and not only to fulfil legal obligations. Being a cooperative company means implementing policies and interventions that relate with the territory and local social context on a day-to-day basis. The shareholders of Banca Popolare • Volksbank know that care and actions are not only for their well-being, but also to spur growth throughout the local social-economic context. The Company is aware of the fact that the benefits from responsible management not only effect the present, but they have positive repercussions also on future generations.

In this sense Banca Popolare • Volksbank aims at being a point of reference for all social players in a system of targeted interventions bringing benefits to the entire community throughout the region. This is in line with the Bank's mission.

In 2013 the shareholders continued to play a central role for the Company. In addition to the purely economic benefits, members are at the centre of an intense and direct communication process starting from the relationship with branch consultants and moving on to the magazine News4you (shareholders' newsletter), and the financial statements, and ending in the annual general assembly which presents an opportunity to meet socially.

These meetings represent an important occasion for contact and interaction between the shareholder base and top management.

Demonstrating the bank's commitment to the shareholding structure are the projects kicked off in 2013 to enhance communication and take care of emotional aspects considered value added (e.g., events, gifts, special offers).

The regulations for cooperative banks are characterised the rigorous application of the principle of per capita voting and by strict legal rules on limits to equity shareholdings, so as not to allow pre-constituted or controlling majorities to be formed. Lastly, this provides a guarantee that the capital component does not take on excessive importance over the social component.

The local provinces do not just represent an expansion of the economic-financial figures for the Company, but also imply a commitment to presence and activities in favour of the local communities. The Company intends to acquire new shareholders to share this view, including in the new areas.

Several interventions for social, cultural, sporting, solidarity and environmental support initiatives show the awareness and attention to the needs of the territory. These are mostly targeted interventions, which through the local commitment of branches contribute to the life of hundreds of groups and associations spread throughout the territory, animating intense activity, which is important for individual local realities.

Legitimacy, loyalty, ethics and transparency are at the base of Banca Popolare • Volksbank. This is not only a legal obligation but above all a group of values the Company sincerely believes in as a foundation for every objective. The mutual nature is the added value of a Company that believes in itself.

1.14. Other information

1.14.1. Information pursuant to Bank of Italy/CONSOB/ISVAP Documents no. 2 of 06.02.2009 and no. 4 of 03.03.2010

On 6 February 2009 Bank of Italy/CONSOB/ISVAP issued document no. 2 on application of IAS/IFRS in order to recommend insertion of information 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 the going-concern assumption, in the bank's operations and financial development the directors did not detect any situations that would raise any doubt on the bank's ability to continue its regular operations. 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 at 31 December 2013 were prepared under the going-concern assumption.

Concerning financial risk disclosure this 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 and especially on goodwill, participatory 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.

Concerning uncertainty in using estimates when preparing the financial statements in the Notes to the accounts under part A – "Accounting Policies, A. 1 – General Information" there is a special section entitled "Uncertainties related to use of estimates".

Lastly, with regard to the classification of the bank's financial liabilities, none of the medium/long-term payables are classed as "current" as the term expired or due to default on the contract stipulations backing the liability.

1.14.2. Disclosure on the structured equity products and exposure to Special Purpose Entities

On the basis of the recommendations made in 2008 by the Financial Stability forum (now Financial Stability Board) and the Bank of Italy (communication no. 71589 of 18 June), we will provide a report on the exposures as at 31 December 2013 towards the financial products that the market considers to be 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.

Exposures to SPEs (Special Purpose Entities)

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

Securitisations refer to special purpose vehicles (SPV), established in accordance with article 3 of Italian law no. 130 of 30 April 1999, which places 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 are governed by Italian law no. 130 of 30 April 1999, and are debt issues by credit institutions and specifically guaranteed by portfolios of identified assets that are kept separately 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-issued securitisations.

Finally, 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 the HTM instruments for 1.0 million and regarding a securitisation of receivables.

For further details on the aforesaid financial instrument classified as held until expiry, please refer to the notes to the accounts, assets, section 5, and table “C.1.3 Exposures from main third party securitisations according to securitised asset type and exposure type”.

There are no other exposures towards SPEs reported in the financial statements.

Exposures to structured products

The main positions in structured credit securities issued by third parties as at 31 December 2013 are represented by corporate bonds, mainly from credit institutions, all in EU countries.

The overall exposure to covered bond and structured securities, in terms of amounts recorded in the financial statements, is 117.9 million, limited exposure with respect to the overall portfolio represented by debt securities (equal to about 15.2% in percentage terms). All the aforesaid instruments were classified as available-for-sale (AFS).

They are all financial instruments issued by EU Banks, and the underlying asset is usually represented by residential mortgages from Italy and other European countries, along with receivables from Italy; the ratings generally fluctuate between AA and AAA.

The structured securities that amount to 16.8 million on the financial statements are classified in the AFS portfolio. All these instruments have remaining maturity equal to or less than seven years.

As regards the covered bonds (ABS), they amount to a total of 101.1 million as at 31 December 2013, and are entirely classified as available-for-sale. All these instruments have remaining maturity equal to or less than ten 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), with document no. 2011/226 of 28 July 2011 and Consob with communication DEM/11070007 of 5 August 2011, we show the exposure of the Company to sovereign debt, mostly comprising Italian debt securities. 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)

	2014	**2015**	**2016**	**2017**	**after 2018**
HFT	501	5,014	1,507	-	-
AFS	139,632	56,380	35,303	116,792	15,207
HTM	-	-	-	25,409	26,670
LRO	-	-	-	-	-
Total	**140,132**	**61,395**	**36,810**	**142,201**	**41,877**

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

Exposure to sovereign debt - by issuing country				
(thousands of Euro)				
EU countries	**31.12.2013**			
- Italy	406,370	of which:	AFS	353,791
			HFT	501
			HTM	52,079
- Germany	6,521	of which:	HFT	6,521
- Belgium	4,927	of which:	AFS	4,927
- Spain	2,652	of which:	AFS	2,652
- Finland	1,944	of which:	AFS	1,944
Non-EU countries	-			
Total portfolio	**422,415**			

There are no other exposures to sovereign debt. 89.2% of the total exposure held has a residual maturity of less than 3 years.

As at 31 December 2013, the sensitivity to a change of 1 b.p. of credit spread of Italy for the government securities classified as “Financial assets held for trading” amounted to Euro 157.58, whereas for government securities classified as “Financial assets available-for-sale”, the aforesaid sensitivity equalled Euro 71,634.91.

1.15. Business outlook

In spite of the decline in the economies of emerging countries and the worsening situation in Ukraine, Europe still appears to be undergoing a growth phase. Forecasts indicate GDP growth for the 28 member States of the enlarged EU of 1.5% for 2014 and 2.0% for 2015 according to the latest forecasts issued by the EU Commission on 25 February 2014. For the 18 member States of the Eurozone, GDP growth is forecast to reach 1.2% in 2014 and 1.8% in 2015.

The Cyprus economy continues to contract, with GDP forecast to fall by 4.8%. The countries with the highest growth rates include Latvia with growth of over 4% expected in both 2014 and 2015 and Lithuania with a growth forecast of 3.5% in 2014 and 3.9% in 2015.

Germany, whose GDP represents almost 30% of the total, will continue to act as the main engine of growth in the Eurozone, with a growth forecast of 1.8% in 2014.

This phase is expected to be further strengthened in 2015 by growth in the economies of France, Italy and Spain. However, growth in Italy is expected to remain below the European average.

For the first few weeks of 2014, share markets continued with the positive trends registered in 2013. However, already at the end of January, the currencies of emerging countries showed particular weakness - the Argentine peso and Turkish lira suffered very high losses, resulting in a significant increase in interest rates. In addition, figures from the Chinese economy showed signs of weakness.

Further negative signals came from the United States, where the purchasing managers’ indexes were in marked decline, along with car sales in January, which fell by 3.1% compared to the previous year and orders for durable goods fell by 4.3%.

We believe that the quantitative easing policies of the Federal Reserve, aimed at creating money to support the values of assets, is favouring share prices to the detriment of debt securities. The expectation of a gradual, albeit measured reduction in asset purchases could put added pressure on the markets.

Specific problems such as the complexity of the situation in Ukraine, the high levels of inflation and deficits of the current positions in countries such as Turkey, and the weak economic policies of countries such as Argentina could put further downward pressure.

In accordance with the forecasts for the Italian economy, which confirmed the growth in GDP in the fourth quarter of 2013, there should be a moderate recovery of economic activity in 2014, with a further acceleration in 2015, even though lower than the EU average. Forecasts predict GDP growth to be 0.7% in 2014 and 1.0% in 2015.

The recovery should be driven by external demand and the gradual expansion of investments in production, encouraged by an improvement in the prospects for demand and the increased availability of cash by companies, due in part to payment of the past amounts due by the public administration. However, credit conditions are still problematic. The investment/GDP ratio is still below the historic average. Consumption is still weak. As usual, improvements in the conditions of the labour market are trailing improvements in the economy: employment levels may only start to increase again from 2015. Consumer inflation is expected to be at around +1% for 2014 and +1.4% for 2015. Internal prices will also increase at a modest rate due to the ample margins of unused production capacity on the price policies of companies.

Risks to growth mainly relate to the decline of the economy. Risks related to the access to credit and the release of payments of debts payable by the public administration weigh heavily on this scenario. Both these factors are at odds with any recovery in investments.

Decisive factors to unblock this situation would involve economic policy actions aimed at consolidating the public finances and initiating the necessary structural reforms.

At European level, the risks to stability are linked to the slowing down of the integration process and possible delays in the road to reform of the governance of the European Union.

Even though the European integration process has begun, it is very complex. The Outright Monetary Transactions provided for by the ECB in September 2012, actually constituted a promise to purchase government debt on the secondary market by the ECB, and helped the Euro to survive a particularly critical period; however this mechanism is now under investigation by the German Constitutional Court which declared that this went beyond the mandate of the ECB on 7 February 2014 and was a potential financing instrument for governments which is prohibited under European treaties. Further work will be necessary to resolve this situation, and the matter has been referred to the European Court of Justice.

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.

1.17. Proposal for the allocation of net income for the year

Dear Members,

We submit for your approval the financial statements for the year 2013, which ended with a net income of Euro 18,766,687 and was subject to audit by the auditing firm BDO S.p.A., whose independent auditing report is attached to these financial statements.

Pursuant to article 6, 1st paragraph, letter a) of Italian Legislative Decree no. 38/2005, a portion of the earnings during the year corresponding to the capital gains recorded in the income statement, after tax, which result from application of the fair value criteria, must be recorded in a reserve, unavailable for distribution. The following is not included in the above:

- the capital gains recorded in the income statement resulting from the fair value measurement of the financial instruments held for trading;
- the capital gains recorded in the income statement related to foreign exchange and hedging transactions.

In accordance with the decision by the Shareholders’ meeting of 19 April 2013, the aforesaid reserve, unavailable for distribution, constituted in accordance with the abovementioned regulations, amounted to Euro 1,795,001 as at 31 December 2012.

The amount of the aforesaid reserve, calculated with reference to 31 December 2013, was Euro 3,691,297, mainly due to the fair value measurement of own liabilities resulting from the change of own creditworthiness.

Therefore the portion of earnings to allocate to the aforesaid reserve unavailable for distribution is Euro 1,896,296. The distributable earnings made during the year, therefore amounted to Euro 16,870,391.

The portion to allocate to the legal reserve in accordance with the provisions of art. 32 of Italian Law Decree no. 385 of 1 September 1993 is equal to 10% of the distributable net profit. In accordance with the above mentioned regulation, we propose to allocate Euro 1,900,000.

The distributable net income was Euro 14,970,391, minus that amount.

After carefully considering the need to continue to build up our financial resources and the need to ensure remuneration for our members, the Board therefore proposes the following allocation:

Net income for the year	**18,766,687**
Reserve unavailable for distribution under art. 6, paragraph 2, Italian Legislative Decree no. 38 of 28 February 2005	1,896,296
Net income, net of the amount required for the reserve unavailable for distribution under art. 6, paragraph 2, Italian Legislative Decree no. 38 of 28 February 2005	16,870,391
To the legal reserve	1,900,000
Distributable net income	**14,970,391**
Dividend of Euro 0.3 on 38,127,110 eligible shares	11,438,133
Remaining income allocated to extraordinary reserve	3,532,258

REPORT BY THE BOARD OF STATUTORY AUDITORS

REPORT BY THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013 PURSUANT TO ART. 2429(2) OF THE ITALIAN CIVIL CODE

Dear Members,

Summary and results of supervisory actions

During the period which ended 31 December 2013, the Board of Statutory Auditors performed the audits required by the Italian Civil Code, Italian Legislative Decree no. 385/1993 (Consolidated Banking Law, TUB), the guidelines issued by public authorities and according to the standards and recommendations of the National Board of Accountants and Bookkeepers.

This report of the Board of Statutory Auditors for the general shareholders' meeting of Banca Popolare dell'Alto Adige was drafted in compliance with the Italian Civil Code - namely art. 2429 – and art. 153(1) of Italian Legislative Decree no. 58 of 24 February 1998.

With regard to the activities performed in 2013, we specifically inform the shareholders' meeting that:

- 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;
- in 2013 we took part in the shareholders' meeting of 19 April 2013 and all the meetings of the board of directors (25 meetings) and we can confirm validity of the management through periodic checks (22 meetings); the board of directors and executive management were provided with the minutes and reports of our inspections and we presented an oral report on our activities to the board;
- 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;
- the organisation model is now operational, under legislative decree 231/2001. The necessary information was exchanged with the Supervisory Board, which the statutory auditor, Mr Joachim Knoll, is a member of;
- we monitored the adequacy and function of the organisational structure, the internal control system, the risk management system, audits and accounting-administration at the Bank, and the reliability of the latter to correctly represent the affairs of the company. More specifically, meetings with the heads of the pertinent 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;
- in carrying out our duties we met periodically with heads of the individual departments, especially the compliance office and internal audit office, to check their operations with careful attention to anti-money laundering measures and complaints and also on the adequacy of the internal control system;
- we oversaw the bank's internal processes, especially with regard to procedures to grant credit and write down loans and we checked the bank's management of impaired positions, especially doubtful positions;

- we received the opinion of the independent auditing firm, BDO S.p.A., Milan, as required by art. 2409-*septies* of the Italian Civil Code and in no case have any divergences of opinion or assessment emerged, nor have any significant data or information emerged which should be mentioned in the present report; we evaluated the independence of the auditing firm in accordance with art. 17 of Italian Legislative Decree no. 39/2010; More specifically, no positions of a recurrent nature were given to parties related to the independent auditing firm. No critical issues emerged relating to the independence of the auditing firm.
- we checked the transactions falling within the scope of article 136 of the TUB, 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, and no findings were made. The issue of transactions with related parties is described under section "H" of the Notes to the accounts and in special section in the Directors' Report;
- the Bank's governance model is currently under revision, and the strategic commission's work was suspended within the scope of that in 2013;
- with reference to the "Integrated control system" project, the internal control committee, established to improve the efficiency and effectiveness of the control system and guarantee improved risk monitoring, commenced work;
- we met with the Manager in charge of preparing the corporate financial report who confirmed the adequacy and actual application of the procedures pertaining to the financial reporting of the bank;
- the Board of Directors is currently carrying out an evaluation of its adequacy, size, composition and function;
- the Board of Statutory Auditors also checked whether the conditions were in place to consider its members independent;
- we should point out that no reports in relation to art. 2408 of the Italian Civil Code were submitted by members nor were there any major complaints made by any third parties and no facts emerged which warranted reporting or mention in our Report

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 2013, we report the following:

- pursuant to art. 2409-*bis* of the Italian Civil Code, legal audits of the accounts of Banca Popolare dell'Alto Adige were performed by independent auditing firm BDO S.p.A., Milan, as per their appointment by the general shareholders' meeting, and to whose report we refer the reader;
- on 26 March 2014 the independent auditors submitted their report on the financial statements at 31 December 2013 pursuant to articles 14 and 16 of Italian Legislative Decree 39/2010 and it is acknowledged that the report does not report any irregularities or inconsistencies nor reference to disclosures with regard to the financial statements or the directors' report;
- we have acquired information on the layout 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 as updated and amended on the technical format of financial statements for banks;
- the notes to the accounts contain detailed information on the items of the Balance Sheet – concerning goodwill and other assets that underwent impairment tests – 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, as agreed with the independent auditors;
- 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 had recourse to the exceptions provided by art. 2423(4) of the Italian Civil Code;

- the Manager in charge of preparing the corporate financial report, Mr Alberto Caltroni, issued the certificate under art. 154-*bis* of Italian Legislative Decree 58/98 on the financial statements on 21 March 2014;
- concerning the distribution of dividends, taking account of the instructions from the Bank of Italy of 13 March 2013, equity ratios and earnings forecasts for the Bank, we would like to inform you that we agree with the proposal for the distribution of the dividend.

In accordance with art. 19 of Italian Legislative Decree 39/2010, the inspection permitted 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 auditing firm.

In view of the above, the Board of Statutory Auditors hereby expresses its opinion in favour of approval of the Bank's financial statements as submitted and agrees with the proposal to allocate the year-end profit as proposed by the Board of Directors.

Bolzano, 26 March 2014

THE BOARD OF STATUTORY AUDITORS

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

CERTIFICATION ON THE FINANCIAL STATEMENTS

FINANCIAL STATEMENTS CERTIFICATION UNDER 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 Società Cooperativa per Azioni and Alberto Caltroni as the Manager in charge of preparing the corporate financial report for Banca Popolare dell'Alto Adige Società Cooperativa per Azioni, 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 2013.

2. It is further certified that:

   2.1. the financial statements as at 31 December 2013:

   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, 21 March 2014

CHAIRMAN OF THE BOARD OF DIRECTORS

MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

INDEPENDENT AUDITORS' REPORT

Tel: +39 0459690472
Fax: +39 0459690474
www.bdo.it

Via Dietro Listone, 16
37121 Verona
e-mail: verona@bdo.it

Auditor's report on the financial statements
in accordance with articles 14 and 16 of legislative decree n. 39 of 27 January 2010
(This report has been translated from the original Italian text
which was issued in accordance with the Italian legislation)

To the shareholders of
Banca Popolare dell'Alto Adige società cooperativa per azioni

1. We have audited the financial statements of Banca Popolare dell'Alto Adige società cooperativa per azioni as at and for the year ended December 31, 2013, comprising the statement of financial position, income statement, statement of comprehensive income, the statement of changes in equity, statement of cash flows and notes thereto. The company's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative Decree n. 38/2005. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of prior year, the data of which are presented for comparative purposes, reference should be made to our auditor's report issued on March 25, 2013.

3. In our opinion, the financial statements of Banca Popolare dell'Alto Adige società cooperativa per azioni as at and for the year ended December 31, 2013 comply with the International Financial Reporting Standards endorsed by European Union and the Italian regulations implementing article 9 of legislative decree n. 38/2005; therefore, they are clearly stated and give a true and fair view of the financial position, the results of the operations and the cash flows of Banca Popolare dell'Alto Adige società cooperativa per azioni for the year then ended.

4. The directors of Banca Popolare dell'Alto Adige società cooperativa per azioni are responsible for the preparation of a report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob. In our opinion the report on operations is consistent with the financial statements of Banca Popolare dell'Alto Adige società cooperativa per azioni as at and for the year ended December 31, 2013.

Verona, March 26, 2014

BDO S.p.A.

Signed by:
Alfonso Iorio
(Partner)

FINANCIAL STATEMENTS

Balance Sheet

Asset items	31.12.2013	31.12.2012
(in Euro)		
10. Cash and cash equivalents	54,320,430	49,607,040
20. Financial assets held for trading	57,806,611	104,183,827
40. Financial assets available-for-sale	605,539,715	370,246,650
50. Investments held to maturity	55,125,535	1,080,183
60. Due from banks	119,224,875	156,512,370
70. Loans to customers	4,922,442,920	5,016,487,555
100. Investments in associates and companies subject to joint control	5,157,239	3,963,929
110. Property and equipment	104,396,565	103,089,911
120. Intangible assets	42,580,700	43,657,903
of which goodwill	*40,392,116*	*40,392,116*
130. Tax assets	66,936,699	45,484,327
a) current	*41,849,356*	*25,173,433*
b) deferred	*25,087,343*	*20,310,894*
140. Non-current assets and groups of assets held for sale	833,714	-
150. Other assets	68,643,936	53,102,765
Total	**6,103,008,939**	**5,947,416,460**

Liabilities and shareholders' equity items	31.12.2013	31.12.2012
(in Euro)		
10. Due to banks	645,875,022	771,855,296
20. Due to customers	3,025,035,687	2,702,436,436
30. Debt securities issued	1,295,118,833	1,202,431,521
40. Financial liabilities held for trading	7,275,879	12,475,941
50. Financial liabilities designated at fair value through profit and loss	297,624,069	449,769,288
80. Tax liabilities	46,924,163	45,918,185
a) current	*21,237,188*	*21,191,339*
b) deferred	*25,686,975*	*24,726,846*
100. Other liabilities	135,069,495	121,366,243
110. Employee termination indemnities	18,830,697	19,548,484
120. Provisions for risks and charges:	2,468,937	2,552,358
a) retirement benefits and similar commitments	-	-
b) other provisions	*2,468,937*	*2,552,358*
130. Valuation reserves	(475,646)	71,386,529
160. Reserves	255,527,992	247,359,940
170. Share premium reserve	202,458,684	202,458,684
180. Share capital	152,508,440	76,274,700
200. Net income (loss) for the year	18,766,687	21,582,855
Total	**6,103,008,939**	**5,947,416,460**

Income Statement

Income statement items	31.12.2013	31.12.2012
(in Euro)		
10. Interest and similar income	175,320,789	188,768,340
20. Interest and similar expense	(70,395,045)	(70,623,185)
30. Interest margin	**104,925,744**	**118,145,155**
40. Fee and commission income	68,932,921	73,916,515
50. Fee and commission expense	(8,837,246)	(8,670,838)
60. Net fee and commission income	**60,095,675**	**65,245,677**
70. Dividends and similar income	1,504,174	230,003
80. Profits (losses) on trading	1,487,201	3,347,331
100. Profits (losses) on disposal or repurchase of:	5,659,741	4,079,153
a) loans	*187,596*	*97,128*
b) financial assets available-for-sale	*4,902,819*	*2,802,008*
c) investments held to maturity	*3,399*	*3,769*
d) financial liabilities	*565,927*	*1,176,248*
110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss	206,273	1,080,951
120. Net interest and other banking income	**173,878,808**	**192,128,270**
130. Net losses/recoveries on impairment of:	(19,068,463)	(28,294,658)
a) loans	*(19,325,564)*	*(26,552,425)*
b) financial assets available-for-sale	*(352,271)*	*(1,838,500)*
c) financial assets held to maturity	-	-
d) other financial activities	*609,372*	*96,267*
140. Net income from banking activities	**154,810,345**	**163,833,612**
150. Administrative expenses:	(126,594,566)	(124,754,343)
a) personnel expenses	*(73,601,096)*	*(73,739,574)*
b) other administrative expenses	*(52,993,470)*	*(51,014,769)*
160. Net provisions for risks and charges	(310,723)	(1,095,891)
170. Net adjustments to /recoveries on property and equipment	(5,644,856)	(13,371,336)
180. Net adjustments to /recoveries on intangible assets	(1,304,535)	(1,432,008)
190. Other operating income (expenses)	16,547,867	12,601,770
200. Operating expenses	**(117,306,813)**	**(128,051,808)**
210. Profits (losses) on investments in associates and companies subject to joint control	(1,966,525)	(236,393)
240. Profits (losses) on disposal of investments	29,078	(8,978)
250. Income (loss) before tax from continuing operations	**35,566,085**	**35,536,433**
260. Taxes on income from continuing operations	(16,799,398)	(13,953,578)
270. Income (loss) after tax from continuing operations	**18,766,687**	**21,582,855**
290. Net income (loss)	**18,766,687**	**21,582,855**

Statement of Comprehensive Income

Items *(in Euro)*		31.12.2013	31.12.2012
10.	**Net Income (loss)**	**18,766,687**	**21,582,855**
	Other comprehensive income after tax without reclassification to profit or loss		
40.	Actuarial gains (losses) on defined benefit plans	960,797	(2,834,155)
	Other comprehensive income after tax with reclassification to profit or loss		
100.	Financial assets available-for-sale	1,626,610	5,200,851
130.	**Total other comprehensive income after tax**	**2,587,407**	**2,366,696**
140.	**Comprehensive income (Items 10+130)**	**21,354,094**	**23,949,551**

Statement of Changes in Shareholders' Equity

Statement of Changes in Shareholders' Equity from 1 January to 31 December 2013

(in Euro)	Balance as at 31.12.2012	Changes in opening balance	Balance as at 01.01.2013	Allocation of net income from previous year		Changes in the year								Shareholders' equity at 31.12.2013
						Changes in reserves	Operations in shareholders' equity						Comprehensive income for 2013	
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options		
Share capital	**76,274,700**	**-**	**76,274,700**	**-**	**-**	**76,274,700**	**-**	**(40,960)**		**-**	**-**	**-**	**-**	**152,508,440**
a) ordinary shares	76,274,700	-	76,274,700	-	-	76,274,700	-	(40,960)	-	-	-	-	-	152,508,440
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**202,458,684**	**-**	**202,458,684**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**202,458,684**
Reserves	**247,359,940**	**-**	**247,359,940**	**10,141,650**	**-**	**(1,825,118)**	**-**	**(148,480)**	**-**	**-**	**-**	**-**	**-**	**255,527,992**
a) retained earnings	247,359,940	-	247,359,940	10,141,650	-	(1,825,118)	-	(148,480)	-	-	-	-	-	255,527,992
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	**71,386,529**	**-**	**71,386,529**	**-**	**-**	**(74,449,582)**	**-**	**-**	**-**	**-**	**-**	**-**	**2,587,407**	**(475,646)**
Equity instruments	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net income (loss)	**21,582,855**	**-**	**21,582,855**	**(10,141,650)**	**(11,441,205)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,766,687**	**18,766,687**
Shareholders' Equity	**619,062,708**	**-**	**619,062,708**	**-**	**(11,441,205)**	**-**	**-**	**(189,440)**	**-**	**-**	**-**	**-**	**21,354,094**	**628,786,157**

Statement of Changes in Shareholders' Equity from 1 January to 31 December 2012

(in Euro)	Balance as at 31.12.2011	Changes in opening balance	Balance as at 01.01.2012	Allocation of net income from previous year		Changes in the year								Shareholders' equity at 31.12.2012
						Changes in reserves	Operations in shareholders' equity						Comprehensive income for 2012	
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options		
Share capital	**69,340,638**	**-**	**69,340,638**	**-**	**-**	**-**	**6,934,062**	**-**	**-**	**-**	**-**	**-**	**-**	**76,274,700**
a) ordinary shares	69,340,638	-	69,340,638	-	-	-	6,934,062	-	-	-	-	-	-	76,274,700
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**145,772,727**	**-**	**145,772,727**	**-**	**-**	**-**	**56,685,957**	**-**	**-**	**-**	**-**	**-**	**-**	**202,458,684**
Reserves	**239,464,579**	**-**	**239,464,579**	**7,895,361**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**247,359,940**
a) retained earnings	239,464,579	-	239,464,579	7,895,361	-	-	-	-	-	-	-	-	-	247,359,940
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	**69,019,833**	**-**	**69,019,833**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,366,696**	**71,386,529**
Equity instruments	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net income (loss)	**18,296,456**	**-**	**18,296,456**	**(7,895,361)**	**(10,401,095)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,582,855**	**21,582,855**
Shareholders' Equity	**541,894,233**	**-**	**541,894,233**	**-**	**(10,401,095)**	**-**	**63,620,019**	**-**	**-**	**-**	**-**	**-**	**23,949,551**	**619,062,708**

Cash Flow Statement

A.	OPERATING ACTIVITIES	31.12.2013	31.12.2012
(in Euro)			
1.	**Cash flow from operations**	**39,679,496**	**57,514,684**
	- Interest received (+)	175,320,789	188,768,340
	- Interest paid (-)	(70,395,045)	(70,623,185)
	- Dividends and similar income (+)	1,504,174	230,003
	- Net fee and commission income (+/-)	60,095,675	65,245,677
	- Personnel expenses (-)	(73,601,096)	(73,739,574)
	- Other costs (-)	(55,028,900)	(53,224,895)
	- Other revenues (+)	18,583,297	14,811,896
	- Taxes (-)	(16,799,398)	(13,953,578)
	- Costs/revenues after tax from discontinued operations (+/-)	-	-
2.	**Cash flow from/used in financial assets**	**(87,080,135)**	**(319,614,779)**
	- Financial assets held for trading	69,606,200	119,589,688
	- Financial assets designated at fair value through profit or loss	-	-
	- Financial assets available-for-sale	(230,742,517)	(191,092,857)
	- Loans to customers	74,595,944	(246,400,732)
	- Due from banks: repayable on demand	5,312,055	(7,950,823)
	- Due from banks: other loans	31,975,440	23,609,653
	- Other assets	(37,827,257)	(17,369,708)
3.	**Cash flow from/used in financial liabilities**	**125,592,240**	**224,793,509**
	- Due to banks: repayable on demand	31,753,795	(30,549,422)
	- Due to banks: other payables	(157,734,069)	132,297,332
	- Due to customers	322,599,251	388,044,517
	- Debt securities issued	93,862,611	(109,206,120)
	- Financial liabilities held for trading	(26,941,845)	(29,649,511)
	- Financial liabilities designated at fair value through profit or loss	(151,938,946)	(184,948,561)
	- Other liabilities	13,991,443	58,805,274
	Net cash flow from/used in operating activities	**78,191,601**	**(37,306,586)**

B.	INVESTING ACTIVITIES		
1.	**Cash flow from**	**78,127**	**11,817,719**
	- Sales of investments in associates and companies subject to joint control	37,469	(236,393)
	- Dividends from investments in associates and companies subject to joint control	-	-
	- Sale of investments held to maturity	3,399	2,616,738
	- Sale of property and equipment	37,259	9,437,374
	- Sale of intangible assets	-	-
	- Sale of business branches	-	-
2.	**Cash flows used in**	**(64,429,679)**	**(17,125,248)**
	- Purchase of investments in associates and companies subject to joint control	(3,197,304)	(3,099,579)
	- Purchase of investments held to maturity	(54,045,352)	-
	- Purchase of property and equipment	(6,959,691)	(13,409,194)
	- Purchase of intangible assets	(227,332)	(616,475)
	- Purchase of business branches	-	-
	Net cash flow from/used in investing activities	**(64,351,552)**	**(5,307,529)**

C.	FINANCING ACTIVITIES		
	- Issue/Purchase of treasury shares	76,233,740	63,620,019
	- Issue/Purchase of equity instruments	(73,919,194)	3,234,144
	- Dividend distribution and other allocations	(11,441,205)	(10,401,096)
	Net cash flow from/used in financing activities	**(9,126,659)**	**56,453,067**
	NET CASH FLOW FROM/USED IN ACTIVITIES DURING THE YEAR	**4,713,390**	**13,838,952**

RECONCILIATION	31.12.2013	31.12.2012
Cash and cash equivalents at the beginning of the year	49,607,040	35,768,088
Net cash flow from/used in activities during the year	4,713,390	13,838,952
Cash and cash equivalents: impact of exchange differences	-	-
Cash and cash equivalents at the end of the year	**54,320,430**	**49,607,040**

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 2013 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 2013 or those approved in previous financial years, whose application is prescribed or permitted for 2013, 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 2013 were drafted on the basis of “Instructions for drafting company financial statements and the consolidated financial statements of banks and parent company financial companies of banking groups” issued by the Bank of Italy, by Order of 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: schedules and rules for drawing them up” as amended. These Instructions impose requirements on what schedules to use for the financial statements and how to fill them out, along with what to put into 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 are 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 the 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;
- *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 informational details (the “of which” entries of the items and of sub-items). The items, the sub-items, and the relevant informational 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 revisions. 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 together help 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 financial year, or for the previous financial year 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 allowed or required by an international accounting standard or by an interpretation thereof or prescribed by the Bank of Italy's Circular cited;
- *Comparative information:* For each balance-sheet and income-statement account, 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 the 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 are subdivided into sections, each of which illustrates an individual aspect of management.

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 management 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 losses in value of financial assets, especially for loans and financial assets available-for-sale;
- determining the congruency of the goodwill and shareholdings;
- 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 choice of valuation model or parameters to use in the valuation might not be assessable on the market;
- determination of impairment of property and equipment;
- quantifying provisions for risks and charges, petitum uncertainty, contingency timeframes, and actuarial assumptions used;
- estimates in recovery 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

Closing of the VOBA 2 securitisation

In January 2014, Banca Popolare • Volksbank established the contractual terms relating to closing the vehicle securitisation company VOBA n. 2 S.r.l., by full early redemption of the securities issued by the vehicle company and immediate repurchase of the receivables included in the remaining portfolio. Therefore, a total amount of Euro 105,648,667.28 of Class A securities, Euro 49,900,000.00 of Class B securities and Euro 9,079,000.00 of Class C securities were redeemed.

This transaction was initiated on 4 December 2008 by issue of Euro 245,150,000 of Class A securities, Euro 49,900,000 of Class B securities and Euro 9,079,000 of Class C securities with maturity in 2044.

The early closing permitted - among other things - a part of the receivables reacquired to be used within the scope of the VOBA n. 5 S.r.l. securitisation carried out in the first quarter of 2014.

VOBA 5 securitisation

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 sale of 4,164 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.

Sale of the Investment in Acquazzurra S.r.l.

On 3 February 2014, the entire investment, amounting to 48.98% of the share capital, of the company Acquazzurra S.r.l. was sold. The sale falls within the plan to rationalise investments that are no longer considered to be strategic. The aforesaid investment was classified, in the financial statements for the year ended on 31 December 2013, under assets held for disposal and measured at the lower between the carrying amount and the sales price.

Repayment of a portion of the LTRO loan

On 28 February 2014, the Board of Directors, taking account of the favourable liquidity situation of the Bank, decided on a plan to gradually repay the Long Term Refinancing Operation (“LTRO”) initiated in 2012 and expiring in 2015. The progressive repayment will also be made by taking account of the maturities of the securities issued, the funding opportunities on the retail and institutional markets, and the need to ensure adequate balance between loans and funding.

A total of 100 million was repaid within the scope of that process on 19 March 2014. Due to this repayment, the amount of the residual loan with the ECB is a nominal amount of 400 million.

DBRS rating

As noted above in the report on operations, in February 2014, the ratings agency gave Banca Popolare • Volksbank a BBB Rating, with a negative trend.

This rating includes a rating on the senior debt and long-term deposits of BBB and a short-term rating and on the deposits of R-2 ("high"). The trend for both ratings was negative. At the same time, DBRS gave an IA - Intrinsic Assessment rating of BBB, an issuer rating of BBB and a Support assessment rating of SA-3 to the Bank.

The agency also reported that the rating assigned reflected the solid and stable presence of Banca Popolare • Volksbank in some of key industrial and commercial districts of the province of Bolzano, along with the profitability, the resilient quality of the credit and the adequate capitalisation. The rating also takes account of the weaker competitive position of the Bank in the regions of Veneto and Friuli Venezia-Giulia and the current financial support available from the ECB in addition to the need to improve operating efficiency.

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 article 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 of 21 March 2014 and shall be submitted for the approval of the general Shareholders Meeting with first call scheduled for 28 April 2014 and second call for 29 April 2014.

Independent Audit

The financial statements are subject to audit by the company BDO 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 with shareholder's resolution of 20 April 2010. The full audit report is published together with the annual financial report, in conformity with 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, that came into force at the start of the 2013 financial year.

Approval Regulations	Title
EC. Reg. no. 475 of 5 June 2012 In force for the financial year in course as of: 1 January 2013 (early application is permitted)	IAS 19 - Employee Benefits - The amendments should help readers understand more clearly how the defined benefit plans influence the capital-financial position, the profit and loss and the cash flows of the entity. The objective of this Standard is to define how to account for and provide additional information on employee benefits.
EC. Reg. no. 475 of 5 June 2012 In force for the financial year in course as of: 1 January 2013 (early application is permitted)	IAS 1 - Presentation of Financial Statements - Exposure of the other components of the statement of comprehensive income in the financial statements.
EC. Reg. no. 1255 of 11 December 2012 In force for the financial year in	IFRS 13 - The new standard IFRS 13 "Fair Value Measurement" establishes a single reference framework to measure the fair value, replacing the rules scattered among the various accounting standards and providing a complete guide on how to measure the fair value of financial and non-

course as of: 1 January 2013	financial assets and liabilities, including in non active and illiquid markets. The new standard does not extend the use of the fair value accounting standard, application of which is required or permitted by other standards, but provides practical, complete instructions that agree on how to calculate the fair value. For further details on the approach used, please refer to the next section "A.2 – Information on the Main Items of the Financial Statements."
EC. Reg. no. 1256 of 13 December 2012 In force for the financial year in course as of: 1 January 2013	IFRS 7 - The amendments introduced to the IFRS 7 standard have the dual objective of permitting users of the financial statements to evaluate the real or potential effects of all the offsetting agreements on the financial situation of the entity, and to analyse and compare the accounting results of transactions drawn up with the international accounting standards with those drawn up in accordance with the different American accounting standards. More specifically, specific information is required for financial instruments that were offset in the balance sheet in accordance with IAS 32, and for those that can potentially be offset upon the occurrence of certain conditions, but are presented in the financial statements with open balances since they are governed by "framework offsetting agreements or similar" that do not comply with all the criteria established by IAS 32 for offsetting in financial statements. In providing disclosure of said agreements, the standard also requires the effects of the financial collateral received and given to be considered. For disclosure on the financial assets and liabilities subject to offsetting in the financial statements, or subject to framework offsetting agreements or similar agreements, please refer to the new tables introduced by the aforementioned update of Circular no. 262 in Part B of these notes to the accounts, under "other information"
EC. Reg. no. 301 of 27 March 2013	IFRS 1, IAS 16, IAS 32, IAS 34 - They deal with standardisation of the "Annual cycle of the 2009-2011 improvements to the international accounting standards" approved by the IASB on 17 May 2012. The limited changes introduced by the aforementioned cycle of improvements aim to resolve certain inconsistencies encountered in the body of the IFRS standards, to provide terminological clarification and formulate additional guidelines with respect to application of certain requirements.

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 2014 or subsequently.

Approval Regulations	**Title**
EC. Reg. no. 1254 of 11 December 2012 In force for the financial year in course as of: 1 January 2014	IFRS 10, IFRS 11, IFRS 12, amendments to IAS 27 and IAS 28 (and subsequent approved amendments with Regulation no. 313 of 4 April 2013 "guide to the transition" and Regulation no. 1174 of 20 November 2013 for the subsidiaries held by investment entities). Certain new standards were approved with the aforementioned Regulation, and correlated with amendments to the existing standards as approved by the IASB in 2011 and 2012. The aim of IFRS 10 "consolidated financial statements" is to provide a single model for the consolidated financial statements, which provides for control as the basis of consolidation of all types of entities, replacing the standards provided under IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation - Special Purpose Entities". An investor has control when it has the following at the same time: power over the entity, exposure or rights to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of returns. IFRS 11 "Joint Arrangements" establishes the accounting standards for entities that form part of joint control arrangements, and replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities - Non-Monetary Contributions by Venturers." The standard requires the entity to establish the types of agreement that it is involved in, establishing its rights and obligations. The interests held in a joint venture, in which the parties who hold joint control have rights to the net assets of the arrangement, are recorded as an investment to be evaluated in accordance with the net equity method pursuant to the new version of IAS 28. On the basis of the new standard, the proportional consolidation of the joint ventures is no longer permitted. IFRS 12 "Disclosure of Interests in Other Entities" is the new standard that includes the disclosure requirements for all forms of interests in subsidiaries, associates, non-consolidated structured entities and joint control arrangements.
EC. Reg. no. 1256 of 13 December 2012 In force for the financial year in course as of: 1 January 2014	IAS 32 - This regulation approved the amendment to the standard IAS 32 - "Financial Instruments: Presentation", approved by the IASB on 16 December 2011 This amendment introduces certain paragraphs that aim to clarify the application methods of prevailing rules regarding offsetting the financial assets and liabilities in the balance sheet to the application guide of the standard, on the basis of which the net balance can only be represented when the entity currently has the legal right to offset the amounts that are relevant for accounting purposes and intends to pay off the remaining amount or realise the assets and at the same time pay off the liabilities. More specifically, it is clarified that the right to offset does not have to be subject to a future condition precedent and must be legally exercisable both in the normal course of business activities and in the case of breach, insolvency or any arrangements with creditors regarding the entity and all the counterparties.
EC. Reg. no. 1375 of 19 December	IAS 39 - The amendment introduced by this regulation provides that the novation of a derivative,

2013	designated as hedging, by an existing counterparty to a new central counterparty, due to rules or regulations, does not mean that the hedging relationship has to be transferred on condition that any changes of the hedging instrument are limited to those needed to change the counterparty.

Finally, the list of international accounting standards, amendments and interpretations issued by the IASB are shown below pending confirmation by the European Commission.

Accounting standard/ Interpretation/ Amendment
IFRS 7 and IFRS 9 - Financial Instruments amendments of 16 December 2011, of 19 November 2013
IAS 19: change to the defined benefit plans issued on 21 November 2013
Improvements to certain IFRS standards approved on 12 December 2013
IFRIC 21 containing interpretations of certain tax details, issued on 20 Mary 2013

Domestic tax consolidation option

Starting from financial year 2011, Banca Popolare • Volksbank and the subsidiary VOBA Invest S.r.l. in liquidation availed of the “domestic tax consolidation” option, governed by articles 117-129 of the TUIR (Consolidation Act on Income Taxes) and introduced into the tax legislation by Italian Legislative Decree 344/2003.

This tax regime permits individual subsidiaries to take part of 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 offset 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 owing by 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 made after establishing the domestic tax consolidation regime, where said losses form part of the consolidated taxable amounts. Losses made prior to establishing the domestic tax consolidation must be offset in its own taxable amounts owing only by the consolidated party in accordance with tax regulations in effect.

The option is applicable to the three-year period 2011-2013.

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

The financial statements as at 31 December 2013 were prepared applying the same accounting standards used for drafting the previous year's financial statements, supplemented with the approved amendments and in force starting from the 2013 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

Classification criteria

This classification includes all the financial assets (debt securities, equity securities, mutual investment fund units, loans and derivatives, etc.) held for trading, (therein including the derivatives related to assets /liabilities designated at fair value and the derivatives separated on an accounting basis by 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 include those 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 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, i.e. save for the cases explicitly anticipated by IAS 39. In these cases, debt and equity securities no longer held for trading may be reclassified to other categories anticipated by IAS 39 whenever the conditions for recognition are met (Investments held to maturity, Financial assets available-for-sale, Loans).

The transfer value is represented by the fair value at the time of the reclassification. During reclassification, a verification is conducted concerning the possible presence of embedded derivative contracts to be separated.

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.

Valuation criteria

Following the 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 quoted in an active market, refer to the market prices, normally corresponding to the BID price at the closing date. In the absence of an active market, prices provided by information providers such as Bloomberg or Reuters are used, or valuation models that take into account all the 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 (the "comparables" method); discounted cash flow calculations: models for determining option prices; values recognised in recent comparable transactions (the "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. Said impairment losses cannot be subject to subsequent reversal.

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

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 said control entails the retaining the assets in the financial statements by a measure equal to its continuing stake, measured by the exposure to changes of value of the assets sold and changes in their cash flows.

Finally, the financial assets sold are derecognised in the financial statements if the contractual rights to receive the relevant cash flow have been retained, with the simultaneous assumption of an obligation to pay said flows, and only them, to other third party subjects.

2. Financial assets available-for-sale

Classification criteria

This category includes the non-derivative financial assets not classified as Loans, Financial assets held for trading, Investments held to maturity or Assets designated at fair value through profit and loss.

In particular, this item includes debt securities not subject to trading activity and not classified in the other portfolios cited above, equity investments not managed for trading purposes and not qualifiable as investments subsidiaries, associates, and joint ventures, including private equity investments, the shares of the subscribed syndicated bank facilities which, from the beginning, are meant to be sold.

The 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.

In the cases permitted by the accounting principles, reclassifications are only permitted for the category Financial assets held to maturity. In addition, debt securities can be reclassified to both the Financial assets 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 the 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 already illustrated for financial assets held for trading.

Equity securities and the units in collective investment undertakings for which there is no price available from the active market and for which the fair value may not be measured reliably and derivatives that are related to them and that must be paid by delivery of the aforesaid instrument, are kept at cost and written down in the event of impairment.

The 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 the aforesaid 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 does not necessarily mean that impairment can be recognised on the accounts. This evidence is simply a first signal 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 the recognition of the impairment loss cease to apply subsequent to an event that occurred 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 the case of equity securities. For the debt securities and for the loans, this reversing 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.

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.

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 have been retained, they continue to be recorded in the financial statements, even though legally the ownership of said assets has actually 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 said control entails the retaining the assets in the financial statements by a measure equal to its continuing stake, measured by the exposure to changes of value of the assets sold and changes in their cash flows.

Finally, the financial assets sold are derecognised in the financial statements even if the contractual rights to receive the relevant cash flow have been retained, with the simultaneous assumption of an obligation to pay said flows, and only them, to other third party subjects.

3. Investments held to maturity

Classification criteria

This category includes debt securities with a fixed term and fixed or calculable payments for which the Bank has the intent and capacity to hold them 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 sale or reclassification:

- 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 isolated event that cannot be controlled, that is non recurring, and that therefore cannot not be reasonably predicted.

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, that normally corresponds to the consideration paid, including any directly attributable costs and income.

If the 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 itself.

Valuation criteria

After the initial recognition, the financial assets held to maturity are valued at the amortised cost, using the original effective interest rate method. Gains or losses in reference to the fair value changes are recognised in the income statement at the moment when the assets are derecognised.

At the close of the year and of the infra-annual reporting periods, impairment testing is performed to find 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 recording). The impairment amount is recognised in the income statement.

If the reasons for impairment are removed subsequent to an event occurring after the recognition of the impairment, 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 said control entails the retaining the assets in the financial statements by a measure equal to its continuing stake, measured by the exposure to changes of value of the assets sold and changes in their cash flows.

Finally, the financial assets sold are derecognised in the financial statements if the contractual rights to receive the relevant cash flow have been retained, with the simultaneous assumption of an obligation to pay said flows, and only them, to other third party subjects.

4. Loans

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 included the trade receivable, loans originating from financial leasing transaction, 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 the loans acquired without recourse, they are included under the item loans and receivables, subject to verifying that no contractual clauses exist that significantly alter exposure to the transferee company's risk.

Loans are initially recognised on the date when 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 the costs/income directly attributable to the individual loan and calculable since the start of the transaction, even though paid at a later time. Costs having the aforesaid characteristics that will be repaid by the debtor or that 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 subscription price corresponds to the fair value, assumed to be the amortised cost of the asset itself, existing on the date determined for the transfer. For further details, refer to the subsequent paragraph “Other information, Reclassifications between financial asset portfolios (amendment IAS 39)”.

For any lending transaction concluded at other than market conditions, fair value is determined using special valuation techniques; The difference between the amount disbursed and the subscription price is charged directly to the income statement.

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 calculating the rate at which the present value of the 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, independently from the duration. Such loans are valued at historical cost. The same valuation criteria are adopted in the case of on-demand loans or loans whose duration is undetermined.

At the end of each year or infra-annual reporting period, loans are recognised to identify those which, subsequent to events that occurred after their recognition, show objective evidence of a possible impairment loss. Included within this remit are those loans that assigned to substandard, restructured or doubtful status, in accordance with prevailing regulatory provisions.

These impaired 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 carrying amount 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 incurred costs 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 of the contractual rate and even if the relationship does not pay the interest.

The original value of the loan is written back in the subsequent financial years to the extent by which 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 itself. 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 that show continuous over-runs or delayed payments, according to the actual rules established from regulatory provisions. The adjustments of said loans, though determined in accordance with a lump-sum/statistical-type calculation methodology, are represented as “Specific value adjustments”, in observance of the 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, therein including those to counterparties in countries at risk, are valued on a collective basis. This valuation takes place for loan categories homogeneous in terms of credit risk and the relevant percent impairments are estimated taking into account historical series, based on facts observable on the date of the valuation, that allow the value of the 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 lead to the substantial transfer of all the risks and rewards associated with the loans themselves. However, whenever the risks and rewards relative to the loans transferred have been retained, the loans continue to be recorded among the 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 financial assets are derecognised whenever no control of any type has been retained over them. Otherwise, the retention, including the partial retention, of said control entails the retaining of the loans by a measure equal to the remaining investment, measured from the exposure to changes of value of the loans sold and variations of the their cash flows. Finally, the loans sold are derecognised if contractual rights to receive the relative cash flows are preserved, with the concomitant assumption of an obligation to pay said flows, and only them, to other third party subjects.

5. Financial assets designated at fair value through profit or loss

Classification criteria

Any financial asset defined as such at the time of purchase can be classified in the 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. 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.

At the time of initial recognition, the financial assets are recorded at fair value, without considering the costs or proceeds of the transaction that is directly attributable to the instrument itself.

Banca Popolare • Volksbank uses the aforesaid category to account for the hedging transactions of its debt securities.

Valuation criteria

The financial assets under study are measured at fair value from the moment of the first recognition, which takes place based on the settlement date. The initial income and expenses are entirely charged to the income statement.

Fair value is determined based on the criteria already 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 themselves.

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 the ownership is transferred.

6. Hedging Transactions

The hedging transactions seek to neutralise potential recognisable losses on a specific component or group of components attributable to a specific risk, in case that specific risk actually occurs.

IAS 39 envisages the following types of hedges:

- fair value hedge, with the objective of hedging exposure to the change in the fair value of an asset or liability in the financial statements attributable to a particular risk;
- cash flow hedge, that has the objective of hedging exposure to changes of future cash flows attributable to particular risks associated with a recognised asset or liability;
- the hedging of an investment in a foreign currency, that entails hedging risks of an investment in a company expressed in foreign currency;
- fair value macro-hedge (“macro-hedging”) with the objective of reducing the fluctuations of fair value, attributable to interest rate risk, by a monetary amount, originating from a portfolio of financial assets and liabilities (including the “core deposits”). Net amounts deriving from the differences in assets and liabilities cannot be macro hedged.

Hedging derivatives are initially recorded at fair value.

Hedging derivatives are subsequently carried at fair-value. In case of fair-value hedging, the change in the fair value of the component hedged is offset by the change of fair value of the hedging instrument. This offsetting is recognised through the recognition of 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, in perspective, throughout the duration of the hedge. The hedge's effectiveness depends on the measure to which the changes of 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 moment when 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, being that they demonstrate 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 the trading instruments, and the hedged financial instrument reacquires the valuation criteria corresponding to its classification in the financial statements.

As at the balance sheet date, the bank has no ongoing hedging transactions.

7. Investments in associates and companies subject to joint control

Classification criteria

This item includes the interests held in subsidiaries held on an exclusive basis, associated companies or subject to joint control that are recorded on the basis of the equity method.

Entities in which the power to determine the financial and management policies is held are considered to be subsidiaries. This occurs when more than half of the voting rights at shareholders' meetings are held, directly and/or indirectly, or if other conditions of de facto control are present such as, for example, the appointment of the majority of the Directors.

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 joint ventures.

Associates are considered to be non-subsidiaries in which a significant influence is exerted. It is presumed that the company exerts a significant influence in all cases where it holds a share of 20% or higher of the voting rights and, regardless of the shares owned, whenever it has the power to participate in the management and financial decisions of the associated company.

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 ancillary costs that can be directly charged.

The carrying amount is subsequently increased or reduced to enter 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". The dividend income reduces the carrying amount of the investment.

Please refer to the last validly approved financial statements of the subsidiary.

Valuation criteria

If value adjustments have to be made due to changes in the shareholders' equity of the investee company that have not been recorded in the income statement, the amount of those changes owned by the Bank is recorded directly in the equity reserve items.

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 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 are removed subsequent to an event occurring after the recognition of the impairment, write-backs are made to the income statement.

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.

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.

If there is a loss of control, association or joint control, as a result of the partial disposal of the investment, the remaining stake retained is recorded in the financial statements at fair value and the profits and losses with respect to previous carrying amount are charged to the income statement.

8. Property and equipment

Classification criteria

Property and equipment include land, capital property, investment property, plant engineering 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.

Assets used within the scope of financial lease agreements, even if the lessor has retained the legal ownership thereof, are also recorded under this item.

Property and equipment are initially recorded at cost, which includes, in addition to the acquisition cost, all accessory costs directly attributable to the acquisition and the commissioning of the asset.

The extraordinary maintenance expenses that entail an increase in the future economic rewards, are allocated to increase the value of the assets, whereas the other ordinary maintenance costs are charged to the income statement in the financial year in which they are incurred.

Valuation criteria

Property and equipment, including non-capital property, are valued at cost, having deducted 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 indefinite useful life. If its value is incorporated in value the building value, in virtue of the 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 the independent expert opinions.
- assets that form part of artistic patrimony, since the useful life of a work of art cannot be estimated and its value is normally destined to increase over time.

At the end of each year, if any evidence exists that demonstrates an asset may have suffered an impairment loss, a comparison is made between its carrying amount and its recoverable amount, equal to the higher value between the fair value, net of any selling costs, and the related 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 the recognition of the impairment loss cease to apply, a write-back, that may not exceed the value that the asset would have had, net of depreciation, calculated in the absence of previous impairment losses, is made.

Derecognition criteria

Property and equipment are derecognised in the balance sheet upon disposal thereof or when the asset is permanently withdrawn from use. Any future economic benefits expected from its divestiture are accounted for.

9. Intangible assets

Classification criteria

Intangible assets are non-monetary assets, identifiable and without physical substance, originating in legal or contractual rights, and possessed to be used in a multiyear period.

Intangible assets are recorded at cost, adjusted for any accessory charges, only if it is likely that the economic rewards attributable to the asset will be realised, and if that the asset's costs can be reliably determined. Otherwise, the cost of the intangible assets is recognised in the income statement in the financial year in which it is incurred.

In particular, intangible assets include:

- technology-based intangible assets, such as application software, which are depreciated as a function of the assets' obsolescence and within a maximum period of five years;
- costs incurred internally for the development of software projects are intangible assets and are recorded under the 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 related to the customers represented by the valuation, when aggregating the asset management relations of the insurance portfolio and the core deposits. These assets, all with defined lives, are originally valued by time-discounting them, using a rate that represents the time value of money and the specific risks of the asset, the flows representing the income margins over a period that expresses the residual contractual or estimated lifetime of the relations when the aggregations are being made. They are amortised on a straight-line basis over eight years;
- goodwill, which represents the positive difference between the acquisition cost and the fair value of the assets and liabilities owned by an acquired business.

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

The cost of the intangible assets with defined useful lives is amortised on a straight-line basis or through accelerated amortisation with allowances determined as a function of the inflow of the economic rewards expected from the asset.

If any evidence demonstrating that an asset with a defined useful life may have suffered an impairment loss exists, the recovery value of the asset will be appraised. 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.

Intangible assets with indefinite 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. The CGU corresponds to the operating divisions identified in the management report for Banca Popolare • Volksbank. 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.

10. Non-current assets and groups of assets held for sale and related liabilities

Non-current assets and liabilities and groups of assets and liabilities held for sale are classified under these items.

Classification under this item is possible whenever the disposal is deemed highly probable. In this case these assets and liabilities are valued as the lesser value between the carrying amount and their fair value net of selling or divestiture costs.

Assuming that the assets being disposed of are depreciable, the depreciation process ceases starting from financial year in which they are classified among non-current assets held for sale. The relevant income and expenses are shown in the income statement under separate items, net of the tax effect when they regard 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

Classification criteria

Income taxes for the period, calculated in compliance with tax regulations in force, are accounted for as cost based on the accrual criteria, consistent with the recognition in the financial statements of the costs and revenues which generated them.

They therefore represent the balance of the 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 (such as adjustments due to first time application of the IAS/IFRS or measurement of the financial instruments available-for-sale), they must be recorded as a contra entry to the shareholders' equity, concerning the specific reserves where provided for (usually the valuation reserves).

Latent taxation of the "taxable if used" deferred tax equity items is recorded on the financial statements as a reduction of the shareholders' equity. Deferred taxes related to revaluations due to conversion to the Euro directly charged to the specific reserve pursuant to art. 21, Italian Legislative Decree 213/98 in deferred taxation, are recorded on the financial statements as a reduction of the reserve itself.

The latent taxation referring to the "taxable only if distributed" deferred tax equity items is not recorded on 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.

Subsequent to the adoption of domestic tax consolidation with reference to the holdings in VOBA Invest S.r.l. in liquidation, the tax positions attributable to the Bank and those originating from VOBA Invest S.r.l. in liquidation are managed distinctly in administrative terms.

Current tax assets and liabilities

Current tax assets and liabilities contain the net balance of the Bank's tax position in relation to the tax authorities. In particular, these postings include the net balance between the current tax liabilities for the financial year, calculated based on a prudent expectation of the tax burden due for the year, determined based on the tax regulations in force, and the current tax assets represented by advances and by the other tax credits for withholding taxes incurred or other tax credits of previous financial years for which the Bank has requested offsetting with the taxes of later financial years. The current tax assets also include the tax credits for which the Bank has requested repayment from the relevant tax authorities.

The current tax assets and liabilities are presented in the balance sheet with compensated balances, whenever settlement will take place based on the net balance, due to the existence of a legal right to compensation.

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 the 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 temporary taxable 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 fiscal deductions are made (the so-called probability test).

Deferred tax assets and liabilities relative to the same tax and coming due in the same period are compensated.

Whenever the deferred tax assets and liabilities refer to components that affect the income statement, the corresponding entry is represented by the income taxes for the period.

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.

12. Provisions for risks and charges

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 related to these plans and the related work-related social security costs are calculated in accordance with actuarial hypotheses applying the “projected unit credit” method, which involves projecting future payments on the basis of historical statistical analyses and the demographic curve and the financial time-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 the time-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.

As more fully explained above, starting from the current year, the actuarial losses and gains are charged to a specific equity reserve.

Other provisions

The other provisions for risks and charges include the 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 recorded if and only if:

- a present obligation (legal or implicit) exists owing to a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to fulfil the obligation;
- a reliable estimate of the probable future disbursement may be made.

The amount recognised as a provision represent the best estimate of the expense required to fulfil the obligation existing on the financial statements reference date and reflects risks and uncertainties that inevitably characterise a large number of facts and circumstances. The provision and the increased due to the time factor are recognised in the income statement. The provision is reversed when it becomes unlikely that resources capable of producing economic rewards will be used to fulfil the obligation or when the obligation expires.

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.

The item provisions for risks and charges does not include the write-downs due to the impairment of the guarantees provided and of similar credit derivatives in accordance with the IAS 39, which are recorded in the financial statements under the item “Other liabilities”.

The sub-item “other provisions for risks and charges” includes the allocations against presumed losses for petitions and lawsuits, including revocatory actions, the estimated disbursement for customer claims regarding the stock broking activity, as well as a reliable estimate of the other disbursement against any other legal or implied obligations existing as at the close of the financial year.

If the time factor is significant, the provisions are converted into a present value equivalent using current market rates. The time-discounting effect is recognised in the income statement, as well as the increase of the provision owing to the passing of time.

Each fund is used only to manage those outlays for it was originally established.

Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it becomes unlikely that resources, capable of producing economic rewards will be used to fulfil the obligation, the provision is reversed.

13. Payables and debt securities issued

Classification criteria

The items “due to banks”, “due to customers” and “debt securities issued” comprise the various forms of interbank funding and funding with customers and deposits made through outstanding certificates of deposit and bond securities, net of any amount repurchased. Also included are the reverse repurchase agreements and security loans involving the receipt of pecuniary guarantees.

Such financial liabilities are recorded upon receiving the deposits or upon issuing the debt securities. Initial recognition is made 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.

The reverse repurchase agreements with repurchase obligation are recorded in the financial statements as deposits for the amount paid in the spot transaction.

Valuation criteria

After the initial recognition, the financial liabilities are valued at amortised cost with 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 fully charged to the income statement.

Derecognition criteria

The financial liabilities are derecognised from the balance sheet at maturity or when they are extinguished or repurchased. Derecognition takes place based on the fair value of the component issued and of the component repurchased on the purchase date.

The difference between the carrying amount of the liability and the amount paid to buy it are charged to income statement.

Any re-placement of own liabilities on the market subsequent to their repurchase is considered like a new issue with recording or the liability on the basis of the new placement price, without any effect on the income statement.

14. Financial liabilities held for trading

Classification criteria

This item includes the negative value of the trading derivative contracts carried at fair value and the financial liabilities for cash held for trading.

Also included are the negative values of the derivatives associated with assets and with the 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 the technical losses generated by the trading of securities

The first recording is made based on the fair value of the liabilities, normally equal to the amount collected, without considering the transaction costs or income directly attributable to the instrument itself, which are charged directly to the income statement.

Valuation criteria

After the first recording, they are carried at fair value. The profits and losses deriving from the change of fair value and/or from the sale are accounted for directly and fully in the income statement.

Derecognition criteria

Financial liabilities are derecognised in the balance sheet or infra-annual reports when they expire or are extinguished.

The profits and losses from trading and the valuation gains and losses of the trading portfolio are recorded in the income statement under the item “Profits (losses) on trading”, with the exception of those relative to derivative instruments related to the fair value option which are classified under the item “Profits (losses) on financial assets and liabilities designated at fair value through profit and loss”.

15. Financial liabilities designated at fair value through profit or loss

Classification criteria

A financial liability is designated on initial recognition as 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 anticipated by the contract; i.e.
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 information is provided internally to the key management personnel.

Valuation criteria

The financial assets under study are carried at fair value from the moment of the first recording. The initial income and expenses are immediately charged to the income statement.

Derecognition criteria

Financial liabilities are derecognised in the balance sheet or infra-annual reports when they expire or are extinguished.

Where there are financial liabilities represented by shares issued, they can also be cancelled where there is repurchasing: the difference between the carrying amount of the liabilities and the amount paid to buy it are recorded in the income statement. The re-placement of own securities on the market subsequent to their repurchase is considered like a new issue with recording at the 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.

16. Currency transactions

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.

Upon the close of each financial year or infra-annual reporting period, the postings in foreign currency are valued as follows:

- the monetary items are converted at the exchange rate on the closing date;
- the non-monetary items measured at historical cost are converted at the exchange rate in effect on the date of the transaction;
- the non-monetary items measured at fair value are converted 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 the non-monetary components is the absence of the right to receive, or the obligation to deliver a fixed or determinable number of monetary units.

Exchange rate differences relating to the settlement of non-monetary components or to the conversion of monetary components at exchange rates other from those used for the initial conversions, or for conversion of the previous financial statements, are recognised in the income statement for the period in which they were made.

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 recognised in the income statement also.

Costs and revenues in foreign currency are recognised at the exchange rate in effect at the time when recorded or also, if they have not yet matured, at the exchange rate in effect as 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 divisional coin, and demand deposits with Central Banks. The item is recorded at nominal value. For foreign currencies, the nominal value is converted into Euros at the exchange rate on the date of the financial statements.

Other assets

Assets than cannot be imputed to other balance-sheet asset items are recorded here. The item includes the following:

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) the improvements and the incremental expenses incurred on third-party assets other than those belonging to the item “property and equipment”. The renovation costs of unowned real-estate assets 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 instructions by the Bank of Italy 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

These may also include unprocessed and suspended transactions (with a “debit balance”) not attributed to the accounts to which they belong, provided they are negligible.

Other liabilities

Liabilities that do not belong to the other balance sheet liabilities appear in this item.

The item includes, by way of example:

a) the payment arrangements that must be classified as liabilities in accordance with IFRS 2;

b) the value of first recording of the 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.

Employee termination indemnities

Subsequent to the entry into force of the 2007 Finance act, that advanced the reform of the complementary pension plans 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 effect of the supplementary pension reform pursuant to Italian Legislative Decree no. 252 of 5 December 2005) both where the customer chooses a supplementary pension plan and in the cases where it is forms part of the Treasury fund with INPS. The amount accounted for these portions as personnel expenses is calculated on the basis of the contributions due without application of the 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 amount of the provisions for employee termination indemnities matured up to 31 December 2006.

The amounts relating to the “defined benefit plans” are recorded on the basis of their actuarial value calculated using the “projected unit credit” method, without application of the pro-rata of the service provided since it is a current service cost of the employee severance indemnity and almost entirely matured, and its revaluation, for the upcoming years, is not considered to provide significant benefits for the employees.

For time-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 maturity, with respect to the total to pay and advance until the entire obligation has been paid off. The service costs for the plan are accounted for as staff costs, while the actuarial gains/losses are charged to a specific equity reserve.

Provisions for guarantees and commitments

The provisions on an analytical and collective basis, regarding the estimate of any payments related to the credit risk regarding guarantees and commitments, calculated by applying the same criteria previously presented with reference to the receivables, are placed under Other liabilities, as provided under the Instructions of the Bank of Italy.

Share capital and treasury shares

The item share capital includes the amount of the shares, both ordinary and preferred, issued net of any subscribed capital not yet paid-in. The item is presented gross of any treasury shares retained by the bank. The latter are presented with a negative sign in the namesake item of the balance sheet liabilities.

The historical cost of treasury shares repurchased and the ensuing profits or losses from their subsequent sale are recognised as movements of net equity.

Any direct transaction costs relative to a share capital transaction, such as for example a share capital increase, are recorded as reduction of the shareholders' equity, net of any related fiscal benefit.

Securitisations

All outstanding securitisations were performed after 1 January 2004.

The loans assigned are not derecognised from the financial statements when there is a substantial retention of the risks and rewards, even if formally subject to assignment without recourse to a special-purpose vehicle. This occurs, for example, whenever the bank subscribes the tranche of Junior securities or similar exposures, since it bears the risk of the first losses and, likewise, benefits from the transactions earnings.

Consequentially, the loans are 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 thereby issued and subscribed by the transferor bank. Similar representation criteria, based on substance over form, are applied for the recognition of the accrual periods.

b) The recognition of revenues and dividends

Revenues are recognised when it is obtained, or in the case of the sale of goods or products, or in any event when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably when they are given. More specifically:

- interest amounts are recognised on an accrual basis according to the contractual interest rate or actual interest rate if the amortised cost methods is applied; The interest income (interest expense) item also includes the positive (negative) differentials or margins, matured up to the reference date of the financial statements 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;
- the late payment interest, if envisaged by contract, is recorded in the income statement only when actually collected;
- dividends are recognised to the income statement during the year in which their distribution has been decided on;
- 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 from 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 by assets and liabilities measured on the basis of measurement techniques that use inputs other than quoted market prices included within level 1 that are observable for the asset or liability (level 1 and level 2 of the fair value hierarchy). If the reference parameters used for the measurement are unobservable on the market or the instruments have 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 on the income statement for the duration of the transaction;
- the profits and losses resulting from trading financial instruments are recognised on 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 itself;
- revenues received from the sale of non-financial assets are recorded when the sale has been concluded, unless most of the risks and benefits related to the asset have been maintained.

Costs are recorded on the income statement in the periods in which the related revenues were accounted for. If the correlation between costs and revenues is only possible in a generic and indirect way, the costs are recorded over several periods in accordance with a rational, systematic allocation method.

Costs that cannot be associated with the income are recognised immediately on 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 change, under specific conditions, financial instruments recorded at the time of acquisition within the “Financial assets held for trading” category or the “Financial assets available-for-sale” category, may be reclassified into another accounting category. Before this change, the general rule anticipated that category transfers were not allowed, except for transfers between the “Financial assets available-for-sale” and the “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. It is not possible instead to reclassify the financial instruments belonging to the category “Financial assets designated at fair value through profit and loss” subsequent to the adoption of the so-called “fair value option”. The new accounting category of destination is “Loans”. The condition to qualify for reclassification is that the financial instrument complies, on the transfer date, with the requirements anticipated for the classification in the Loans” portfolio and that the company no longer intends to trade the securities subject to reclassification, having reached its intention to hold the financial instrument for the predictable future or until maturity;

- the non-derivative financial instruments classified in the category “Financial assets available-for-sale” to the accounting category “Loans”, if the corresponding financial instrument, on the reclassification date, met the definition of a “Loans” and the company now has the intent and the capacity to hold it in the predictable future or until maturity.

Any other non-derivative debt instrument or capital instrument may be reclassified from the category “Financial assets held for trading” to the category “Financial assets available-for-sale” or from the category “Financial assets held for trading” to “Investments held to maturity” (only for the 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”, “Investments held to maturity”, “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, with the exception of that specified further on; 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 the reclassified assets, every possible subsequent positive change in the expected cash flow helps determine the effective interest rate on the reclassification date and will be recorded throughout the remaining residual life of the instrument instead of modifying the asset's carrying amount with an income statement corresponding entry, as anticipated for assets not subject to reclassification.

Vice versa, any subsequent decreases in the cash flows estimates from the reclassification date will follow the rules previously in force, i.e. they will be immediately recorded in the income statement if they represent an impairment loss.

The profits and losses previously suspended in the shareholders’ equity reserve for the 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 criteria; vice versa if the instrument does not have a predetermined maturity (perpetual instruments for example) they remain suspended in the reserve until the time of sale or of extinction.

In case of reclassification of the financial asset and until its extinction, 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 distinct companies and business activities in a single subject required to draft financial statements.

A combination may give rise to a participatory relation 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 recognizes the interest acquired as an investment in subsidiaries applying the accounting standard IAS 27 “Consolidated and Separate Financial Statements”.

A combination may also anticipate the acquisition of the net assets of another entity, including any goodwill, or also the acquisition of another entity's capital (mergers, contribution, 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 on, including potential liabilities, must be recognised to their respective fair value on 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, on 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 groupings 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 company consolidation is equal to the fair value, on the acquisition date, of the assets disposed, of the liabilities incurred, and of the capital 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 on 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 on the acquisition date and are recognisable within the measurement period of the business combination (that is within twelve months from the date of the acquisition, as shall be specified further on). Every other change deriving from events or circumstances subsequent to the acquisition, such as, for example, that recognised for the seller associated with the attainment of specific performance income, must be recognised in the income statement.

The identification of the fair value of assets and of liabilities must be definitively consummated within a maximum term of 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.

The transactions conducted 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 going concern account values in the acquirer's financial statements, whenever they do not exhibit a significant influence on future cash flows. This in conformity with the provisions of IAS 8§10, that requires, in the absence of a specific standard, the use of one's own judgment in applying an accounting standard to provide relevant, reliable, 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 trading.

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-type transactions.

The determination of the fair value of assets and liabilities is based on the going concern assumption for the bank., i.e. in the presumption that the bank will be fully operational and will neither liquidate nor appreciably reduce its trading operations nor will it conclude transactions under unfavourable terms. Fair value also reflects the credit rating of the instrument, in so far that it incorporates the counterparty risk.

IFRS 13 defines a hierarchy of three categories 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, carried out in accordance with the principles presented below, is defined below:

1. *Level 1* - Instruments are listed on markets deemed to be active. The definition of an active market shall be provided further on (mark-to-market);
2. *Level 2* - The instruments are not listed, or are listed on markets deemed to be inactive: the mark-to-model method must therefore be adopted. For classification in Level 2, it's 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 the instrument itself (interest rates, foreign exchange rates, credit spread, market volatility, etc.). The input data may refer to the instrument itself or also, if absent, to instruments deemed to be

comparable ("comparable approach"). For certain types of instruments (for example shares), approaches such as the relevant transactions recently conducted on the instrument itself 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 mark-to-model method must therefore be adopted. For classification in Level 3, it's 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 (for ex: application of future cash flow estimation methods, of repayment plans, or of 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 the subsequent section "A. 3 – Information on Fair value".

Financial assets and liabilities held for trading, Financial assets designated at fair value through profit and 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 case of instruments listed in active markets;
- through the use of internal valuation models, for the other financial instruments.

Mark to Market

In determining fair value, the bank uses, whenever available, information based on market data obtained from independent sources, 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 - deducible from the trade prices expressed by an active market. A market is considered active whenever the trade prices reflect the normal market transactions, are properly and readily available through Stock Exchanges, listing services, brokers, and if said prices represent the actual and regular market transactions.

The following are normally considered active markets:

- the regulated markets of securities and derivatives, with the exception of the "Luxemburg" 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 mutual investment fund units (UCITS), expressed by the official NAV (Net Asset Value), based on which the issuing Asset Management Company must proceed to liquidated the shares. 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 reimbursement request and the date of the actual repayment, as well as to take into account any back-end fees.

Mark to Model

In case of the absence of market prices directly observable on markets considered to be active, it is necessary to resort to valuation techniques that maximises 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 based on the expected cash flow time-discounting method, duly corrected to make allowance for the issuer risk;
- Derivative contracts are valued based on a multiplicity of models, as a function of 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 securities or on similar securities observed in an appropriate interval with respect to valuation date, with the market multiples method 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

The "Financial liabilities designated at fair value through profit and loss" include the liabilities issued by the bank, for which the Fair Value Option was adopted. In particular, the fair value option perimeter regards the following types of issues:

- flat rate, plain vanilla and step-up or floating rate bond loans issues;
- structured bond loan issues whose pay off is related to interest rate structures, to inflation rates, or similar indexes.

In these cases, the adoption of the fair value option allows the resolution of the accounting "mismatching" that would have otherwise occurred if the bonds issue was valued at amortised cost and the derivative at fair value.

Unlike hedge accounting, the accounting rules of which require that only the changes in fair value attributable to the risk be recognised for the hedged instrument, the fair value option implies the recognition of all the changes of fair value, 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 one's own bond issues.

More specifically, in determining the fair value of one's own issues subscribed by the retail customers, changes in one's own creditworthiness that occurred after the issue date are not taken into consideration.

In calculating the fair value of the bond issues within the scope of the EMTN programme, subscribed to by institutional clients, in which transactions subsequent to the issue are affected by the change in one's own credit spread, the measurement method is based on a cash flow time-discounting model, where the curve used for the time-discounting is equal to the risk free market interest rate, increased by the curve of one's own creditworthiness recorded on the market the instruments are traded on.

Due from and to Banks and Customers, Debt securities issued, Investments held to maturity

For the other securities recorded in the financial statements at the amortised cost, and classified essentially among debt relationships with banks or customers, among outstanding securities, or among financial assets held to maturity, a fair value determined for disclosure purposes in the notes to the accounts. More specifically:

- for impaired medium-long term loans (doubtful and substandard loans), the fair value is determined discounting the contractual flows, net of expected loss based on a risk-free market rate. For the medium-long term performing loans, the fair value is calculated in accordance with a risk-aversion approach: the time-discounting is conducted on the expected cash flows, duly adjusted for expected losses, based on a risk-free market rate, plus a component deemed to represent the risk aversion to make allowance for other factors in relation to the expected loss;
- for on-demand assets and liabilities or having short-term or indeterminate 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 the change of the bank's credit rating, wherever considered a relevant factor;
- for the debt securities classified in the “Investments held to maturity” portfolio or “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.

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 upon expiration, net of any impairment loss.

The effective interest rate is that rate which at which the present value of a financial asset or liability is equal to at discounted contractual flow of the future money payments or those received until maturity or at next date for the recalculation of the price. 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).

Subsequent to initial recognition, the amortised cost allows revenues and expenses to be allocated to increase or decrease or the instrument value throughout its entire expected live via the amortisation process. The measurement of amortised cost differs depending on whether the financial assets/liabilities subject to valuation are at a flat or floating rate and – in the latter case – depending on whether or not the rate variability is known beforehand. For the flat rate instruments or with flat rates for set period, the future cash flows are quantified based on the known interest rate (sole or variable) during the life of the loan facility. For the 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 the loans, the investments held to maturity, for the debts, and debt securities issued.

The financial assets and liabilities traded under market conditions are initially recognised at their fair value, which normally corresponds to the amount allocated or paid including, the directly imputable transaction costs and fees for the instruments valued as at amortised cost.

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 imputed to the individual financial asset or liability, influence the actual original 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, for early termination.

The amortised cost valuation criteria does not apply to hedged financial assets/liabilities that anticipate changes in the recognition of the fair value relative to the hedged risk in the income statement (with regards to the hedged risk). The financial instrument is however again valued at the 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 the originally scheduled hedge maturity. Furthermore, as already mentioned in the paragraph regarding the valuation criteria of the receivables and payables and outstanding securities, the valuation of the amortised cost does not apply for the financial assets/liabilities whose short duration entails a negligible time-discounting effect or for loans without a defined maturity or good till cancelled.

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 and loss, are subject to an impairment test to verify the existence of objective evidence of impairment that can imply that the carrying value of assets themselves is not entirely recoverable.

Impairment losses exist if there is objective evidence of a reduction of the 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 loss 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 at beneficiary, of a facility that the bank had taken into consideration predominantly for economic or legal reasons relative to the financial difficulties thereof and that it otherwise would not have authorised;
- the probability that the debtor may enter in bankruptcy proceedings or other financial reorganisations procedures;
- the loss of an active market for the financial asset under discussion due to financial difficulties of the issuer itself. 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 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 loss 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, so as to indicate that the investment therein cannot be recovered;
- an extended or significant decrease in fair value below the acquisition cost.

Impairment loss valued on an analytical basis for the financial assets that present specific evidence of impairment losses and collectively, for financial assets for which is an analytic valuation is not required. or for which the analytic valuation did not result in a write-down. The collective valuation is based on the identification of homogeneous risk categories of financial assets with reference to the debtor's characteristics, to the economic sector, to the geographical area, in the presence of any guarantees and other relevant factors.

Whenever an objective impairment loss is observed subsequent to one or more events that occurred after the initial recognition of the assets, the impairment must be calculated, according to rules that are different for the financial instruments valued at amortised cost or for assets carried at fair value, imputing the changes to shareholders' equity.

With reference to the loans to customers and banks, refer to that already stated in the part on loans.

With reference to the assets available-for-sale, the process for recognising possible impairment involves verifying the presence of impairment indicators and determining any write-downs.

The amount of the impairment is determined with reference to the financial asset's fair value.

A.3. INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

A.3.1. Reclassified financial assets: carrying amount, fair value and effects on comprehensive income

On 15 October 2008, the European Commission approved Regulation no. 1004 with which the changed to IAS 39 were adopted as concerns the reclassification of the financial instruments and IFRS 7 as concern the 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 83.7 million of debt securities and unlisted UCITS units, held for trading, having a counter-value in the financial statements of 144.8 million, were reclassified as financial instruments available-for-sale, and a nominal 13.0 million of debt securities held for trading corresponding to a carrying amount of 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 a financial asset held for trading, forcing, in fact, its retention in the predictable future or until maturity. As allowed by the change of IAS 39, in 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 not held by the bank for trading, with a par value of 48.3 million corresponding to a carrying amount of 42.5 million were reclassified as loans, taking into consideration that the state of uncertainty that has characterised financial markets during last quarter of the financial year would not have permitted the reasonable pursuit of the management objectives that had justified the recording of the financial instruments as of financial assets held for trading, entailing in fact, 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 2013 no further reclassifications were carried out.

An illustration of the residual carrying amount as at 31 December 2013 is shown below.

(thousands of Euro)

Type of financial instrument	Source Portfolio	Destination Portfolio	Carrying amount as at 31.12.2013	Fair value as at 31.12.2013	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	4,534	4,534	153	58	294	(84)
UCITS units	HFT	AFS	41,310	41,310	879	(22)	723	133
Debt securities	HFT	HTM	985	762	130	42	-	5
Debt securities	HFT	LRO	-	-	-	221	-	325

The carrying amount of the debt securities as at 31 December 2013 amounts to 5.5 million (34.5 million as at 31 December 2012) and their fair value amounts to 5.3 million (34.2 million as at 31 December 2012).

Reclassified financial assets: effects on comprehensive income before transfer

No further reclassifications of financial assets were made in 2013.

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 for this year, that were mostly non-listed bonds 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 2001.

No further reclassifications of financial assets were made in 2013.

Effective interest rate and excepted cash flows from reclassified assets

No further reclassifications of financial assets were made in 2013.

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 the assets and liabilities measured at fair value on a recurrent basis, where no directly observable prices are available from active markets, the fair value is determined on the base valuation models, or on the basis of the 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 value the fair value of the level 2 instruments, a time-discounting model is used of expected future flows that use - firstly - the risk-free curve (in its different forms, or based on swap rates vs 6-month or 3-month Euribor rates and other inputs) which can be directly observed on the market.

More specifically, in the case of instruments denominated in Euro, three risk-free curves are used: one curve for the simple discounting (partially based on Euribor 3-month or 3-month futures, in part on 6-month for the medium-long term maturities), 2 curves (one 3-month and one 6-month) to calculate the forwards in the securities at the indexed Euribor 3-month rate or Euribor 6-month rate.

The credit spread is also applied to the time-discounting calculation, quantified on the basis of directly observable prices on the market (even though not the stock market) and provided by external contributors. If there are no prices available, they are quantified on the basis of comparables or by analogy with similar securities in terms of duration and credit quality of the issuer, 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:

Category of financial instruments	Product	Valuation model	Valuation model input
Debt securities	Treasury securities, corporate bonds	Time-discounting of the expected flows using market parameters, corrected for issuer risk. If they include structured securities, the optional component is also valued.	Interest rate curves, credit spreads communicated by contributors, credit spreads by comparables
Unlisted equity securities	Quota holdings	Directly observed transaction method 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 mutual investment funds	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, credit spreads communicated by contributors, credit spreads by comparables
	Financial derivatives on interest rates - Cap-floor	Black model	Volatility matrices, risk-free rates

The securities classified as level 3 are usually structured securities; in the specific case of the owned portfolio held by the institute, they are indexed CMS securities (constant maturity swap) or inflation-linked structured securities or securities where the credit spread cannot be quantified with the qualitative level mentioned above.

Where there are CMS securities, it must be observed how - theoretically - the forward rates could be directly observed on the market (implicit in the valuations): however we believe 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 the CMS securities, these forward rates are therefore used, even though with the problematic issues described above, without application of convexity adjustments, and for the rest (time-discounting curve and credit spread) availing of the same operating methods noted above for the level 2 securities.

On 31 December 2013, the only three securities of that nature were close to maturity and therefore the coupon had basically already been established. For the inflation-lined securities, indexed as a minimum to the Euribor and inflation, forward curves are used for the Euribor and the forward curve of inflation based on the curve of the swap rate against inflation.

For level 3 securities, the credit spread is defined on each occasion, referring to any external contributions or by conversion of the credit spreads of the results of the creditworthiness analyses based on the most recent financial statements available.

A.4.2. Processes and sensitivity of the valuations

The valuation techniques are applied on a daily basis by the investment Service (front office).

The risk-management service - hierarchically independent from the front-office - carries out a daily check of the prices expressed by the investment service, using rate curves and fair value assessments provided by the external financial services provider.

The check substantially entails checking the theoretical correctness of the valuation model selected and the independent repricing of the individual instruments.

The risk management service also checks newly introduced valuation models, including in relation to the acquisition of new financial instruments.

The instruments used by the risk management service include the ICVS function to construct the risk-free curves. The risk management service also carries out a daily check of similar curves adopted by the investment service.

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 actually 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.

When possible, Bloomberg generally uses all these pricing “sub-algorithms” at the same time, weighing the output (obviously a clear predominance is given to market prices in accordance with their “liquidity”) in order to obtain an even more plausible price.

In the rare cases where the prices are at level 2 since they can be observed on the market (even if they are not listed on the stock market and in any case liquid) but belong to structures like “delta CMS”, the risk management service makes an estimate based on Montecarlo simulations in order to provide an adequate verification of all the market values.

As regard the sensitivity analyses to make on the “non directly observable” input relating to the valuations of level 3 securities, based on the above with respect to the indexed CMS securities (now at fixed rates) and the low level of exposures weighing on the structured securities, sensitivity analyses on level 3 debt instruments issued by unlisted parties were carried out.

In this case, the impact of variations on the non-directly observable input was quantified, represented by the credit spread of the issuer (who - on the other hand - 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 the purposes of providing disclosure on the 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 2013, and which have a different level of fair value compared to that in place as at 31 December 2012, it was hypothesised 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 2013, there was no information to report in accordance with IFRS 13, paragraphs 51, 93 (i), 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 in order to take account of the offset 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. Assets and liabilities designated at fair value on a recurring basis are considered to be financial for the Bank.

For this reason, the disclosure required by the IFRS 7, approved with EC. Reg. no. 1165 of 27 November 2009, for the financial asset and liability portfolios subject to measurement at fair value, based on the fair value hierarchy is provided here below.

(thousands of Euro)		31.12.2013			31.12.2012	
Financial Assets/Liabilities measured at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets held for trading	530	53,414	3,863	17,975	75,520	10,689
2. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
3. Financial assets available-for-sale	363,322	226,330	15,888	52,024	117,145	15,328
4. Hedges	-	-	-	-	-	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**363,852**	**279,744**	**19,751**	**92,115**	**192,665**	**26,017**
1. Financial liabilities held for trading	55	7,221	-	-	12,104	-
2. Financial liabilities designated at fair value through profit and loss	-	297,624	-	-	449,769	-
3. Hedges	-	-	-	-	-	-

Total		55	304,845	-	-	461,873	-

Key		
B V	=	Carrying amount
L1	=	Level 1
L2	=	Level 2
L3	=	Level 3

Financial assets measured at fair value on a recurring basis

The financial assets valued on the basis of prices drawn from active markets (Level 1) or determined based on parameters observable in the market (Level 2) represent 94.5% of the carrying amount of financial assets carried at fair value.

Instruments measured with significant use of parameters not observable on the market (Level 3) comprise a marginal portion, equal to 5.5%, and are represented by a limited number of securities classified in the financial assets held for trading, mainly from Italian bank issuers, for which the fair value has been mainly inferred from information originating 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 the financial assets available-for sale. The fair value thus obtained for these instruments has been conservatively classified at level 3.

24.4 million of the financial assets held for trading consist of derivative instruments held for trading and hedges; these are Over the counter (OTC) contracts valued using valuation models that make significant use of parameters that can be observed on the market or drawn from independent sources (Level 2).

Financial liabilities measured at fair value on a recurring basis

Almost all of financial liabilities held for trading are almost represented by derivatives held principally for trading, the fair value of which is obtained through valuation techniques that make significant use of observable market parameters (Level 2).

The financial liabilities designated at fair value are represented by the respective bond issues hedged by derivatives, for which was 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 2013, 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 and loss	Financial assets available-for-sale	Hedges	Property and equipment	Intangible assets
1. Opening balance	**10,689**	**-**	**15,328**	**-**	**-**	**-**
2. Increases	**2,548**	**-**	**15,892**	**-**	**-**	**-**
2.1 Purchases	207	-	15,420	-	-	-
2.2 Profits allocated to:	149	-	221	-	-	-
2.2.1 Income Statement	149	-	-	-	-	-
- *of which capital gains*	149	-	-	-	-	-
2.2.2 Shareholders' Equity	X	X	221	-	-	-
2.3 Transfers from other levels	8	-	-	-	-	-
2.4 Other increases	2,184	-	251	-	-	-
3. Decreases	**9,374**	**-**	**15,332**	**-**	**-**	**-**
3.1 Sales	64	-	1,700	-	-	-
3.2 Reimbursements	1,622	-	-	-	-	-
3.3 Losses allocated to:	-	-	93	-	-	-
3.3.1 Income Statement	-	-	62	-	-	-
- *of which capital losses*	-	-	-	-	-	-
3.3.2 Shareholders' Equity	X	X	31	-	-	-
3.4 Transfers to other levels	5,728	-	13,517	-	-	-
3.5 Other decreases	1,960	-	22	-	-	-
4. Closing balance	**3,863**	**-**	**15,888**	**-**	**-**	**-**

A.4.5.3. Annual changes in liabilities designated at fair value on a recurring basis (level 3)

As at the balance sheet date, there are no financial liabilities of level 3 designated at fair value.

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	**31.12.2013**				**31.12.2012**			
(thousands of Euro)	**BV**	**L1**	**L2**	**L3**	**BV**	**L1**	**L2**	**L3**
1. Investments held to maturity	55,126	-	55,944	-	1,080	-	695	-
2. Due from banks	119,225	-	119,225		156,512	-	156,512	-
3. Loans to Customers	4,922,443	-	5,196,346		5,016,488	-	5,217,047	-
4. Property and equipment held for investment purposes	-	-	-	-	-	-	-	-
5. Non-current assets held for sale	834	-	-	834	-	-	-	-
Total	**5,097,628**	**-**	**5,371,515**	**834**	**5,174,080**	**-**	**5,374,254**	**-**
1. Due to banks	645,875	-	-	595,511	771,855	-	771,855	-
2. Due to customers	3,025,036	-	-	2,865,203	2,702,436	-	2,702,436	
3. Debt securities issued	1,295,119	-	1,295,058	61	1,202,432	-	1,201,965	467
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**4,966,030**	**-**	**1,295,058**	**3,460,775**	**4,676,723**	**-**	**4,676,256**	**467**

	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 the 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 2013.

A.5. DISCLOSURE ON THE SO-CALLED “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 2013, 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 other matter is 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

(thousands of Euro)		31.12.2013	31.12.2012
a)	Cash on Hand	54,320	49,607
b)	Demand deposits at Central Banks	-	-
	Total	**54,320**	**49,607**

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

(thousands of Euro)	31.12.2013			31.12.2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	501	39,362	3,855	17,710	51,054	10,689
1.1 Structured securities	-	-	3,765	17,710	3,996	5,288
1.2 Other debt securities	501	39,362	90	-	47,058	5,401
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	27	8	-	35	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**501**	**39,389**	**3,863**	**17,710**	**51,089**	**10,689**
B. Derivatives						
1. Financial derivatives	29	14,025	-	265	24,431	-
1.1 held for trading	29	4,759	-	265	8,603	-
1.2 related to the fair value option	-	9,266	-	-	15,828	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 related to the fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
Total B	**29**	**14,025**	**-**	**265**	**24,431**	**-**
Total (A+B)	**530**	**53,414**	**3,863**	**17,975**	**75,520**	**10,689**

The item “Debt securities – Other debt securities” of level 1 is composed of Eurozone country government securities. The change with respect to the previous operating period is mainly attributable to the reimbursements that took place in the financial year.

The item “Debt securities – Other debt securities” of level 2 is composed of bonds issued by banks of European Union country and by capitalisation contracts.

The item “Debt securities” of level 3 includes 10.5 million of bonds issued entirely by banks and financial institutions.

2.2 Financial assets held for trading: breakdown by debtor/issuer

(thousands of Euro)	31.12.2013	31.12.2012
A. CASH ASSETS		
1. Debt securities	**43,718**	**79,453**
a) Governments and central banks	7,022	24,234
b) Other public entities	-	-
c) Banks	6,086	25,731
d) Other issuers	30,610	29,488
2. Equity securities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- Other	-	-
3. UCITS units	**35**	**35**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	**43,753**	**79,488**
B. DERIVATIVES		
a) Banks	9,693	16,683
b) Customers	4,361	8,013
Total B	**14,054**	**24,696**
Total (A+B)	**57,807**	**104,184**

2.3 Financial cash assets held for trading: annual changes

(thousands of Euro)	Debt securities	Equity securities	UCITS units	Loans	Total
A. Opening balance	**79,453**	**-**	**35**	**-**	**79,488**
B. Increases	**86,195**	**-**	**-**	**-**	**86,195**
B1. Purchases	80,676	-	-	-	80,676
B2. Positive changes in fair value	155	-	-	-	155
B3. Other changes	5,364	-	-	-	5,364
C. Decreases	**121,930**	**-**	**-**	**-**	**121,930**
C1. Sales	99,187	-	-	-	99,187
C2. Reimbursements	18,106	-	-	-	18,106
C3. Negative changes in fair value	4	-	-	-	4
C4. Transfers to other portfolios	-	-	-	-	-
C5. Other changes	4,633	-	-	-	4,633
D. Closing balance	**43,718**	**-**	**35**	**-**	**43,753**

Section 3 Financial assets designated at fair value through profit and loss – Item 30

3.1 Financial assets designated at fair value through profit and loss: breakdown by type

As at the balance sheet date, as in the previous year, there were no financial assets designated at fair value through profit and loss.

3.2 Financial assets designated at fair value through profit and loss: breakdown by debtor/issuer

As at the balance sheet date, as in the previous year, there were no financial assets designated at fair value through profit and loss.

3.3 Financial assets designated at fair value through profit and loss: annual changes

As at the balance sheet date, as in the previous year, there were no financial assets designated at fair value through profit and loss.

Section 4 Financial assets available-for-sale – Item 40

4.1 Financial assets available-for-sale: breakdown by type

(thousands of Euro)	31.12.2013			31.12.2012		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Debt securities	363,315	155,214	2,355	237,767	62,392	4,764
1.1 Structured securities	-	2,524	1,018	-	-	999
1.2 Other debt securities	363,315	152,690	1,337	237,767	62,392	3,765
2. Equity securities	7	6,178	13,533	7	5,724	10,564
2.1 Designated at fair value	7	6,178	-	7	5,724	-
2.2 Carried at cost	-	-	13,533	-	-	10,564
3. UCITS units	-	64,938	-	-	49,029	-
4. Loans	-	-	-	-	-	-
Total	**363,322**	**226,330**	**15,888**	**237,774**	**117,145**	**15,328**

The increase of the item "Debt securities – Other debt securities" level 1 can be mainly attributed to the purchase of listed Italian government securities (Treasury Credit Certificates, Pluriannual Treasury Bonds, and Zero Coupon Bonds).

The increase of the item "Debt securities – Other debt securities" of 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 interest, associated or joint control, or as subject to significant influence.

4.2 Financial assets available-for-sale: breakdown by debtor/issuer

(thousands of Euro)	31.12.2013	31.12.2012
1. Debt securities	**520,884**	**304,924**
a) Governments and central banks	363,314	237,767
b) Other public entities	-	-
c) Banks	146,142	65,656
d) Other issuers	11,428	1,501
2. Equity securities	**19,718**	**16,294**
a) Banks	8,856	8,402
b) Other issuers:	10,862	7,892
- insurance companies	-	-
- financial companies	40	40
- non-financial companies	10,822	7,852
- other	-	-
3. UCITS units	**64,938**	**49,029**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**605,540**	**370,247**

4.3 Financial assets available-for-sale subject to micro-hedging

As at the balance sheet date, there were no financial assets available-for-sale subject to micro-hedging.

4.4 Financial assets available-for-sale: annual changes

(thousands of Euro)	Debt securities	Equity securities	UCITS units	Loans	Total
A. Opening balance	**304,924**	**16,294**	**49,029**	**-**	**370,247**
B. Increases	**670,555**	**3,424**	**31,709**	**-**	**705,688**
B1. Purchases	658,655	2,969	28,812	-	690,436
B2. Positive changes in fair value	2,658	455	1,281	-	4,394
B3. Recoveries	-	-	-	-	-
- Allocated to the income statement	-	X	-	-	-
- Allocated to shareholders' equity	-	-	-	-	-
B4. Transfers from other portfolios	-	-	-	-	-
B5. Other changes	9,242	-	1,616	-	10,858
C. Decreases	**454,595**	**-**	**15,800**	**-**	**470,395**
C1. Sales	354,986	-	2,133	-	357,119
C2. Reimbursements	93,522	-	12,840	-	106,362
C3. Negative changes in fair value	1,927	-	261	-	2,188
C4. Losses on impairment	-	-	360	-	360
- Allocated to the income statement	-	-	360	-	360
- Allocated to shareholders' equity	-	-	-	-	-
C5. Transfers to other portfolios	-	-	-	-	-
C6. Other changes	4,160	-	206	-	4,366
D. Closing balance	**520,884**	**19,718**	**64,938**	**-**	**605,540**

Results of impairment test on financial assets available-for-sale

With reference to the values as at 31 December 2013, an impairment test was performed to recognise any of 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 anticipates verifying the presence of impairment indicators and determining any write-downs. The 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 the issuer's internal impairment indicator and of a trade 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.

The impairment indicator was identified as the specific issue rating for debt securities. 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 2013 amounted to 520.9 million. There were no impairment indicators for these instruments in particular.

With reference to impairment of UCITS units and securities, the evaluation policy set significance and duration parameter thresholds, identified as a significant reduction in the 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 the fair value of between 20% and 50% over a three-year time period, normalised for volatility. Overall, the exposure in terms of debt securities as at 31 December 2013 amounted to 64.9 million. As at 31 December 2013, any debt securities exceeding the above-mentioned thresholds were written down for impairment.

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 the fair value is calculated on a prudent basis, the check for impairment is based on the examination of the information on 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 2013 amounted to 19.7 million. There was no evidence of impairment of the above-mentioned financial instruments as at 31 December 2013.

Section 5 Investments held to maturity – Item 50

5.1 Investments held to maturity: breakdown by type

(thousands of Euro)	31.12.2013				31.12.2012			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Debt securities	55,126	-	55,944	-	1,080	-	695	-
- Structured	-	-	-	-	-	-	-	-
- Other	55,126	-	55,944	-	1,080	-	695	-
2. Loans	-	-	-	-	-	-	-	-
Total	**55,126**	**-**	**55,944**	**-**	**1,080**	**-**	**695**	**-**

The item "Debt securities – other securities" consists of a corporate bond issue and of a senior class debt security relative to a securitisation. The increase over the previous year is mainly due to classification of Italian State securities under the aforementioned category.

5.2 Investments held to maturity: breakdown by debtor/issuer

(thousands of Euro)	31.12.2013	31.12.2012
1. Debt securities	**55,126**	**1,080**
a) Governments and central banks	52,079	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	3,047	1,080
2. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**55,126**	**1,080**
Total (fair value)	**55,944**	**695**

5.3 Investments held to maturity subject to micro-hedging

As at the balance sheet date, there are no financial assets held to maturity subject to micro-hedging.

5.4 Investments held to maturity: annual changes

(thousands of Euro)	Debt securities	Loans	Total
A. Opening balance	**1,080**	**-**	**1,080**
B. Increases	**54,146**	**-**	**54,146**
B1. Purchases	53,773	-	53,773
B2. Recoveries	-	-	-
B3. Transfers from other portfolios	-	-	-
B4. Other changes	373	-	373
C. Decreases	**100**	**-**	**100**
C1. Sales	-	-	-
C2. Reimbursements	99	-	99
C3. Adjustments	-	-	-
C4. Transfers to other portfolios	-	-	-
C5. Other changes	1	-	1
D. Closing balance	**55,126**	**-**	**55,126**

Results of impairment tests for investments held to maturity

With reference to the values as at 31 December 2013, an impairment test was performed to recognise any of 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, referable to a senior tranche of a securitisation for residential properties, where the carrying amount was 985 thousand as at 31 December 2013. Since it is a security that is rated by the biggest ratings agencies: Standard & Poor's, Moody's and Fitch, the impairment indicator was identified as the impairment of the specific issue rating. In the specific case, the specific ratings assigned by the ratings agencies were: B (S&P), Ba3 (Moody's) e BB (Fitch). The issue had a weighted average life of 5.2 years at the reference date. No elements were found to find impairment in the security, considering also that the pool factor and loan to value values were still positive.

The other instruments are represented by long-term treasury bonds issued by the Italian State.

Section 6 Due from banks – Item 60

6.1 Due from banks: breakdown by type

(thousands of Euro)	31.12.2013				31.12.2012			
	BV	FV			BV	FV (*)		
		L1	L2	L3		L1	L2	L3
A. Due from Central Banks	**30,353**				**31,941**			
1. Fixed-term deposits	-	X	X	X	-	X	X	X
2. Compulsory reserves	30,353	X	X	X	31,941	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Due from banks	**88,872**	**-**	**88,872**	**-**	**124,571**	**-**	**124,571**	**-**
1. Loans	13,656	X	13,656	X	15,978	X	15,978	X
1.1 Current accounts and demand deposits	7,446	X	X	X	12,758	X	X	X
1.2 Fixed-term deposits	-	X	X	X	-	X	X	X
1.3 Other loans	6,210	X	X	X	3,220	X	X	X
- Repurchase agreements	-	X	X	X	-	X	X	X
- Financial leasing	-	X	X	X	-	X	X	X
- Other	6,210	X	X	X	3,220	X	X	X
2. Debt securities	75,216	-	75,216	-	108,593	-	108,593	-
2.1 Structured securities	-	X	X	X	-	X	X	X
2.2 Other debt securities	75,216	X	X	X	108,593	X	X	X
Total	**119,225**	**-**	**119,225**	**-**	**156,512**	**-**	**156,512**	**-**

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"

Considering the short-term expiry of the amount due from banks and the good reputation of the counterparties, the best fair value measure is given by the book value.

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.

There were no items in the “Due from banks” with subordination clauses or impaired “Due from banks” as at the date of the financial statements, just as for the previous year.

6.2 Due from banks subject to micro-hedging

As at the balance sheet date, there are no loans to banks subject to micro-hedging.

6.3 Financial leasing

As at the balance sheet date, there are no loans to banks associated with financial lease transactions.

Section 7 Loans to customers - Item 70

7.1 Loans to customers: breakdown by type

(thousands of Euro)	31.12.2013						31.12.2012					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**4,556,279**	**-**	**366,164**	**-**	**5,196,346**	**-**	**4,681,763**		**334,725**	**-**	**5,217,047**	**-**
1. Current accounts	1,161,874	-	196,046	X	X	X	1,291,067	-	173,483	X	X	X
2. Repurchase agreements	19,635	-	-	X	X	X	34,074	-	-	X	X	X
3. Mortgages	2,838,925	-	148,531	X	X	X	2,789,301	-	143,824	X	X	X
4. Credit cards, personal loans, and loans on salary	77,782	-	731	X	X	X	69,525	-	410	X	X	X
5. Financial leasing	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans	458,063	-	20,856	X	X	X	497,796	-	17,008	X	X	X
Debt securities												
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9 Other debt securities	-	-	-	X	X	X	-	-	-	X	X	X
Total	**4,556,279**	**-**	**366,164**	**-**	**5,196,346**	**-**	**4,681,763**	**-**	**334,725**	**-**	**5,217,047**	**-**

Loans disbursed paid out 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 106.3 million, 55.7 million of which by public entities.

7.2 Loans to customers: breakdown by debtor/issuer

(thousands of Euro)	31.12.2013			31.12.2012		
	Performing	Impaired		Performing	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities:	**-**	**-**	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- Insurance	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	**4,556,279**	**-**	**366,164**	**4,681,763**	**-**	**334,725**
a) Governments	-	-	-	-	-	-
b) Other public entities	11,045	-	-	7,470	-	-
c) Other entities	4,545,234	-	366,164	4,674,293	-	334,725
- non-financial companies	2,747,742	-	318,786	2,832,394	-	287,128
- financial companies	78,818	-	5,414	163,122	-	403
- Insurance	50	-	-	78	-	-
- other	1,718,624	-	41,964	1,678,699	-	47,194
Total	**4,556,279**	**-**	**366,164**	**4,681,763**	**-**	**334,725**

7.3 Loans to customers: assets subject to micro-hedging

As at the balance sheet date, there are no loans to customers subject to micro-hedging.

7.4 Financial leasing

As at the balance sheet date, there are no loans resulting from financial lease transactions.

Section 8 Hedges – Item 80

8.1 Hedges: breakdown by type and level

As at the balance sheet date, there are no hedges.

8.2 Hedges: breakdown by portfolios hedged and by hedge-type

As at the balance sheet date, 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

As at the balance sheet date, there are no financial assets subject to macro-hedging.

9.2 Assets subject to macro-hedging for interest rate risk

As at the balance sheet date, there are no financial assets subject to macro-hedging for interest rate risk.

Section 10 Investments in associates and companies subject to joint control – Item 100

10.1 Investments in subsidiaries and companies subject to joint control or companies subject to significant influence: 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%
3. Orizzonti del Lago S.r.l.	Bolzano	0.00%	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 Investments in subsidiaries, companies subject to joint control or companies subject to significant influence: accounting information

Company Name	Total assets	Total revenues	Profit/ Loss	Shareholders' Equity	Carrying amount	*Fair value (**)* L1	*L2*	*L3*
A. Wholly-owned subsidiaries								
1. Voba Invest S.r.l. in liquidation	502	1,453	987	17	17	-	-	-
2. Valpolicella Alta Società Agricola S.r.l.	5,112	130	(298)	(286)	3,657	-	-	-
3. Orizzonti del Lago S.r.l. (*)	16,536	1,026	(24)	8,259	-	-	-	-
B. Companies subject to joint control								
C. Companies subject to significant influence								
1. Casa di Cura Villa S. Anna (*)	8,698	5,290	13	1,924	583	-	-	-
2. Quartiere Brizzi S.r.l. (*)	7,074	614	(23)	27	735	-	-	-
3. Tre S.r.l. (*)	352	-	-	89	165	-	-	-
	38,274	**8,513**	**655**	**10,030**	**5,157**	**-**	**-**	**-**

(*) The figures for the investments refer to the most recent financial statements available at 31 December 2012.

(**) The fair value is reported for listed companies only.

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

The item, amounting to Euro 5.2 million, (Euro 4.0 million as at 31 December 2012) includes the investments in subsidiaries and associates.

The balance-sheet information regards the most recently approved financial statements, in conformity with the applicable accounting standards.

Within the scope of rationalising the investments, the subsidiary Voba Invest S.r.l. in liquidation sold the Company its investments in the companies Valpolicella Alta Società Agricola S.r.l. and Tre S.r.l in December.

10.3 Investments in associates and companies subject to joint control: annual changes

(thousands of Euro)	**31.12.2013**	**31.12.2012**
A. Opening balance	**3,964**	**864**
B. Increases	**4,031**	**3,448**
B.1 Purchases	4,002	3,393
B.2 Recoveries	17	-
B.3 Revaluations	12	55
B.4 Other changes	-	-
C. Decreases	**2,838**	**348**
C.1 Sales	30	-
C.2 Adjustments	1,974	348
C.3 Other changes	834	-
D. Closing balance	**5,157**	**3,964**
E. Total revaluations	**67**	**55**
F. Total adjustments	**1,715**	**1,715**

The item B.1 "Purchases" relates to the aforementioned purchase of the investments in Valpolicella Alta Società Agricola S.r.l. and Tre S.r.l. from the subsidiary VOBA Invest S.r.l. in liquidation, and the increase in the investment in Quartiere Brizzi S.r.l. for Euro 150,000.

The item C.2 "Write-downs" refers to the write-down on the investment in Acquazzurra S.r.l, due to its sale at a price that was lower than its carrying amount in 2014.

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 the final economic results after the date when control was acquired, as well as the prospective future profitability.

In order to point out any impairment situations, 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 that above, the impairment test on the securities as at 31 December 2013 did not result in the need to make adjustments.

10.4 Commitments in reference to investments in subsidiaries

As at the balance sheet date, as in the previous financial years, there are no commitments in reference to investments in subsidiaries

10.5 Commitments in reference to investments in companies subject to joint control

As at the balance sheet date, as in the previous financial year, there are no commitments in reference to investments in companies subject to joint control.

10.6 Commitments in reference to investments in companies subject to significant influence

As at the balance sheet date, there are no commitments in reference to investments in companies subject to significant influence.

Section 11 Property and equipment – Item 110

11.1 Property and equipment for business use: breakdown of assets carried at cost

(thousands of Euro)		31.12.2013	31.12.2012
1	**Assets owned**	**104,397**	**103,090**
a)	Land	35,272	35,272
b)	Buildings	65,628	63,807
c)	Movable assets	1,920	2,990
d)	Electronic systems	1,573	1,013
e)	Other	4	8
2	**Assets acquired under finance lease**	**-**	**-**
a)	Land	-	-
b)	Buildings	-	-
c)	Movable assets	-	-
d)	Electronic systems	-	-
e)	Other	-	-
	Total	**104,397**	**103,090**

11.2 Property and equipment held for investment purposes: breakdown of assets carried at cost

As at the balance sheet date, as in the previous financial year, there was no property and equipment held for investment purposes.

11.3 Property and equipment for business use: breakdown of revalued assets

As at the balance sheet date, as in the previous financial year, there was no revalued property and equipment for functional use.

11.4 Property and equipment held for investment purposes: breakdown of assets measured at fair value

As at the balance sheet date, as in the previous financial year, there was no property and equipment held for investment measured at fair value.

11.5 Property and equipment for business use: annual changes

(thousands of Euro)	Land	Buildings	Movable assets	Electronic systems	Other	Total
A. Gross opening balance	**35,272**	**95,734**	**53,653**	**22,427**	**103**	**207,189**
A.1 Net total impairment	-	31,927	50,663	21,414	95	104,099
A.2 Net opening balance	**35,272**	**63,807**	**2,990**	**1,013**	**8**	**103,090**
B. Increases:	**-**	**4,655**	**904**	**1,441**	**-**	**7,000**
B.1 Purchases	-	-	904	1,441	-	2,345
B.2 Expenditure for capitalised improvements	-	4,655	-	-	-	4,655
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	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**2,834**	**1,974**	**881**	**4**	**5,693**
C.1 Sales	-	-	48	-	-	48
C.2 Depreciation	-	2,834	1,926	881	4	5,645
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	-	-	-	-	-	-
D. Net closing balance	**35,272**	**65,628**	**1,920**	**1,573**	**4**	**104,397**
D.1 Net total impairment	-	34,761	52,373	22,294	99	109,527
D.2 Gross closing balance	**35,272**	**100,389**	**54,293**	**23,867**	**103**	**213,924**
E. Valuation at cost	-	-	-	-	-	-

11.6 Property and equipment held for investment purposes: annual changes

As at the balance sheet date, as in the previous financial year, there was no property and equipment held for investment purposes.

11.7 Commitments for the acquisition of property and equipment (IAS 16/74.c)

As 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)	31.12.2013		31.12.2012	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	40,392	X	40,392
A.2 Other intangible assets	2,189	-	3,266	-
A.2.1 Assets carried at cost:	2,189	-	3,266	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	2,189	-	3,266	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**2,189**	**40,392**	**3,266**	**40,392**

As at the balance sheet date, the item "goodwill" corresponds to the goodwill recognised subsequent to acquisition, on 25 February 2008, of the Intesa Sanpaolo group business unit composed of 6 bank branches in the province of Venice.

Intangible assets: impairment testing

As described in "Part A – Accounting Policies", the intangible assets were subject to impairment testing to evaluate the recoverability of the book value.

In accordance with paragraph 66 of IAS 36, any indication that an asset may have suffered an impairment loss must be tested for ("Impairment"). If there is positive evidence of impairment, the recoverable value of the asset shall be estimated. If it is not possible to estimate the recoverable value, the recoverable amount of the Cash Generating Unit (CGU) to which the asset belongs must be determined.

With specific reference to goodwill, paragraph 80 specifies that for the purpose of testing any impairment loss, goodwill acquired in a company consolidation must, as at the acquisition date, be allocated to each of the acquiree's cash generating units, or groups of cash generating units, which may benefit from the synergies of the combination, regardless of whether other assets or liabilities of the company acquired are assigned to said unit or groups of units. Each unit or group of units to which goodwill is thus allocated must:

a. represent the minimum level within the entity at which goodwill is monitored for the internal management-control purposes; and
b. must not be greater than an operational segment determined in accordance with IFRS 8 Operating Segments.

For the purpose of identifying the cash flow generating units to which the assets to undergo impairment test are to be allocated, the units potentially identified must generate cash inflows largely independent from those deriving from other units potentially identified.

The impairment test relative to intangible assets with indefinite life was conducted with the same methods used in the previous financial year, making reference to the CGU relative to the Venice Office.

In order to identify the recoverable value of the cash generating unit to be compared with the relative book value, the appropriate valuations were made, making allowance for the following methods/assumptions:

- the 2013-2018 Business Plan of the Venice Office was used, considering a plan time horizon of 5 years. The assumed growth estimates were determined consistently with the 2014-2016 business plan, taking the current uncertain market situation into account;
- the DDM (Dividend Discount Model) method was applied. In addition to the express provision period, a 2% permanent growth rate was considered;

- the discount rate, equal to 9.21%, is the cost of capital for the Bank, calculated by taking the risk-free (Rf) rate - equal to the ten-year swap (IRS) rate close to the 6-month Euribor index increased by a risk premium;
- The market risk premium (Rm - Rf) is therefore assumed to be 5%, also in line with valuation standards in use;
- The β parameter was calculated with reference to a sample of listed “non systemic” Italian banks. For each bank in the sample, the βs were calculated by linear regression with respect to the DJEurostoxx600 index, considering the period between 31 December 2011 and 31 December 2013. The β also takes account of country risk by using a higher β taken from the greater fluctuations of the Italian banks compared to European share market. The β was equal to 1.41071.

The DDM method was developed by taking excess capital into account, thus determining the economic value of the CGU as the sum of the present value of future cash flows generated over the time horizon of explicit planning; the latter includes the present value of the terminal value calculated as the present value of an annual yield in perpetuity of the standardised dividend related to the last year forecast, based on an average pay-out ratio and predefined growth rates.

The cash flows are developed in the plan by taking the distributable dividends to shareholders into account in order to be compatible with adequate levels of capitalisation, which is determined in accordance with both minimum supervisory requirements and capitalisation targets consistent with the expected growth.

The value in use has been calculated with this model and given that the result is higher than the book value of the CGU, no fair value calculation was made.

The sensitivity analyses were carried out with the variations in the following parameters:

- a variation in the cost of capital (Ke) of between 9.00% and 10.25%;
- a variation in the long-term growth rate (g) of between 1.40% and 2.60%;
- a variation in the expected cash flows in normal, non stressed conditions, down by 5% and 10%

Based on the aforementioned comparison as at 31 December 2013, it was found that there was no need to conduct the impairment test because the recoverable values of the CGUs (fair value or value in use) were at a higher level than the book values.

12.2 Intangible assets: annual changes

(thousands of Euro)	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Gross opening balance	**40,392**	**-**	**-**	**7,357**	**-**	**47,749**
A.1 Net total impairment	-	-	-	4,091	-	4,091
A.2 Net opening balance	**40,392**	**-**	**-**	**3,266**	**-**	**43,658**
B. Increases	**-**	**-**	**-**	**227**	**-**	**227**
B.1 Purchases	-	-	-	227	-	227
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	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**1,304**	**-**	**1,304**
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments		-	-	1,304	-	1,304
- Amortisation	X	-	-	1,304	-	1,304
- Write-downs		-	-	-	-	-
+ shareholders’ equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
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	**40,392**	**-**	**-**	**2,189**	**-**	**42,581**
D.1 Total net value adjustments	-	-	-	4,620	-	4,620
E. Gross closing balance	**40,392**	**-**	**-**	**6,809**	**-**	**47,201**
F. Valuation at cost	-	-	-	-	-	-

Key
FIN = finite life
INDEF = indefinite life

12.3 Other information

As 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 (CORPORATE INCOME TAX) *(thousands of Euro)*	**31.12.2013**		**31.12.2012**	
	amount of temporary differences	**tax effect**	**amount of temporary differences**	**tax effect**
- Losses on impairment of loans	76,453	21,024	59,555	16,378
- Provisions for risks and charges	2,469	679	1,552	427
- Administrative expenses	-	-	-	-
- Revaluation of fixtures and fittings (Italian Law 266, 23/12/05)	68	19	107	29
- Valuation of AFS securities (*)	2,565	705	2,885	793
- Components directly recorded in the OCI statement (*)	2,282	628	-	-
- Amortisation of prepaid tax on post-2008 purchases	2,818	775	2,948	811
- Write-down of buildings (non-deemed cost)	-	-	4,371	1,202
- Other	1,257	346	1,144	315
Total	**87,912**	**24,176**	**72,562**	**19,955**

IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES) *(thousands of Euro)*	**31.12.2013**		**31.12.2012**	
	amount of temporary differences	**tax effect**	**amount of temporary differences**	**tax effect**
- Administrative expenses	15,883	767	-	-
- Revaluation of fixtures and fittings (Italian Law 266, 23/12/05)	62	3	96	4
- Valuation of AFS securities (*)	2,565	124	2,885	139
- Write-down of buildings (non-deemed cost)	-	-	4,420	213
- Other	352	17	-	-
Total	**18,862**	**911**	**7,401**	**356**

13.2 Deferred tax liabilities: breakdown

IRES (CORPORATE INCOME TAX) *(thousands of Euro)*	31.12.2013 amount of temporary differences	31.12.2013 tax effect	31.12.2012 amount of temporary differences	31.12.2012 tax effect
- Land depreciation	2,106	579	2,106	579
- Revaluation of property to deemed cost	57,349	15,771	57,921	15,928
- Valuation of AFS securities (*)	3,662	1,007	2,240	616
Components directly recorded in the OCI statement	2,282	628	2,382	655
- Revaluation of investments AfS PEX (*)	23	6	-	-
- Goodwill amortisation	14,391	3,957	12,224	3,362
- Other	-	-	-	-
Total	**79,813**	**21,948**	**76,873**	**21,140**

IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES) *(thousands of Euro)*	31.12.2013 amount of temporary differences	31.12.2013 tax effect	31.12.2012 amount of temporary differences	31.12.2012 tax effect
- Land depreciation	2,106	102	2,106	101
- Revaluation of property to deemed cost	57,349	2,771	57,921	2,789
- Valuation of AFS securities (*)	3,662	177	2,240	108
- Revaluation of investments AfS PEX (*)	-	-	-	-
- Goodwill amortisation	14,265	689	12,224	589
- Other	-	-	-	-
Total	**77,382**	**3,739**	**74,491**	**3,587**

The portion of deferred tax assets for IRES (Corporate Income Tax) referring to deductible temporary differences in the financial years after 2013 are deemed to be recoverable both in light of what may be deduced from the prospective income presented by the plan and by the budget, and in relation to the existence of several diverse opportunities for actions useful to increase the value of production within an interval compatible with the time-limits in which the differences in consideration will become deductible.

As at the balance sheet date, there are no deferred tax assets for IRAP (Regional tax on productive activities).

13.3 Changes in deferred tax assets (with corresponding entry in the income statement)

(thousands of Euro)	IRES (CORPORATE INCOME TAX)	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2013	31.12.2012
1. Initial amount			**19,379**	**14,598**
2. Increases	**6,608**	**784**	**7,392**	**6,322**
2.1 Deferred tax assets recognised during the year	6,608	784	7,392	6,322
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) recoveries	-	-	-	-
d) other	6,608	784	7,392	6,322
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	**2,927**	**214**	**3,141**	**1,541**
3.1 Deferred tax assets cancelled during the year	2,927	214	3,141	1,541
a) reversals	2,927	214	3,141	1,541
b) write-downs for uncollectible amounts	-	-	-	-
c) change of accounting standards	-	-	-	-
d) other	-	-	-	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
a) conversion into tax credits under Italian Law no. 214/2011	-	-	-	-
b) other	-	-	-	-
4. Final amount			**23,630**	**19,379**

As at 31 December 2013, sub-item 2. “Increases: - d) other” mainly includes the deferred tax assets related to losses on impairment of loans by 5.9 million for IRES and by 0.8 million for IRAP.

Sub-item 3.1 “Deferred tax assets cancelled during the year – a) reversals” includes 1.1 million for the recording of the accruing portion the taxes relative to the write-downs of loans in income statement for the financial year.

13.3.1 Changes in deferred tax assets pursuant to Law 214/2011 (with corresponding entry in the income statement)

As at the balance sheet date, as for the previous financial year, no changes are reported in relation to deferred tax assets pursuant to Law 214/2011.

13.4 Changes in deferred tax liabilities (with corresponding entry in the income statement)

(thousands of Euro)	IRES (CORPORATE INCOME TAX)	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2013	31.12.2012
1. Initial amount			**24,003**	**23,838**
2. Increases	**825**	**156**	**981**	**1,372**
2.1 Deferred tax liabilities recognised during the year	596	116	712	1,372
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) other	596	116	712	1,372
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	229	40	269	-
3. Decreases	**1,041**	**74**	**1,115**	**1,207**
3.1 Deferred tax liabilities cancelled during the year	1,041	74	1,115	1,207
a) reversals	386	74	460	933
b) due to change in accounting standards	-	-	-	-
c) other	655	-	655	274
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
4. Final amount			**23,869**	**24,003**

13.5 Changes to deferred tax assets (with corresponding entry under shareholders' equity)

(thousands of Euro)	IRES (CORPORATE INCOME TAX)	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2013	31.12.2012
1. Initial amount			**932**	**2,939**
2. Increases	**628**	**-**	**628**	**-**
2.1 Deferred tax assets recognised during the year	628	-	628	-
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) other	628	-	628	-
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	**88**	**15**	**103**	**2,007**
3.1 Deferred tax assets cancelled during the year	88	15	103	2,007
a) reversals	88	15	103	2,007
b) write-downs for uncollectible amounts	-	-	-	-
c) due to change in accounting standards	-	-	-	-
d) other	-	-	-	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
4. Final amount			**1,457**	**932**

The change in deferred taxes assets 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 tax liabilities (with corresponding entry under shareholders' equity)

(thousands of Euro)	IRES (CORPORATE INCOME TAX)	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2013	31.12.2012
1. Initial amount			**724**	**247**
2. Increases	**1,025**	**69**	**1,094**	**477**
2.1 Deferred tax liabilities recognised during the year	397	69	466	477
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) other	397	69	466	477
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	628	-	628	-
3. Decreases	**-**	**-**	**-**	**-**
3.1 Deferred tax liabilities cancelled during the year	-	-	-	-
a) reversals	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) other	-	-	-	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
4. Final amount			**1,818**	**724**

13.7 Other information

Breakdown of current tax assets

(thousands of Euro)	31.12.2013	31.12.2012
1. Advance payment of IRES – IRAP – VAT taxes	26,764	17,050
2. Advance payment of stamp duty, withholding tax on interest	9,997	5,384
3. Withholding tax paid	410	199
4. Other current tax assets	4,678	2,540
Total	**41,849**	**25,173**

Breakdown of current tax liabilities

(thousands of Euro)	31.12.2013	31.12.2012
1. Liabilities for direct taxes	20,938	21,181
2. Indirect taxes	41	10
3. Withholding tax at source to be paid	-	-
4. Other current tax liabilities	258	-
Total	**21,237**	**21,191**

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

Non-current assets and groups of assets held for sale: breakdown by type of asset *(thousands of Euro)*		**31.12.2013**	**31.12.2012**
A.	**Individual assets**		
A.1	Financial assets	-	-
A.2	Investments	834	-
A.3	Property and equipment	-	-
A.4	Intangible assets	-	-
A.5	Other non-current assets	-	-
Total A		**834**	**-**
	of which carried at cost	*834*	-
	of which designated at fair value, level 1	-	-
	of which designated at fair value, level 2	-	-
	of which designated at fair value, level 3	-	-
B.	**Groups of assets (discontinued operations)**		
B.1	Financial assets held for trading	-	-
B.2	Financial assets designated at fair value	-	-
B.3	Financial assets available-for-sale	-	-
B.4	Investments held to maturity	-	-
B.5	Due from banks	-	-
B.6	Loans to customers	-	-
B.7	Investments in associates and companies subject to joint control	-	-
B.8	Property and equipment	-	-
B.9	Intangible assets	-	-
B.10	Other assets	-	-
Total B		**-**	**-**
	of which carried at cost	-	-
	of which designated at fair value, level 1	-	-
	of which designated at fair value, level 2	-	-
	of which designated at fair value, level 3	-	-
C.	**Liabilities associated with individual assets held for sale**		
C.1	Payables	-	-
C.2	Securities	-	-

C.3	Other liabilities	-	-
Total C		**-**	**-**
	of which carried at cost	-	-
	of which designated at fair value, level 1	-	-
	of which designated at fair value, level 2	-	-
	of which designated at fair value, level 3	-	-
D.	**Liabilities associated with groups of assets held for sale**		
D.1	Due to banks	-	-
D.2	Due to customers	-	-
D.3	Debt securities issued	-	-
D.4	Financial liabilities held for trading	-	-
D.5	Financial liabilities designated at fair value	-	-
D.6	Provisions	-	-
D.7	Other liabilities	-	-
Total D		**-**	**-**
	of which carried at cost	-	-
	of which designated at fair value, level 1	-	-
	of which designated at fair value, level 2	-	-
	of which designated at fair value, level 3	-	-

This item refers fully to the investment in Acquazzurra S.r.l, which was sold in February 2014 as part of the programme to reduce non-strategic assets.

In accordance with IFRS 5, that investment is included among non-current assets held for sale for an amount equal to the fair value net of the costs of sale.

14.2 Other information

As at the balance sheet date, there is no other information to be reported.

14.3 Disclosure regarding the investments in companies subject to significant influence not carried at equity

With reference to the aforementioned investment, classified under “Non-current assets and groups of assets held for sale”, a contract of sale was finalised for the sale of the aforementioned investment on 3 February 2014, that was therefore cancelled.

In the financial statements for the year ended on 31 December 2013, the aforementioned investment was therefore accounted for an amount corresponding to the sales price.

Section 15 Other assets – Item 150

15.1 Other assets: breakdown

(thousands of Euro)		**31.12.2013**	**31.12.2012**
1.	Unprocessed transactions with branches	-	-
2.	Deposits	145	134
3.	Work in progress	39,124	37,487
4.	Various outstanding items (items waiting final allocation)	15,781	1,474
5.	Income accrued and due to be received	9,470	9,382
6.	Cash items in hand	66	119
7.	Accruals and deferrals not reported	424	531
8.	Expenditure on third party assets	3,634	3,976
	Total	**68,644**	**53,103**

LIABILITIES

Section 1 Due to banks – Item 10

1.1 Due to banks: breakdown by type

(thousands of Euro)	31.12.2013	31.12.2012
1. Due to central banks	**506,826**	**564,070**
2. Due to banks	**139,049**	**207,785**
2.1 Current accounts and demand deposits	68,388	36,645
2.2 Fixed-term deposits	17,540	107,209
2.3 Loans	53,057	63,878
2.3.1 Reverse repurchase agreements	-	-
2.3.2 Other	53,057	63,878
2.4 Liabilities for commitments to repurchase own equity investments	-	-
2.5 Other payables	64	53
Total	**645,875**	**771,855**
Fair Value - level 1	**-**	**-**
Fair Value - level 2	**595,511**	***771,855***
Fair Value - level 3	**-**	**-**
Total (fair value)	**595,511**	**771,855**

1.2 Detail of item 10 “due to banks”: subordinated debt

As at the balance sheet date, there is no subordinated debt due to banks.

1.3 Detail of item 10 “due to banks”: structured debt

As at the balance sheet date, there is no structured debt due to banks.

1.4 Due to banks subject to micro-hedging

As at the balance sheet date, there are no amounts due to banks subject to micro-hedging.

1.5 Finance lease payables

As at the balance sheet date there is no finance lease due to banks.

Section 2 Due to customers – Item 20

2.1 Due to customers: breakdown by type

(thousands of Euro)	**31.12.2013**	**31.12.2012**
1. Current accounts and demand deposits	2,221,058	2,020,781
2. Fixed-term deposits	553,730	477,196
3. Loans	34,945	95,969
3.1 Reverse repurchase agreements	34,945	95,969
3.2 Other	-	-
4. Liabilities for commitments to repurchase own equity investments	-	-
5. Other payables	215,303	108,490
Total	**3,025,036**	**2,702,436**
Fair Value - level 1	**-**	**-**
Fair Value - level 2	**2,865,203**	***2,702,436***
Fair Value - level 3	**-**	**-**
Total (fair value)	**2,865,203**	**2,702,436**

2.2 Detail of item 20 “Due to customers”: subordinated debt

As at the balance sheet date there is no subordinated debt due to customers.

2.3 Detail of item 20 “Due to customers”: structured debt

As at the balance sheet date, there is no structured debt due to customers.

2.4 Due to customers subject to micro-hedging

As at the balance sheet date, there is no debt due to customers subject to micro-hedging.

2.5 Finance lease payables

As at the balance sheet date, 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)	31.12.2013				31.12.2012			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,295,058	-	1,295,058	-	1,201,965	-	1,201,965	-
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	1,295,058	-	1,295,058	-	1,201,965	-	1,201,965	-
2. Other securities	61	-	-	61	467	-	-	467
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Other	61	-	-	61	467	-	-	467
Total	**1,295,119**	**-**	**1,295,058**	**61**	**1,202,432**	**-**	**1,201,965**	**467**

The Euro 80.4 million of the sub-item “1.2 Bonds – Other” refers to the issues listed at the Luxemburg Exchange within the scope of the Euro Medium-Term Notes (“EMTN”) programme (154.1 million as at 31 December 2012). No further placements were made in 2013.

3.2 Detail of item 30 “Debt securities issued”: subordinated securities

As at the balance sheet date, there are no subordinated debt securities issued.

3.3 Debt securities issued subject to micro-hedging

As at the balance sheet date, there are no debt securities issued 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)	31.12.2013					31.12.2012				
	FCV	FV			FV*	FCV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	-	55	7,221	-	-	-	372	12,104	-	-
1.1 Held for trading	X	55	6,937	-	X	X	372	11,647	-	X
1.2 Related to the fair value option	X	-	284	-	X	X	-	457	-	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**	**55**	**7,221**	**-**	**X**	**X**	**372**	**12,104**	**-**	**X**
Total (A+B)	**X**	**55**	**7,221**	**-**	**X**	**X**	**372**	**12,104**	**-**	**X**

Key

FV	fair value
FV*	fair value calculated excluding value adjustments due to changed issuer credit rating since the date of issue
FCV	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

As 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

As at the balance sheet date, as in the previous financial year, there are no financial liabilities relative to structured debt held for trading.

4.4 Financial liabilities for cash (excluding "technical losses") held for trading: annual changes

As at the balance sheet date, as in the previous financial year, there are no financial liabilities for cash held for trading.

Section 5 Financial liabilities designated at fair value through profit and loss – Item 50

5.1 Financial liabilities designated at fair value through profit and loss: breakdown by type

(thousands of Euro)	31.12.2013					31.12.2012				
	FCV	FV			FV*	FCV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	4,000	-	4,334	-	4,334	6,000	-	6,186	-	6,186
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	4,000	-	4,334	-	X	6,000	-	6,186	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
3. Debt securities	286,281	-	293,290	-	293,290	428,856	-	443,583	-	443,583
3.1 Structured	24,935	-	25,799	-	X	45,420	-	47,623	-	-
3.2 Other	261,346	-	267,491	-	X	383,436	-	395,960	-	-
Total	**290,281**	**-**	**297,624**	**-**	**297,624**	**434,856**	**-**	**449,769**	**-**	**449,769**

Key

FV	fair value
FV*	fair value calculated excluding value adjustments due to changed issuer credit rating since the date of issue
FCV	face value or notional value
L1	Level 1
L2	Level 2
L3	Level 3

The financial liabilities designated at fair value through profit and loss refer to the plain vanilla, flat rate bond issues or bond issues index-linked 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 loan issues were valued at amortised cost and the derivatives related with the fair value, as an alternative to the hedge accounting method.

5.2 Detail of item 50 “Financial liabilities designated at fair value through profit and loss”: subordinated liabilities

As at the balance sheet date, there are no subordinated financial liabilities designated at fair value through profit and loss.

5.3 Financial liabilities designated at fair value through profit and loss: annual changes

(thousands of Euro)	Due to banks	Due to customers	Debt securities issued	Total
A. Opening balance	**6,186**	**-**	**443,583**	**449,769**
B. Increases	**2,299**	**-**	**25,506**	**27,805**
B1. Issues	-	-	-	-
B2. Sales	2,000	-	21,189	23,189
B3. Positive changes in fair value	299	-	306	605
B4. Other changes	-	-	4,011	4,011
C. Decreases	**4,151**	**-**	**175,799**	**179,950**
C1. Purchases	-	-	21,897	21,897
C2. Reimbursements	3,463	-	142,287	145,750
C3. Negative changes in fair value	688	-	4,771	5,459
C4. Other changes	-	-	6,844	6,844
D. Closing balance	**4,334**	**-**	**293,290**	**297,624**

Section 6 Hedges – Item 60

6.1 Hedges: breakdown by hedge-type and by level

As 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

As 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

As 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

As at the balance sheet date, as in the previous financial year, there are no macro-hedged financial liabilities.

Section 8 Tax liabilities – Item 80

This Section was commented on in section 13 of the balance sheet assets.

Section 9 Liabilities related to assets held for sale – Item 90

As 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

(thousands of Euro)	**31.12.2013**	**31.12.2012**
1. Adjustments of non-liquid items related to securities portfolios	51,367	52,504
2. Unprocessed transactions with branches	-	-
3. Amounts available to third parties (banks, suppliers etc.)	47,485	29,260
4. Amounts available to customers	13,779	14,043
5. Work in progress (money orders etc.)	6,267	10,927
6. Other items due to various creditors	9,085	6,549
7. Provisions for risks and charges for guarantees and commitments	278	887
8. Accruals and deferrals not reported	-	1
9. Withholding tax and taxes due	6,808	7,195
Total	**135,069**	**121,366**

Section 11 Employee termination indemnities – Item 110

11.1 Employee termination indemnities: annual changes

(thousands of Euro)	**31.12.2013**	**31.12.2012**
A. Opening balance	**19,548**	**17,253**
B. Increases	**490**	**3,461**
B1. Provisions during the year	490	696
B2. Other increases	-	2,765
C. Decreases	**1,207**	**1,166**
C1. Amounts paid	835	1,166
C2. Other decreases	372	-
D. Closing balance	**18,831**	**19,548**

11.2 Other information

As described in Part A – Accounting policies, further to 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 (The National Social Security Institute). In this case, the portions of the employee termination indemnities maturing starting on 1 January 2007 form 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 corresponding entry to the recognition of the balance-sheet item “Other liabilities” or cash-equivalent 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 mortality rate	Survival table RG48 published by State General Accountancy.
Frequencies and sum of the employee termination indemnity advances	They were determined as a function of the distinct historical experience by service seniority. A value of 2.00% was used for the current financial year.
Disability	INPS tables distinguished by age and sex
Turnover frequencies	Determined as a function of the historical experience for the company and for similar companies, distinguished by age and sex, equal to 3.50%.
Probability of retirement	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 conformity 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 Bank's employees, equal to 2.50% as at 31 December 2013
Annual inflation rate	2.00%
Annual rate of increase of the employee termination indemnities	3.00%, in accordance with the provision of art. 2129 of the Italian Civil Code, it is equal to 75% of the inflation rate plus 1.5 percentage points

Other information	**31.12.2013**
Service cost for 2014	**0.00**
Plan duration	**8.2**

It is specified that the criteria underlying demographic and actuarial assumptions described above are essentially in line with those used in the past financial year.

With particular reference to the annual discount rate used for the actuarial valuation, there has been a gradual deterioration in the average rating of debt security issuers during last year, including both public issuers (sovereign debts, public institutions etc.) and companies, which caused a decrease of the securities market with high ratings and made the parameter used until 31 December 2011 (Iboxx Eurozone Corporate AA index) less representative.

Therefore, in order to ensure more compliance with the provisions of IAS 19 on the identification of the discount rate to be used for the development of actuarial valuations in 2012, a basket of bonds denominated in Euro (or in another currency of the plan) corresponding to the simple average return at the date of the actuarial valuation, with an issuer rating of at least A (Standard & Poor's) or Aa1 (Moody's), was considered to be more representative of the actual current trends of the financial market of listed bond securities issued by private companies, also based upon the assessment done by the expert in charge; more specifically, these rating levels meet the definition of “high quality” required by IAS 19 and therefore also allow for an adequate reference basket capacity, also considering the specific purpose of that rate as established by the standard. The technical appropriateness of this choice was confirmed by the Italian Order of Actuaries and the Italian National Board of Actuaries through a joint official notice of 21 December 2012 stating the following:

“with reference to the actuarial measurements of 31 December 2012 according to IAS 19 [...], we recommend the use of discount rates for the various maturities, in relation to European bonds of equal or higher quality than those rated as A.”

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 market yield at year-end, 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 2013, the annual discount rate used to calculate the current value of the bond was taken - in compliance with paragraph 78 of IAS 19 - from the Iboxx Corporate AA index with a 7-10 year duration, at the valuation date. The yield with a duration that is comparable to the duration of the workers' collective subject to valuation was chosen.

Reference to the "AA" rating class in place of the "A" class used to value the 2012 financial statements 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 "high quality corporate bond yield" basket 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.

If the same rating as that of 31 December 2012 is applied, i.e. "A", the discount rate would have been 2.77% (as opposed to the 2.50% rate actually used).

Sensitivity analysis

In compliance with the provisions of IAS 19, the following additional information is provided:

- sensitivity analysis 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 31.12.2013 (values represent the change in the IAS value of the plan)	**Valuation parameters**	**DBO**
Inflation rate	*+ 0.25%*	**19,069,411.43**
Inflation rate	*- 0.25%*	**18,596,649.09**
Discount rate	*+ 0.25%*	**18,483,384.47**
Discount rate	*- 0.25%*	**19,190,244.34**
Turnover rate	*+ 1%*	**18,816,930.77**

Section 12 Provisions for risks and charges - Item 120

12.1 Provisions for risks and charges: breakdown

(thousands of Euro)	**31.12.2013**	**31.12.2012**
1. Retirement benefits	-	-
2. Other provisions for risks and charges	2,469	2,552
2.1 Legal disputes	2,469	2,552
2.2 Personnel charges	-	-
2.3 Other	-	-
Total	**2,469**	**2,552**

12.2 Provisions for risks and charges: annual changes

(thousands of Euro)	Retirement benefits	Other provisions	Total
A. Opening balance	**-**	**2,552**	**2,552**
B. Increases	**-**	**1,720**	**1,720**
B1. Provisions during the year	-	1,720	1,720
B2. Changes due to the elapsing of time	-	-	-
B3. Changes due to discount rate adjustments	-	-	-
B4. Other changes	-	-	-
C. Decreases	**-**	**1,803**	**1,803**
C1. Use during the year	-	394	394
C2. Changes due to discount rate adjustments	-	-	-
C3. Other changes	-	1,409	1,409
D. Closing balance	**-**	**2,469**	**2,469**

12.3 Defined benefit retirement funds

As 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 2.5 million, comprises the provisions for ongoing disputes including the respective expenses.

Section 13 Redeemable shares – Item 140

13.1 Redeemable shares: breakdown

As 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

	31.12.2013	31.12.2012
- Number of treasury stocks and shares	38,127,110	38,137,350
- Face value	Euro 4.00	Euro 2.00

As at 31 December 2013, Banca Popolare • Volksbank has no treasury shares on hand.

The share capital, as at the balance sheet date, is equal to Euro 152,508,440.00 and comprises 38,127,110 ordinary shares, with a face value of Euro 4.00 each. 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.

14.2 Share capital - Number of shares: annual changes

(thousands of Euro)	Ordinary	Other
A. Shares in issue at the beginning of the year	**38,137,350**	**-**
- fully paid-up	38,137,350	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening balance	**38,137,350**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
· for consideration:	-	-
- business combinations	-	-
- bond conversions	-	-
- warrant exercises	-	-
- other	-	-
· on a gratuitous basis:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**10,240**	**-**
C.1 Cancellation	10,240	-
C.2 Purchase of treasury shares	-	-
C.3 Sale of businesses	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**38,127,110**	**-**
D.1 Treasury shares (+)	-	-
D.2 Number of shares at the end of the year	38,127,110	-
- fully paid-up	38,127,110	-
- not fully paid-up	-	-

The decrease of 10,240 was due to the reimbursement of shares on the basis of the provisions of the Articles of Association.

14.3 Share capital: other information

As at the balance sheet date, there are no further disclosures to be reported.

14.4 Retained earnings: other information

(thousands of Euro)	31.12.2013	31.12.2012
1. Legal reserve	108,900	106,700
2. Extraordinary reserve	101,923	95,607
3. Reserve to purchase treasury shares	4,183	4,183
4. Concentration reserve (Italian Law 218 of 30.07.1990)	8,584	10,278
5. Other reserves	31,938	30,592
Total	**255,528**	**247,360**

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 utilisation and distributability options 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
180.	**Share capital**	152,508	-	-		
170.	**Share premium reserve**	202,459	A, B, C (1)	202,459		
160.	**Reserves**					
	- retained earnings					
	- Legal reserve	108,900	B (2)	-		
	- Extraordinary reserve	101,923	A, B, C	101,923		
	- Unavailable reserve pursuant to art. 6, Italian Legislative Decree 38/2005	1,795	B, (*)	-		
	- other:					
	a) Retained earnings from previous years	4,183	A, B, C	4,183		
	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 reserve	-	A, B, C	-		
	b) IAS revaluation reserve	-	A, B	-		
	c) Negative AFS valuation reserves	(1,746)		-		
	d) Positive AFS valuation reserve	2,925	(*)	-		
	e) Negative actuarial reserve for employee termination indemnities	(1,655)		-		
	Equity instruments	-		-		
	Retained earnings	18,767		-		
	Total	**628,786**				

A = for FOC 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

As at the balance sheet date, there are no bank capital instruments other than ordinary shares.

14.6 Other information

As at the balance sheet date, there are no further disclosures to be reported.

OTHER INFORMATION

1. Guarantees issued and commitments

(thousands of Euro)	31.12.2013	31.12.2012
1) Financial guarantees issued	31,365	31,678
a) Banks	6,244	6,105
b) Customers	25,121	25,573
2) Commercial guarantees issued	329,042	326,116
a) Banks	222	205
b) Customers	328,820	325,911
3) Irrevocable commitments to disburse funds	179,495	179,371
a) Banks	2,613	16,528
i) certain to be used	2,613	16,528
ii) not certain to be used	-	-
b) Customers	176,882	162,843
i) certain to be used	714	8,000
ii) not certain to be used	176,168	154,843
4) Commitments underlying credit derivatives protection sales	-	-
5) Assets lodged to guarantee minority interest	-	-
6) Other commitments	-	-
Total	**539,902**	**537,165**

The irrevocable commitments to disburse funds to customers in the amount of 176 million, certain to be used, refer mainly to corporate customers.

2. Assets lodged to guarantee own liabilities and commitments

(thousands of Euro)	31.12.2013	31.12.2012
1. Financial assets held for trading	428,677	550,548
2. Financial assets designated at fair value through profit and 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 established as security of own liabilities and commitments for reverse repurchase agreements deposits total 35.5 million, whereas the securities uses as deposit and guarantees for other transactions are recorded for 393.2 million.

Furthermore, it is noted that as at the balance sheet date, there are 782.1 million in shares not presented in the table being that the relevant securities, relative to transactions of self-issued securitisations, are not recorded in the balance sheet assets. 782.1 million of the above-mentioned securities constitute the guarantee for transactions with the Central Bank in order to support any liquidity needs.

3. Disclosure on operative leasing

As at the balance sheet date, as in the previous financial year, there are not operative leasing assets or liabilities.

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	**7,386,579**
a) Third party securities held on deposit: related to depositary bank services (excluding assets under management)	2,079,496
1. securities issued by the Bank preparing the financial statements	1,528,005
2. other securities	551,491
b) Third party securities held on deposit (excluding assets under management): other	38,219
1. securities issued by the Bank preparing the financial statements	34,124
2. other securities	4,095
c) Third party securities deposited with third parties	2,104,519
d) Own securities deposited with third parties	3,164,345
4. Other transactions	**-**

5. Financial assets subject to offsetting in the financial statements, or subject to offsetting master agreements or similar types of agreements

As at the date of the financial statements, as in the previous financial year, no financial assets have been subject to offsetting in the financial statements or were subject to offsetting master agreements or other similar agreements.

6. Financial liabilities subject to offsetting in the financial statements, or subject to offsetting master agreements or similar types of agreements

As at the balance sheet date, as in the previous financial year, no financial liabilities are reported in relation to financial statements offsetting, or subject to offsetting master agreements or other similar agreements.

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	31.12.2013	31.12.2012
1. Financial assets held for trading	1,532	-	6,174	7,706	8,817
2. Financial assets available-for-sale	9,097	-	-	9,097	7,817
3. Investments held to maturity	1,262	-	-	1,262	14
4. Due from banks	3,904	157	-	4,061	6,386
5. Loans to customers	-	153,184	-	153,184	165,687
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-
7. Hedges	X	X	-	-	-
8. Other assets	X	X	11	11	47
Total	**15,795**	**153,341**	**6,185**	**175,321**	**188,768**

The interest income on impaired assets totalled 5.8 million, down over 6.7 million as at 31 December 2012.

The positive margins or the differentials of the derivative contracts managerially related with third parties and financial liabilities designated at fair value (the fair value option), as well as those managerially 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 relevant to hedging transactions

During the financial year, as in the previous year, there were no differentials relevant to hedging transactions.

1.3 Interest and similar income: other information

1.3.1 Interest income on financial assets in foreign currency

(thousands of Euro)	31.12.2013	31.12.2012
a) on (foreign) currency assets	1,000	1,065

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	31.12.2013	31.12.2012
1. Due to central banks	2,873	X	-	2,873	4,521
2. Due to banks	1,730	X	-	1,730	2,702
3. Due to customers	28,607	X	-	28,607	24,966
4. Debt securities issued	X	28,729	-	28,729	25,438
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities designated at fair value through profit and loss	257	8,199	-	8,456	12,996
7. Other liabilities and funds	X	X	-	-	-
8. Hedges	X	X	-	-	-
Total	**33,467**	**36,928**	**-**	**70,395**	**70,623**

1.5 Interest and similar expense: differentials relevant to hedging transactions

During the financial year, as in the previous year, there were no differentials relevant to hedging transactions.

1.6 Interest and similar expense: other information

1 Interest expense on liabilities in currency

(thousands of Euro)	31.12.2013	31.12.2012
a) on assets in foreign currency	770	737

1 Interest expense on liabilities for finance lease transactions

During the financial year, as in the previous one, there were no expense on finance lease transactions.

Section 2 Commission – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amounts *(thousands of Euro)*		31.12.2013	31.12.2012
a)	**Guarantees issued**	**3,377**	**2,898**
b)	**Credit derivatives**	**-**	**-**
c)	**Management, brokerage and consulting services:**	**14,902**	**16,217**
	1. trading of financial instruments	68	97
	2. foreign currency transactions	369	378
	3. portfolio management	-	-
	3.1 Individual	-	-
	3.2 Collective	-	-
	4. custody and administration of securities	261	273
	5. depositary bank	-	-
	6. placement of securities	6,717	6,764
	7. order receipt and transmission work	1,258	1,465
	8. advisory services	-	-
	8.1 on investments	-	-
	8.1 on financial structures	-	-
	9. distribution of third-party services	6,229	7,240
	9.1 portfolio management	-	-
	9.1.1 Individual	-	-
	9.1.2 Collective	-	-
	9.2 insurance products	3,306	4,309
	9.3 other products	2,923	2,931
d)	**Collection and payment services**	**4,944**	**5,309**
e)	**Servicing for securitisations**	**-**	**-**
f)	**Factoring transaction services**	**-**	**-**
g)	**Tax collection services**	**-**	**-**
h)	**Managing multilateral trading systems**	**-**	**-**
i)	**Maintaining and managing current accounts**	**33,495**	**36,632**
j)	**Other services**	**12,215**	**12,861**
	Total	**68,933**	**73,917**

2.2 Fee and commission income: distribution channels for products and services

Channels/Amounts *(thousands of Euro)*	31.12.2013	31.12.2012
a) At own branches:	**12,946**	**14,004**
1. portfolio management	-	-
2. placement of securities	6,717	6,764
3. third party services and products	6,229	7,240
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	-	-

2.3 Fee and commission expense: breakdown

Services/Amounts *(thousands of Euro)*	31.12.2013	31.12.2012
a) Guarantees received	**2,635**	**2,395**
b) Credit derivatives	**-**	**-**
c) Management and brokerage services:	**1,895**	**2,173**
1. trading of financial instruments	1,575	1,830
2. foreign currency transactions	73	73
3. portfolio management:	-	-
3.1 own	-	-
3.2 on behalf of third parties	-	-
4. custody and administration of securities	247	267
5. placement of financial instruments		3
6. external supply of financial instruments, products and services	-	-
d) Collection and payment services	**421**	**401**
e) Other services	**3,886**	**3,702**
1. transmission duties for cash point card details, POS	2,351	2,191
2. transmission duties for the Bank network	607	568
3. other	928	943
Total	**8,837**	**8,671**

Section 3 Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Items/Amounts *(thousands of Euro)*	31.12.2013		31.12.2012	
	Dividends	Income from UCITS	Dividends	Income from UCITS
A. Financial assets held for trading	9	-	-	-
B. Financial assets available-for-sale	243	1,252	230	-
C. Financial assets designated at fair value	-	-	-	-
D. Investments	-	X	-	X
Total	**252**	**1,252**	**230**	**-**

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:	**11,160**	**5,628**	**(9,255)**	**(6,525)**	**1,008**
1.1 Debt securities	191	195	(4)	(28)	354
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	10,969	5,433	(9,251)	(6,497)	654
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**	**-**
4. Derivatives	**1,253**	**5,117**	**(45)**	**(5,916)**	**479**
4.1 Financial derivatives:	1,253	5,117	(45)	(5,916)	479
- on debt securities and interest rates	1,253	4,849	(45)	(5,602)	455
- on equity instruments and share indices	-	268	-	(314)	(46)
- on currency and gold	X	X	X	X	70
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**12,413**	**10,745**	**(9,300)**	**(12,441)**	**1,487**

The sub-item “Financial derivatives - on debt securities and interest rates”, positive for 455 thousand, refers to margins and differentials on IRSs held for trading, futures, and options on securities and rates.

Section 5 Net income from hedging activities – Item 90

5.1 Net income from hedging activities

During the financial year, as in the previous one, there were no differentials relevant to hedging transaction.

Section 6 Profits (losses) on sale/repurchase – Item 100

6.1 Profits (losses) on sale/repurchase: breakdown

Items/Income components *(thousands of Euro)*	31.12.2013 Profit	 Loss	 Net result	31.12.2012 Profit	 Loss	 Net result
Financial assets						
1. Due from banks	-	-	-	97	-	97
2. Loans to customers	188	-	188	-	-	-
3. Financial assets available-for-sale	5,789	(886)	4,903	6,004	(3,202)	2,802
3.1 Debt securities	5,789	(886)	4,903	6,004	(3,202)	2,800
3.2 Equity securities	-	-	-	2	-	2
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Investments held to maturity	3	-	3	4	-	4
Total assets	**5,980**	**(886)**	**5,094**	**6,105**	**(3,202)**	**2,903**
Financial liabilities						
1. Due to banks	-	(1)	(1)	93	-	93
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	567	-	567	1,083	-	1,083
Total liabilities	**567**	**(1)**	**566**	**1,176**	**-**	**1,176**

Section 7 Profits (losses) on financial assets and liabilities designated at fair value through profit and loss – Item 110

7.1 Net change in value of financial assets and liabilities designated at fair value through profit and 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	**4,954**	**1,781**	**(317)**	**-**	**6,418**
2.1 Debt securities	4,782	1,781	(317)	-	6,246
2.2 Due to banks	172	-	-	-	172
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in currency: exchange differences	X	X	X	X	-
4. Financial and credit derivatives	**-**	**42**	**(6,254)**	**-**	**(6,212)**
Total	**4,954**	**1,823**	**(6,571)**	**-**	**206**

The net result of the financial liabilities for debt securities refer mainly to the plain vanilla, flat rate bond issues or bond issues index-linked 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.

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)*	Losses			Recoveries				2013	2012
	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	**(1,744)**	**(32,092)**	**(2,285)**	**5,660**	**10,523**	**-**	**612**	**(19,326)**	**(26,552)**
Purchased impaired loans	-	-		-	-	-	-	-	-
- Loans	-	-	X	-	-	X	X	-	-
- Debt securities	-	-	X	-	-	X	X	-	-
Other loans	(1,744)	(32,092)	(2,285)	5,660	10,523	-	612	(19,326)	(26,552)
- Loans	(1,744)	(32,092)	(2,285)	5,660	10,523	-	612	(19,326)	(26,552)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(1,744)**	**(32,092)**	**(2,285)**	**5,660**	**10,523**	**-**	**612**	**(19,326)**	**(26,552)**

The item “Losses – Specific – Derecognitions” mainly refers to doubtful loans. The item “Losses – Specific – Other” mainly contains value adjustments to doubtful and substandard 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 time-discounting.

8.2 Net losses/recoveries on impairment of financial assets available-for-sale: breakdown

Transactions/ Income components *(thousands of Euro)*	Losses		Recoveries		2013	2012
	Specific		Specific			
	Derecognitions	Other	A	B		
A. Debt securities	-	-	-	-	**-**	-
B. Equity securities	-	-	X	X	**-**	(1,838)
C. UCITS units	(352)	-	X	-	**(352)**	-
D. Loans to banks	-	-	-	-	**-**	-
E. Loans to customers	-	-	-	-	**-**	-
F. Total	**(352)**	**-**	**-**	**-**	**(352)**	**(1,838)**

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

As 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)*	Losses			Recoveries				2013	2012
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		From interest	Other recoveries	From interest	Other recoveries		
A. Guarantees issued	-	(122)	-	-	731	-	-	**609**	**96**
B. Credit derivatives	-	-	-	-	-	-	-	**-**	**-**
C. Commitments to disburse funds	-	-	-	-	-	-	-	**-**	**-**
D. Other transactions	-	-	-	-	-	-	-	**-**	**-**
E. Total	**-**	**(122)**	**-**	**-**	**731**	**-**	**-**	**609**	**96**

Section 9 Administrative expenses - Item 150

9.1 Personnel expenses: breakdown

Type of cost/Amounts ***(thousands of Euro)***	**31.12.2013**	**31.12.2012**
1) Employees	72,290	72,655
a) salaries and wages	49,924	49,588
b) social security costs	13,700	14,165
c) employee termination indemnities	-	-
d) pension costs	-	-
e) provisions to employee termination indemnities	2,599	2,588
f) provisions for retirement benefits and similar commitments:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	2,777	2,442
- defined contribution plans	2,777	2,442
- defined benefit plans	-	-
h) costs resulting from share-based payment arrangements	-	-
i) other employee benefits	3,290	3,872
2) Other working staff	-	7
3) Directors and auditors	1,311	1,078
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	**73,601**	**73,740**

9.2 Average number of employees per category

			31.12.2013	**31.12.2012**
1.	**Employees**		**992**	**1,008**
	a)	Officers	29	29
	b)	Line managers	361	358
	c)	Remaining employees	602	621
2.	**Other employees**		-	-
	Total		**992**	**1,008**

The average number of employees does not include the 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 1.0 million of personnel training expenses. Also included are, cafeteria contributions, refunds for of food and accommodations of employees away on business, kilometre-based travel reimbursements, costs for insurance policies stipulated in favour of employees.

9.5 Other administrative expenses: breakdown

(thousands of Euro)	31.12.2013	31.12.2012
1. Equipment and software leasing charges	1,400	1,161
2. Vehicle circulation and travel/accommodation reimbursements	1,493	1,468
3. Fees for professional services	3,814	3,964
4. Membership fees	527	423
5. SEC (consortium data processing centre) management costs	7,525	7,888
6. Donations	270	286
7. Property rental	5,130	4,966
8. Stamp duty and tax on stock exchange contracts	10,147	8,210
9. Indirect taxes	566	564
10. Insurance premiums	828	850
11. Transport	873	942
12. Security services	722	849
13. Electricity, heating, and condominium fees	1,873	1,737
14. Office supplies	1,357	1,089
15. Investigation and commercial information	1,357	1,417
16. Legal fees for credit collection	2,586	2,148
17. Property, furniture and plant maintenance	4,246	3,943
18. Advertising and entertainment	2,952	3,407
19. Office cleaning	1,074	1,171
20. Telephone, postal, data transmission and telex	2,575	2,405
21. Taxes and duties	1,514	1,706
22. Other costs	164	421
Total	**52,993**	**51,015**

Section 10 Net provisions for risks and charges – Item 160

10.1 Net provisions for risks and charges: breakdown

(thousands of Euro)	31.12.2013	31.12.2012
a) Provision for civil disputes, revocatory bankruptcy action and other charges	(1,720)	(1,521)
b) Release of provisions	1,409	425
Total	**(311)**	**(1,096)**

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

Asset/Income component *(thousands of Euro)*	Depreciation (a)	Losses on impairment (b)	Recoveries (c)	Net result (a+b-c)
A. Property and equipment				
A.1 Owned	(5,645)	-	-	(5,645)
- for functional use	(5,645)	-	-	(5,645)
- for investment	-	-	-	-
A.2 Purchased under finance	-	-	-	-
lease	-	-	-	-
- for functional use	-	-	-	-
- for investment	-	-	-	-
Total	**(5,645)**	**-**	**-**	**(5,645)**

Section 12 Net adjustments to/recoveries on intangible assets – Item 180

12.1 Net adjustments to intangible assets: breakdown

Asset/Income component *(thousands of Euro)*	**Amortisation (a)**	**Losses on impairment (b)**	**Recoveries (c)**	**Net result (a+b-c)**
A. Intangible assets				
A.1 Owned	1,305	-	-	1,305
- generated internally	-	-	-	-
- other	1,305	-	-	1,305
A.2 Acquired under finance lease	-	-	-	-
Total	**1,305**	**-**	**-**	**1,305**

Section 13 Other operating income (expenses) – Item 190

13.1 Other operating expenses: breakdown

(thousands of Euro)	**31.12.2013**	**31.12.2012**
1. Cash, material, and operating differences	(58)	(73)
2. Losses on loans from Deposit Insurance Funds	-	(265)
3. Other expenses	(1,977)	(1,872)
Total	**(2,035)**	**(2,210)**

13.2 Other operating income: breakdown

(thousands of Euro)	**31.12.2013**	**31.12.2012**
1. Property rental	498	438
2. Recovery of management costs	5,631	3,626
3. Charges to third parties for various recoveries	11,506	9,618
4. Other income	948	1,130
Total	**18,583**	**14,812**

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 *(thousands of Euro)*			31.12.2013	31.12.2012
A.	Income		21	112
	1.	Revaluations	-	-
	2.	Profits on disposal	-	-
	3.	Recoveries	21	112
	4.	Other income	-	-
B.	Charges		(1,988)	(348)
	1.	Write-downs	-	-
	2.	Losses on impairment	(1,974)	(348)
	3.	Losses on disposal	(14)	-
	4.	Other costs	-	-
	Net result		**(1,967)**	**(236)**

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

As described in comment of Section “12. Intangible assets” of the balance sheet assets, no value adjustments to goodwill were recognised during the financial year.

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)*		**31.12.2013**	**31.12.2012**
A.	Property	-	-
	- Profits on disposal	-	-
	- Losses on disposal	-	-
B.	Other assets	29	(9)
	- Profits on disposal	37	29
	- Losses on disposal	(8)	(38)
	Net result	**29**	**(9)**

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 (CORPORATE INCOME TAX)**	**IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)**	**31.12.2013**	**31.12.2012**
1.	Current taxes (-)	(15,920)	(4,772)	(20,692)	(18,570)
2.	Changes in current taxes compared to previous years (+/-)	(533)	40	(493)	-
3.	Reduction in current taxes for the year (+)	-	-	-	-
3.	bis Reduction in current taxes for the year from tax credits pursuant to Italian Law no. 214/2011 (+)	-	-	-	-
4.	Changes in deferred tax assets (+/-)	3,682	570	4,252	4,781
5.	Changes in deferred tax liabilities (+/-)	216	(83)	133	(165)
6.	Taxes for the year (-) (-1+/-2+3+/-4+/-5)	(12,555)	(4,245)	(16,800)	(13,954)

18.2 Reconciliation between theoretical tax expense and actual tax expense in the financial statements

(thousands of Euro)	**IRES (CORPORATE INCOME TAX)**	**%**
IRES tax with application of nominal rate	**12,804**	**36.00%**
Tax-free losses on investments	669	1.88%
Non-deductible interest expense	1,013	2.85%
Non-deductible costs	827	2.33%
Total tax effect of increases	**2,509**	**7.06%**
Dividends	(83)	-0.23%
Other decreases	(2,386)	-6.71%
Total tax effect of decreases	**(2,469)**	**-6.94%**
IRES tax charged to the income statement	**12,844**	**36.12%**

(thousands of Euro)	**IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)**	**%**
IRAP tax with application of nominal rate	**1,718**	**4.83%**
Personnel expenses	2,368	6.66%
Net losses/recoveries on impairment	934	2.63%
Non-deductible interest expense	136	0.38%
Other increases	539	1.52%
Total tax effect of increases	**3,977**	**11.19%**
Dividends	(6)	-0.02%
Other decreases	(1,734)	-4.88%
Total tax effect of decreases	**(1,740)**	**-4.90%**
IRAP tax charged to the income statement	**3,955**	**11.12%**

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

(thousands of Euro)	**31.12.2013**	**31.12.2012**
a) Debit adjustments	**339,219**	**350,731**
1. Current accounts	80,824	86,454
2. Central portfolio	258,074	258,694
3. Cash on hand	252	1,270
4. Other accounts	69	4,313
b) Credit adjustments	**390,586**	**403,235**
1. Current accounts	91,900	142,327
2. Assignment of bills and documents	297,807	260,264
3. Other accounts	879	644

Section 21 Earnings per share

	31.12.2013	**31.12.2012**
Basic earnings per share	0.49	0.62
Diluted earnings per share	0.49	0.62

The 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.

As at the balance sheet date there are no outstanding transactions having dilutive effects on the number of shares. Below are the data for the weighted average of shares.

	31.12.2013	31.12.2012
Weighted average number of ordinary shares	38,131,318	34,708,210
Adjustment for effects of dilution	-	-
Weighted average number of diluted ordinary shares	-	-

21.1 Average number of diluted ordinary shares

As 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)	**X**	**X**	**18,767**
Other comprehensive income without reclassification to profit or loss	**333**	**628**	**961**
20. Property and equipment	-	-	-
30. Intangible assets	-	-	-
40. Actuarial gains (losses) on defined benefit plans	333	628	961
50. Non-current assets held for sale	-	-	-
60. Portion of valuation reserves of equity-accounted investees	-	-	-
Other comprehensive income with reclassification to profit or loss	**2,196**	**(570)**	**1,626**
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:	2,196	(570)	1,626
a) changes in fair value	3,026	(838)	2,188
b) reclassification to profit or loss	(830)	268	(562)
- impairment adjustments	352	(114)	238
- profits/losses on disposal	(1,182)	382	(800)
c) other changes	-	-	-
120. Portion of valuation reserves of equity-accounted investees	-	-	-
a) changes in fair value	-	-	-
b) reclassification to profit or loss	-	-	-
- impairment adjustments	-	-	-
- profits/losses on disposal	-	-	-
c) other changes	-	-	-
130. Total other comprehensive income	**2,529**	**58**	**2,587**
140. Comprehensive income (10+130)	**2,529**	**58**	**21,354**

PART E INFORMATION ON RISKS AND RELATED HEDGING POLICIES

In accordance with the significant changes in regulations and complexity of the operating environment, Banca Popolare • Volksbank gives great importance to the management and control of risk, which must act to 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 progressive fine-tuning of the concept of the risk appetite framework, the definition of operating limits and parameters to evaluate compliance especially with reference to the issue and management of loans, should be the main operating issues to focus on.

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

Internal audits are performed by the internal audit department. It performs its duties with specific inspections using a system aimed at assessing the intrinsic riskiness of particular segments. It intervenes whenever there is any misalignment between the internal control system, business model and governance system and in the process and procedure revision phase. The objective is to ensure consistency and coherence in the control model for overseeing risks.

The Institute of Internal Auditors (IIA) is the leading international body for Internal Audit, and is represented in Italy by Associazione Italiana Internal Auditors (AIIA), of which the Company is a member. IIA issued professional standards for Internal Audit (International Professional Practices Framework - IPPF). Three binding elements are defining internal audits, a code of conduct, and international standards for professionals performing internal audits. IPPF disseminates best practices for internal audits. Compliance with these standards and guidelines is not mandatory, however, it is highly recommended in order to ensure high-quality internal audits.

In light of these professional standards, and taking into consideration the continuing development of Italian bank laws, especially the provisions issued by the Bank of Italy and CONSOB (which increasingly express the need for internal audits on new processes and rules), the Internal Audit Department uses an "Internal Audit Charter”, approved by the Board of Directors.

The “Internal Audit Charter” includes the primary points of professional standards and regulates the following points of internal auditing: purpose, authority, independence, objectiveness, responsibility, services and business, type and method for performing audits, internal audit system, risk assessment, code of ethics, as well as references to professional standards. The charter specifies the criteria for independence and sets the hierarchy for the internal audit office: the Board of Directors is in charge of approving the budget and remuneration for the Internal Audit Director, while the department reports to the General Manager.

In addition to the “Charter” the Internal Audit department uses an “Internal Audit Manual", which describes the main methods used for internal audits, such as the methodological approach for carrying out an audit, standard work schemes with check points to inspect the retail network (periodically revised), standard work schemes for the process audit. The manual reflects the direction of internal audits towards risk and control assessment by the Company. In particular, a risk pyramid was inserted, which describes the hierarchy and the relation between primary bank risks (operational risk, credit risk, market risk) according to degree of intervention and how these risks are handled by management.

Regulatory Compliance Office

The mission of the Regulatory Compliance Office is to identify, mitigate and monitor non-compliance risk. This is the risk of not complying with internal procedures of laws, regulations or governance codes and any rules that protect the reputation of the Company and the quality of the services provided to customers.

The Regulatory Compliance Office operates on an independent basis in accordance with the provisions of the law and the instructions given by the Supervisory Authority. The current mandate of the office was approved by the Board of Directors in its meeting of 8 February 2013. The main responsibilities of the office concern:

- the governance and management of the compliance process and monitoring matters of significant impact, in accordance with an approach based on the degree of risk of non-compliance; for every activity that - according to said approach - is considered to potentially expose the bank to greater risk of non-compliance, instruments and methods to achieve the pre-established objectives of regulatory and operating compliance are identified.
- consulting, assistance and training in matters concerning compliance;
- periodic assessment and check of compliance conditions;
- submitting reports to upper management and company bodies;
- relations with Supervisory Authorities.

The Regulatory Compliance Office systematically and continuously monitors new regulations, evaluates the impact on the corporate structure and promptly informs the organisational structures involved; it gives advice, and makes proactive evaluations before the fact on the adequacy of the prudential controls set up and implemented to mitigate the risk of non-compliance, and checks after the fact to ensure that the operating behaviour is in line with said controls. It also ensures that the organisational controls are maintained in effect over time, in order to mitigate the risk of non-compliance, and if necessary, defines and proposes mitigation actions continued necessary to eliminate or in any case, keep the risks within the desired levels. These activities (the so-called “methodological framework”) involved the following main areas in 2013:

- Corporate governance, including remuneration policies;
- Conflicts of interest;
- Related parties (CONSOB) and associated parties (Bank of Italy);
- Investment services;
- Market abuse;
- Anti-money laundering;
- Transparency and Payment Service Directive (PSD);
- Privacy;
- Insurance brokerage;
- Outsourcing of the cash processing activities;
- Support in the management of the Organisational Model under Leg. Decree 231/2001 and Code of Ethics;
- Complaint management.

The activities performed in 2013 in accordance with its mandate and detailed in the 2013 Work Schedule approved by the Board of Directors on 8 February 2013 mainly focused on preparation of the following:

- Audit report;
- Consultancy report;
- Report on the analysis of the impacts of the new regulations;
- Training report;
- Periodic reports to the Board of Directors;
- 2013 Operations report approved on 24 January 2014.

During 2013, the methodological profile of the investigations was updated by the internal control committee - comprising managers of the second and third level control offices of Banca Popolare • Volksbank - in order to create synergy and more interaction between the offices themselves.

The activities that were added to the Regulatory Compliance Office in 2013 include the preparatory and preliminary work to implement the 15th update of the "New prudential supervision provisions for banks" published by the Bank of Italy on 2 July 2013 and which set out the updated principles and rules that must govern the internal audit system.

On the basis of the new rules "the Regulatory Compliance Office must control - taking a risk-based approach - the management of risk of non-compliance with respect to all company activities". To date, the intervention of the Compliance office in order to identify any risks of non-compliance were focused on a series of well-defined areas (for example brokering financial instruments, transparency, conflicts of interest, remuneration policies, consumer protection, etc.); the new rules have set out the extent of the duties more clearly, putting the compliance office in charge of compliance of all Bank activities (therefore including for example, the important credit area).

The Bank of Italy has given until 1 July 2014 to comply with the new provisions: Banca Popolare • Volksbank has provided for the new formulation of the Policy and Mandate, which, will be put into a single document along with a consolidation of the risk-based approach, in order to ensure monitoring over the risk of non-compliance for all bank activities. Where there are specialist offices that already monitor said areas of risk, common methods will be defined in order to evaluate the adequacy of the procedures.

Risk Management

On 20 December 2012, the Board of Directors approved the charter of the risk management office, which had already been established by Banca Popolare • Volksbank in 2003, and which adopted the latest national and international regulations concerning the role and obligations of the audit office, to which the risk management section belongs, and which sets out:

- the independence requirements for all the company audit offices;
- adequate professional requirements for the office managers and staff, excluding any role or direct involvement in any operational areas subject to auditing on their part;
- specific planning and reporting of the audit activity to submit annually to the company bodies.

The charter therefore establishes that the risk management function reports hierarchically to the Corporate Affairs Unit and functionally to the Board of Directors, subject to the right of the head of the service to report directly also to the other company bodies. The Corporate Affairs Unit manager defines the work of the office from an organisational point of view, for the sole purpose of ensuring its organisational adequacy and correct operation, but without examining its independent judgments on the merits of any matters. The head of the Risk Management service communicates and answers directly to the Board of Directors regarding the work carried out and performs the duties conferred on an independent basis.

Concerning risk measurement and management, 2013 was characterised by yet another increase in efforts aimed at more effective dissemination and instilment at all levels of management, of the Risk Management Policy of Banca Popolare • Volksbank, whose yearly revision was approved by the Board of Directors on 6 December 2013. 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.

The most significant innovations introduced during the review included redefinition - on the basis of the regulations contained in the 15th update of Circular no. 263 of the Bank of Italy - of the so-called Risk Appetite Framework (RAF) which 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:

- the risk appetite,
- the tolerance thresholds,
- the risk limits,
- the risk governance policies,
- the 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 thanks to 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 Company 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 Company 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 ability to tackle adverse situations of critical emergency or crisis;
- the maximum risk capacity, representing the maximum amount of risk that the Company is able to sustain without compromising its ability to continue as a going concern. This reflects the ability to tackle and endure adverse situations of critical emergency or stress;
- the overall (or aggregate) risk appetite that constitutes the level of risk, and by category of risk, 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;
- the risk tolerance that 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.

The risk classification was extended in the new version of the document, especially with respect to:

- forbearance, i.e. the risk related to the classification (and consequent management) of a debtor in a higher class of risk than its real situation requires. The consequence may be a delay in emerging of doubtful loans (and impaired loans in general) and the necessary write-downs, with negative consequences on financial stability and the allocation of resources;
- risks of conditioning by influential parties related to the fact that the closeness of these parties to the decision-makers of the bank could compromise the objectivity and impartiality of decisions with respect to loans granted and other transactions with these parties (or parties close to them), potentially distorting the procedures followed in the allocation of resources, exposing the Bank to risks which have not been adequately measured or monitored, and incurring potential losses;
- IT risk, i.e. the risk of incurring economic loss, loss of reputation and market share in relation to the use of computer and communications technology. The IT risk arises from an event that implies the breach or imminent threat of breach of company rules and standards with respect to the security of information, such as computer fraud, attacks via the Internet, break-downs and poor service;
- model risk, i.e. the risk of incurring economic loss following the use of models to make choices or decisions. This indicates in general the potential error made in dealing with a certain issue with a cognitive instrument (the model) through the modelling limits and/or imprecise assumptions, which are outdated or simply invalid in real conditions;
- risk of inadequate internal organisation, which, within the scope of strategic risk, includes the risk of inadequate, partial or delayed application of the decision-making strategy at institute level due to inadequate internal organisation;
- goodwill risk that includes the current or future risk that the goodwill amount recorded in the financial statements is higher than what could actually be obtained for it.

The annual risk assessment made to identify the significance of each risk within the scope of the business activities and the characteristics of the Bank led to identification of insolvency risk (a case of credit risk) as the type of high-level risk for the Bank for which the entire operating and control strategy structure must monitor as carefully as possible.

Within the scope of the Internal Audit System (IAS), an “integrated method” was drawn up and approved in 2013, which defines - on a consistent, standardised basis - objectives, roles, procedures and techniques to adopt in the design and evaluation of controls put in place by the Bank to mitigate the risks. This method provides for the involvement and assignment of responsibility to the process owners and the adoption of a bottom-up approach to recognise and measure the risks. Once again, the objective is to spread the culture of risk, expressed - among other things - in the need for more involvement by the business units which must be aware of the risks generated in their day-to-day operations and must constantly monitor the risks through adequate controls.

The new methods were immediately applied in the review of the most important operating processes in the credit area, which is the most significant area of activity for the bank, involving clear identification and evaluation of the risks, implementation of many of the controls prepared to mitigate the risks and optimisation of certain phases of the processes themselves.

In direct relation to the main document, in 2013 a series of policies and internal rules were consistently defined or drafted to provide details on how to manage specific risks. In particular:

- the "Investment Policy" with the related definition of 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 Policy", which is structured so as to define guidelines to manage operational and structural liquidity 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 regulates in full and 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 "Loan Valuation Policy for financial statements", which describes the methods used for the purpose of measuring the value of loans to customers, in consideration of regulatory provisions and accounting policies.
- the "Operating Risk Policy", which regulates in full and in a single document the operating 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 expiry of the financial assets and liabilities, and to express the potential for profit or loss resulting from market rate fluctuations.

As in the previous year, in 2013 Banca Popolare • Volksbank calculated "First Pillar" capital requirements to deal with credit, market and operating risks using the standard approach.

Concerning ICAAP (Internal Capital Adequacy Assessment Process), an essential element of the "Second Pillar" under the Basel Accord, tools were provided for all types of risk as well as stress tests, especially for liquidity risk, residual risk and concentration risk.

The new features recently introduced in the ICAAP process include the formalisation and organisation of all phases of the process, fully complying with the regulatory provisions and the internal organisational structure. Two checks of capital adequacy are planned per year:

- the "official" check 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 yearly statement of the ICAAP process forwarded to the Regulatory Authority in April yet again highlighted that, according to the business plan, also for the future the capital is expected to be fully sufficient to deal with any risks undertaken.

Based upon the six-month report data, the infra-annual ICAAP process significantly confirmed the solidity and quality of the Bank's equity structure, as well as its ability to continue as a going concern.

Again in 2013 the new Basel 3 framework was dealt with on several occasions and at varying degrees of detail. 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 procyclicality of rules (buffer capital) and setting limits on financial leverage while promoting new rules on liquidity management.

The main impacts on the bank of the new rules coming gradually into effect on the bank starting from 2014 was assessed and the adjustment actions were initiated with the support of the service centre. According to assessments the quality of capital is good, financial leverage is low and the traditional business model, which is essentially linked to financing the real economy, should make it less costly to comply with the new rules. Specific chapters to this effect were added to the risk policy and the ICAAP report.

Following issue of the 15th update of Circular no. 263/2006 of the Bank of Italy in July 2013, Banca Popolare • Volksbank initiated a project aimed at making a gap analysis of the current organisational structure of the bank with respect to the new requirements within the scope of the Internal Audit System (IAS), the IT System and the Continuing Operations. The analyses led to definition of a master plan of the adjustment activities to be implemented during 2014; they deal with different environments including the role of the control functions, the internal audit system structure, the risk appetite framework, the evaluation and management system of company risks and the outsourcing policy of company activities.

The risk management office activities for 2014 will also be strongly governed by the instructions set out in Circular no. 285 of 17 December 2013 of the Bank of Italy, entitled “The new Supervisory Regulations for banks and intermediaries”. It incorporates the European provisions for banks and investment companies contained in the regulation (“CRR”) and the directive (“CRD IV”) of 26 June 2013. These regulations transpose the standards defined by the Basel Committee for banking supervision into the European Union, the so-called Basel 3 framework.

BANK RISKS

Credit risk

Credit risk is the total or partial risk of insolvency of a key counterparty and constitutes the Bank’s main risk factor, in accordance with its own retail nature as a bank geared towards retail customers and small to medium enterprises.

Therefore, the credit strategy of 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 2013 was entirely guided on the Credit Risk Policy, which was approved at the end of 2011 and subject to annual review in December 2013. 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, loans portfolio concentration, remaining 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, with 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 there are specific essential activities in execution and monitoring and control, while making reference from time to time to internal documentation for details;
- 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 are based on four elements: regular monitoring through periodic review, monitoring trends using the internal rating system, the regulatory device and alert for positions at risk (early warning, CM), monitoring risk mitigation tools;
- the model for determining the likelihood of official default in the loans portfolio and quantifying expected and unexpected loss;
- the effects of credit risk on the bank’s equity and financial statements: determining the asset requirements for credit risk (Pillar I); regulatory and internal limits for risk concentration (Pillar II); 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 (GDC, Credit Management). It uses an early warning engine to give timely warning of any deteriorating situations, starting from the performance rating and a diversified series of daily indicators. In addition, the system streamlines the internal process for classification and management of problem customers, in turn ruled 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 (past-due, substandard, objective substandard, restructured, and doubtful loans), the system also provides for two classifications for performing customers:

- Loans that are “under observation”, which are those that show minor and/or repeated irregularities. Network managers can be in charge of managing and monitoring them;
- Loans that are “high risk”, which are loans that continuously and repeatedly show irregularities (credit limit exceeded, instalments in arrears, high percentage of overdue bills, etc.), in the risk centre (reduction in notifying banks, short-term loan consolidation) or in the financial statements and for which payment is expected within 12 months after qualitative and quantitative processing of the loan.

Impaired loans that are defined as “single transaction”, in other words customers with credit lines covered by real guarantee and past due or overdue by over 90 days, undergo special monitoring by producing specific lists that are forwarded to the retail network to oversee positions. Similarly, positions that have been delinquent for a relatively long period are monitored more carefully also in consideration of the fact that starting in 2012 the current 180 day term of exposure for classifying positions as past-due was reduced to 90 days.

In order to improve the quality of credit and minimise risk, the following measures were introduced in 2013 as part of the granting, monitoring, and periodic reviewing processes involved in lending:

- introduction of monitoring and management of pre and 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.
- optimisation of the early warning engine parameters that allowed for a more immediate classification of the high risk positions and an increase in the level of attention by the retail network and the internal control services;
- monitoring CIGS decrees (extraordinary redundancy fund) in the catchment area of the bank in order to identify any other negative signals pertaining to customers such as the implementation of labour cost reduction procedures due to difficulties being experienced by the companies;
- mitigation of the credit risk for credit lines granted based on trade receivables through the so-called ‘collection portal’ that can evaluate the reliability of both the presenting party (trusted customer) and the portfolio presented, i.e. the customer’s debtors;
- the credit line granted on the basis of expected invoice receivables now provides for notification of the transfer of the credit to the debtor, thereby preventing any possible abuse (invoices sent more than once, invoices that have already been cashed, etc.);
- introduction of offsetting agreements, i.e. a new form of collateral that authorises the bank to offset balances without having to give notice of arrears;
- the option to access - through the national supplier CRIF - foreign Credit Bureau information (Germany, Austria and Slovenia);
- introduction of the option to grant personal loans via computer (e-credit) subject to the customer fulfilling a series of requirements and controls (automatic and manual).

Adoption of the Credit Risk Mitigation methods to calculate the Bank’s regulatory capital in accordance with Basel II led to the accurate definition of forecasting, valuation and period revaluation procedures for property used as mortgage guarantees in order to fully observe the eligibility criteria of such guarantees. Therefore, the entire mortgage portfolio was twice put through a geo-referencing revaluation process by the company Nomisma in 2013 in order to assess the value of property in consideration of the performance of the real-estate market, which was considerably hit by the crisis, and ensure that such property is adequate for the loan in question. Timely, individual monitoring process when single positions undergo significant negative divergences, giving notice to the network operating units of the actual capacity of the capacity of the guarantee to cover the credit exposure (loan-to-value) and implementing the necessary counter-measures.

During the year, the capital requirement level was constantly monitored within the ICAAP process and there were no significant changes, with the overall volume in the loan portfolio remaining substantially stable.

The quarterly credit risk report drafted for the Board of Directors of the Bank plays an important role as a fundamental tool to monitor performance of the credit company of the Bank and related risks, and to monitor adherence to objectives and compliance with 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 loans portfolio behaviour should unexpected events occur. Also in 2013 the structure and quality of information was partially revised to make it more accessible and meet the needs of management.

A report will also be drawn up on a monthly basis starting from December 2012, and it will contain the essential information on the composition and overall risk level of the credit portfolio.

The control of credit risk was also dealt with on a quarterly basis by the Credit Risk Committee, which, among other things, also makes an in-depth detailed analysis of the aforesaid quarterly report 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 the 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 calculating VaR, the Bank uses the historic simulation approach with exponential weighting applied to the Murex computer platform which, since 2009, forms the integrated computer treasury procedure at Banca Popolare • Volksbank.

In addition to analysing VaR and maximum sustainable losses, using specific limit systems market risk management is based on the control of Counterparty risk, Country risk, the sensitivity of the portfolio to market rate risk (basis point value) and credit risk (credit risk sensitivity).

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 department.

The Risk management department 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

It is the risk that a counterparty to a transaction does not fulfil its obligations with the methods and within the time limits envisaged by the contract.

Counterparty risk is governed by a specific system of operating limits, based on a range of creditworthiness separate evaluation criteria of the counterparties in accordance with the type (corporate or financial). The general rules whereby all financial transactions must be followed 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 on the basis of specific percentage quotas of the limit itself, attributed to standard categories of financial instruments.

On the basis of the provisions in the financial policies, the new authorising process for the grant of credit facilities for the use of the Treasury and Investment services was implemented in 2013. Among other things, this provides for specific decision-making procedures, on the basis of the amounts requested and the creditworthiness of the counterparties, with the involvement of the Board of Directors, the Finance Department and the Finance Committee, who have decision-making powers and the Risk Management service which provides mid-level opinions. The criteria and limits to evaluate the creditworthiness of the counterparties were expanded, reviewed and adjusted to current conditions of the financial markets.

Interest rate risk

With regard to the banking book, which corresponds to the Bank's range of commercial operations 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 laid down by the Finance Policy, as well as related limits and operational powers for finance and liquidity. In addition two indicators have been identified, which are respectively inherent in interest margin sensitivity and current asset value sensitivity in the event of unfavourable variations in the interest rate curve.

Interest rate risk is overseen with the support of monthly reports on IT procedure using ERMAS by Prometeia. This model has been gradually streamlined to process all assets and liabilities in the banking book in a realistic and reliable manner.

In 2013 the banking book's risk profile was also kept within the limits set by risk assessment with respect to interest margin sensitivity and asset value sensitivity.

Checking and managing interest rate risk is discussed by the Internal Finance Committee on a weekly basis and by the Finance Committee on a monthly basis. These meetings a specific monthly report is submitted by the risk management department (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 illustrated 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, both in time-related terms and in terms of amounts, between the asset and the liability items.

Liquidity risk

The importance of liquidity risk, sharpened by the current and continuing crisis in financial markets, interbank relations and by sovereign debt, especially in the Euro area and in Italy, formed an element of constant attention also in 2013.

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 company. It is mainly in the form of:

- inability to obtain funds on the market (funding liquidity risk);
- inability to use funds by selling assets on the market (asset liquidity risk).

Liquidity is managed in accordance with the instructions and operational guidelines contained in the liquidity policy, which is a constantly updated document. 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 crisis 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 organisation 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 (CFL).

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, under ICAAP, any internal capital needs to deal with 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 sorted according to whether the indicators refer to a systematic crisis or a specific crisis. The indicators are duly weighted in order to determine five different operational situations resulting from progressive deterioration of the liquidity position of the Bank: normal operations – in turn comprising the situations of consistency, under observation and attention - stress situation (emergency), crisis (critical emergency).

The Treasury service, which manages liquidity, also uses the so-called liquidity synoptic panel, which is a daily report providing a concise yet thorough description of the short/medium-term liquidity situation, thereby enabling the company to quickly identify critical situations and control indicators.

In 2013 the Bank did not experience any short-term or long-term situations in liquidity that would cause concern, despite the low confidence between operators and especially in consideration of the country risk given 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. A specific securities portfolio was set for this as of 2012, in order to act exclusively as a reserve for liquidity management, and for which separate investment rules were identified that are more prudent than the normal trading portfolios in terms of duration, sector, issuer risk, eligibility, etc.

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 operational losses and systematically detect and measure 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 system 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 operational losses with the purpose of improving management of potential sources of risk that could undermine company 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 operational 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 collection of data on operating losses is based on an internal notification process that detects all events in the category of operational losses, starting from the minimum threshold of Euro 500, and forwards them to a central collection point run by the Risk management service. These reports are integrated with losses deriving from legal action, customer complaints, disputes with staff, etc.

The collection and systematic analysis of this information in latest years provided valuable inspiration and suggestions to assess and optimise processes and activities of the Bank.

A report on the Bank's operational risk situation is drafted on a quarterly basis by the risk management department for discussion within the Operational Risks Committee. The latter thus has the task of identifying all the potential critical situations, defining the counter-measures that are liable to contain them, and define the operational processes that need adjustment and those that have not yet been defined.

The management of operational risks is also taken into consideration within the scope of the internal audit system and the internal control committee meet on a monthly basis to coordinate all the control functions in the company (Internal Audit, Compliance and Risk management), sharing the intervention limits and the results of the assessments, directing the corrective actions towards the operating structures, developing and spreading the risk and control mentality within the operating structures.

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 among other things. 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, evaluating the effectiveness of the system in relation to the objectives and the programmes of the Strategic Plan in effect and development of the 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.

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. 263 (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 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 credit risk committee.

Other risks

The Risk Management Policy identifies and defines the following further classes of risk, which are periodically subject to analysis and assessment:

- Sales risk management, meaning the risk of losses as a result of unexpected falls in sales and/or higher operating costs;
- Strategic risk, that is, the risk of unexpected losses because of wrong decisions by Banca Popolare • Volksbank management or of financial difficulties in the SEC Servizi centre;
- Reputational risk, which is the risk that the Bank might suffer from damage to image and credibility as a result of misconduct by individual employees or groups of staff; in order to oversee such risk, the Rules for Public Disclosure and Reputational Crisis Plan were prepared.

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 provenance of the funds being transferred. In order to make anti-money laundering laws fully effective it was necessary to undertake an significant process to standardise international laws to prevent movement of money from criminal activity in an increasingly open and competitive market, taking advantage of holes in the protection networks put in place by the 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 the primary laws and the secondary rules is vast and is constantly extended by the various supervisory authorities in charge. Basically, the obligation system that must be followed by the intermediaries, and which Banca Popolare • Volksbank constantly 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.

On 5 February 2013, the European Commission adopted a directive proposal relating to prevention of using the financial system to launder proceeds from criminal activities and for funding terrorism (known as the "fourth directive"). After adoption of this directive in Italy, it will replace the directive 2005/60/EC (third anti-money laundering directive), consolidating and updating it, and this will obviously have an effect on national prevailing law contained in Legislative Decree 231 of 21 November 2007. As an intermediate step, a report proposal was presented by the Commission for economic and monetary issues and for civil freedoms, justice and internal affairs on 11 November 2013, regarding amendments to the text of the proposal of the fourth anti-money laundering directive.

The most recent national legislative and regulatory production regarded the following:

- the Provision of the Bank of Italy of 3 April 2013 containing implementing provisions regarding the adequate checking of customers, in accordance with article 7, paragraph 2 of Legislative Decree 231/07 which came into effect on 1 January 2014, with the relative amendments regarding the correct registrations in the Consolidated Electronic Registry (CER);
- The UIF communication of 11 April 2013 showing typical patterns of anomalous behaviour in transactions related to the gaming and betting sector.
- the circular of the Bank of Italy of 5 July 2013 giving instructions to banks to carry out more in-depth monitoring of customers operating in the sector of public procurement, especially after the occurrence of public disasters;
- Circular no. 57889 of the Ministry of the Economy and Finance of 30 July 2013, containing clarifications on bank procedures in the event it is not possible to comply with the obligations to make adequate checks of customers who have financial resources with the banks;
- The UIF communication of 2 December 2013 showing typical patterns of anomalous behaviour in operations related to the anomalous use of trusts;
- The UIF communication of 18 February 2014 showing typical patterns of anomalous behaviour in operations related to payment cards.

Banca Popolare • Volksbank had already set up adequate organisational controls in previous years in order to fulfil its obligations relating to the regulations in force and to effectively govern risks. There were no changes made to the organisation during 2013, and so the anti-money laundering measures in our bank are still the same. In summary, the anti-money laundering office in Banca Popolare • Volksbank:

- is independent;
- is coordinated by a manager appointed by the Board of Directors, to whom he/she reports directly;
- has access to all bank activities and any significant information to carry out the necessary work;
- has adequate resources, in terms of quantity and quality, to perform the duties required, also by endowment of a budget that can be activated independently by the Compliance office of which it forms part;
- has an adequate number of staff members with adequate technical and professional skills and training, including by following special training programmes on a continuous basis.

In 2013 the following activities were completed:

a) substantial completion of the recovery of questionnaires checking customer positions in place;
b) preparation and implementation of the necessary measures to comply with the new regulations with respect to adequate checking, with specific attention to the figure of the "actual owner" with respect to both the relationship and the individual transaction;
c) introduction of a new authorisation system for outgoing bank transfers to countries that are "at risk" or non equivalent;
d) rewriting of the internal anti-money laundering manuals;
e) lowering the limit (from Euro 5,000 to Euro 1,000) for accepting customer declarations on cash transactions on the bank form, with a further significant increase in controls of customer cash transactions;
f) new internal procedure to report suspicious SOS transactions and approval of the related internal rule;
g) increase in quality and quantity of second-level controls, especially with respect to the correct recording movements in the consolidated electronic registry ("AUI") and the correct management of the customer checks by the branches, especially with respect to business customers operating at a cross-border level;
h) introduction of a new authorisation process to initiate business relations with parties who reside outside the catchment area of the bank;
i) improvement in the quality of the IT system dedicated to anti-money laundering;
j) internal training of all people who work in the retail network and management, and external partners, to be attended on a specialised basis by staff working in the area of anti-money laundering;
k) collaboration with project groups to check the validity of the anti-money laundering procedures and implement the new procedures considered necessary following the regulatory innovations.

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 they are always provided with the most suitable product or service to meet their needs.

Despite the commitment of workers 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 to settle any disputes with customers out of court.

The special complaints management office is staffed by workers that are independent from the organisation and sales departments, which enables them to be objective when assessing complaints.

If the solutions provided by the bank do not satisfy customers, whether 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 Company's website. In this regard, the information kit offered by the Company through its retail network and website contains extensive information including the rules on how complaints are handled and the Company's system for settling disputes.

Moreover, statistics on complaints received by 31 December 2013 were also published. During the financial year 165 written complaints were received and processed (194 the previous year), including 153 regarding bank services (163) and 12 regarding investment services (31). Out of 165 complaints, 158 were taken care of by 31 December 2013, while 7 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 Bank 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 is reached or a amicable solution to the matter is reached with the customer.

With respect to complaints made in 2013 regarding the banking services, the Bank repaid customers a total gross amount of Euro 12,896.15; with respect to expected loss relating to complaints which have not yet been settled, a total loss of Euro 79,017.71 was forecast; this amount was allocated to the appropriate provision.

With respect to complaints made in 2013 regarding the brokerage of financial instruments, the Bank repaid customers a total gross amount of Euro 3,810.67; with respect to expected loss relating to complaints which have not yet been settled, no estimates have been made for either 2013 or previous years.

No repayments relating to complaints made in previous years were made in 2013. A detailed investigation of the complaints made in 2013 did not show up any particular procedural, organisational or behavioural shortfalls.

THE CODE OF ETHICS

A good reputation implies trust in the organisation, as an institution that adopts business and relation policies with stakeholders.

Since protecting reputation means complying with the standards set out in the Code of Ethics the Compliance office takes on an essential role in protecting the bank's image.

The Company's focus on overseeing correctness in day-to-day operations – correctness meaning, in the strict sense, complying with legal rules and, in a broad sense, ensuring the best operational practices as set out in the Code of Ethics – is a major plus in assessments made by stakeholders, who can approach the Company with more trust, confidence and better cooperation.

Efficient and effective compliance control helps build up a good reputation. It is a deterrent against unlawful acts and improper conduct, which can undermine the trust of the Company's stakeholders.

The Company's Compliance office is a great asset for both consumers, whose rights and complaints are followed by the Company, and for the Company itself as its reputation is raised even higher by overseeing compliance.

Thus, the Compliance office and the other internal audit offices embody the aim of Supervisory Authorities, which is to adopt rules to raise management's awareness of the risks the company is exposed to.

This includes a project started in 2012 and being developed in 2013 aimed at greater harmonisation between the various second level (Compliance, Risk Management and Manager in charge of preparing the corporate financial report) and third level (Internal Audit) audit offices. The first phase ended with establishment of the Internal Audit Commission; the second phase is under way and aims at the creation of a standard work method for all audit offices; there will also be a third and final phase to establish a standard reporting process for the company bodies.

STATEMENT PURSUANT TO ARTICLE 154-*BIS* OF THE CONSOLIDATED LAW ON FINANCE

Italian Legislative Decree 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 audit system for financial reporting is adequate and effective:

- through a summarised analysis, at company level, aimed at ensuring that the company is organised in such a way as to reduce the risk of error or improper conduct in financial disclosure and reporting;
- by checking company operations for generating and developing financial reporting also 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 business offers support in the growth and consolidation of small and medium enterprises and assistance in family financing needs, with the dual aim of providing financial support in the development of local economies in areas covered by the Bank and of becoming a well-known, competent, and reliable contact for the customers.

The credit policy adopted during the year was, in keeping with the general principles illustrated previously, marked by responding to the financing needs of private individuals and companies, always with special focus on the risk-yield ratio and the presence of adequate hedging, 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 at risk. In addition, support 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 and geographical business segments (Alto Adige, Trentino, provinces of Belluno, 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 taken on, 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 effective than expected. The residual risk is manifest, therefore, in relation to the Credit Risk Mitigation techniques utilised to determine the absorption of the capital required to cope with the credit risk. The residual risk may emerge as:
  - the risk that there will be impairment of the guarantees related to a possible significant impairment in the market value of a guarantee given;
  - the risk of non-enforceability of the guarantees, related to the fact that when it occurs, the guarantee cannot be enforced due to market illiquidity or for reasons linked to the administrative management process of the guarantees;
  - risk of concentration of the guarantees, resulting from indirect exposure with respect to individual suppliers 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 higher class of risk than its real situation requires. The consequence may be a delay in emerging of doubtful loans (and the doubtful 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 with the methods and within the times limits envisaged by the contract;
- risk of change of credit rating in securities (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, whenever, while settling a transaction, the counterparty is no longer able to fulfil its commitments. Settlement risk originates mainly from swap transactions and contracts where which 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 is associated with the deterioration of the borrower's and counterparty's credit rating, i.e. or that it is must be classified in a lower rating class (so-called 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 is the risk incurred if there is exposure (investments or granting of loans) to one individual or a group of interconnected individuals;

- sectoral concentration risk is 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 debtor in case of a worsening of foreign exchange rates and the consequential increase of debt;
- sovereign risk is the risk of cross-border payments transfers, that describes 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 and they are governed in such a way as to guarantee 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 risk management 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 Credit Risk 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 department. Specifically, the Committee:

- checks compliance with limits set under yearly credit strategy;
- checks trends in overall quality of the loan portfolio;
- checks the risk profile and main risk parameters of the loan portfolio;
- checks 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, initially (1st application) carried out by the managers of the organisational unit of the retail network, especially through limit excess and unpaid instalment verification performed by branches by means of special procedures and periodic progress report analysis. As a second step, services which are functionally dependent on the Credit management (2nd petition) are carried out; in this respect, the tests carried out by the offices responsible for credit assessment and the anomalous loans analysis department are particularly relevant. The minimum supervisory requirements will ensure 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 of the deadlines set for the review of the 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;
  - the use of loans for reasons that were different from those provided for;
  - forms of credit managed in a technically incorrect manner (e.g., multiple lines of credit backed by differently guarantees on a single account, multiple projects managed on a single account).

Secondly, the Anomalous Loans Analysis service is instead responsible for supervising credit managing/monitoring classified positions by interfacing with the branch and area offices in charge of the relations with customers; this ensures the systematic control of the risks associated to loans to customers through overseeing and ensuring typical first-level and second-instance controls, and risk limitation.

- special monitoring: carried out by the 2nd level independent audit offices, i.e. Risk management, Compliance and Manager in charge. The risk management office is in charge of carefully monitoring credit risk. The audits carried out by the Risk management office aimed to define the risk measurement methods, check compliance with the limits assigned and control the consistency of the work of the individual production areas with the assigned risk-reward targets. The regulatory compliance office is responsible for ensuring that internal procedures are consistent with the goal of preventing the breach 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 audits aimed at identifying any misalignment caused by any missing/incorrect adoption of regulatory provisions. Finally, the Manager in charge carries out the supervisory tests on the internal control system necessary for the accounting and financial reporting, also by using the specific structure, working in collaboration with the other Bank departments to gather the information flows and certifications.
- inspections performed by the Internal Auditing service as part of their direct 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 departments:

- the Anomalous Loans Analysis service, which reports to the Central Loans department and is composed of staff based at Central Office, is tasked with identifying positions that show signs of anomaly, placing them on the watch-list if necessary, and proposing restructuring or classification as substandard loans.
- the Service for doubtful loans is part of the Legal section within Corporate Affairs unit. 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 of credit line assignment 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 allow analysis of the potential credit line, also with reference to date from external databases;
- analysis 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 distribution 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 computerised credit line file.

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 rating of small amounts granted, the decision lies with the Central Offices (Credit Management, 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 technical opinion formulated internal employees that have specific skills and qualifications in providing preliminary investigations, analysis, assessment, and the administrative management of credit line files to the network, including special lending and credit, and guaranteeing the observance of both internal and external regulations.

The positions all become subject to periodic review to verify that customer and guarantor are still solvent compared to situations existing at investigation stage, the validity and degree of guarantee cover and the profitability of economic terms applied compared with the risk profile.

The periodic revision 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 date, each customer is assigned a rating on a scale of 12 increasing risk levels (AAA, AA, A, BBB, BB, B, CCC, CC, C, DDD, DD and D+). Corporate customers are divided into small business segments (sole proprietorships, general partnerships, and capital companies with turnover under Euro 1.5 million) and Corporate (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 service, particularly to measure and verify the system’s predictive capacity for all customer types by means of appropriate statistical approaches. In 2013 the system proved to have a good, stable capacity to discriminate between the customers and the capacity to act quickly to change their behaviour and/or economic status/position.

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 disclosure of performance rating is anticipated during the yearly meeting for high-end corporate customers only; 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 (past-due, restructured, substandard or doubtful) within one year. This rating depends only on counterparty characteristics and conduct, and not on the nature or quality of the guarantees granted.

The loans 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 on 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 the Regulatory Capital. 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. In 2013, significant exposure analysis showed that none of these limits had been exceeded.

All loans portfolio risk analyses and data are produced in a detailed quarterly report issued by the Risk management department, submitted for discussion and resolution by the Credit risk committee, and then 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 loans portfolio behaviour should unexpected events occur.

The quantitative and qualitative assessments of the breakdown and level of risk of the loans 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 secondary offices.

The internal rating system is intended for management purposes and is not used to calculate the asset requirements on credit and counterparty risk for which, on the other hand, the standard approach is adopted for the purpose of reporting vigilance to the Bank of Italy.

The process to monitor credit is guaranteed over the long-term by an automatic classification system for irregular positions (GDC, Credit Management), which uses an early warning engine to detect any substandard situations, starting from the performance rating and a series of daily indicators. In addition to the usual risk classes for impaired loans established by the supervisory authority (past-due, substandard, objective substandard, restructured, and doubtful loans), the system also provides for two classes for performing customers:

- positions “under observation”, which are those that show minor and/or repeated irregularities that network managers can manage and monitor;
- “high risk” positions, i.e., positions that continuously and repeatedly show performance-type irregularities or negative trends in the risk centre or for which particular negative events occur for which settlement is deemed possible within 12 months through quantitative and qualitative revision of the position.

2.3 Credit Risk Mitigation Techniques

To mitigate credit risk, the Bank uses all the main forms of guarantees typical of banking activities, both real and personal. The main real guarantees acquired are:

- 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 shareholders 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 given 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 (computerised credit line file) 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 the Credit Risk Mitigation methods to calculate the Bank’s regulatory capital in accordance with Basel II led to the accurate definition of forecasting, valuation and periodic revaluation processes for property used as mortgage guarantees in order to fully observe the eligibility criteria of such guarantees.

2.4 Impaired Financial Assets

All debtors 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;
- substandard loans, positions marked by ongoing irregularities in performance (persistent exceeding of limits, instalments in arrears, zero movement, etc.), system-related/Bank of Italy Central Credit Bureau (doubtful loans reported by the banking system without adequate justification), negative information (property actions, injunction orders, seizure, mortgage foreclosure, etc.), drastic deterioration in the financial and/or profitability or financial statements position, lack of funds for reimbursement), from which it could be presumed that the debtor is in real difficulty, also with the risk of insolvency, that could however be recovered in a reasonable period of time. Also under this category are all the positions for which the Bank considers it appropriate to allocate funds to a provisions for risks (loss forecast);
- objective substandard loans, which, under the regulatory provisions (item 2367 of the Accounting Manual), are positions that:
  - are loans secured by mortgage guarantees granted for the purchase of homes, property for residential use or leased to the debtor, after issue of the foreclosure notice to the debtor;
  - are outstanding loans remaining unpaid for more than 270 days and the total of which (before or after the 270 days) is at least 10% of the entire exposure recorded for that debtor;
- restructured, positions for which the Bank, in accordance with the regulatory provisions (item 2477 of the Accounting Manual), grants a moratorium for the payment of debt, allows amendments to the original contractual terms due to deterioration of the economic-financial condition at lower-than-market rates;
- past due, positions that, in accordance with the Bank of Italy standards (Circular no. 263 dated 27.12.2006 as amended), show a continued uncovered situation of more than 90 days and where the exposure is higher than 5% of the overall exposure in the observation period;
- single transactions past due, positions where there are continuous mortgage loans past due for over 90 days, with minimum limit in terms of amount.

As already described in the section on organisational aspects, alongside 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 substandard 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 debtor’s deteriorated risk profile
- verification of the quality and total of guarantees issued;
- set-up 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 credit collection is handled by the Service for doubtful loans, a department which for legal action makes use of specialist internal staff and a specific IT procedure for accounting procedures.

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 prefer out-of-court action, often with recourse to settlement agreements, which have a positive impact on collection times and the level of costs sustained. Where this solution cannot be carried out in a reasonable timeframe, especially for more significant positions and positions in which a higher level of collection can be expected, external legal advisors are appointed to instigate legal action which always constitutes a valid and fundamental coercive means to the debtor and a tool to resolve litigation. Credit that is minimal, irrecoverable, or difficult to collect is generally treated en masse and subjected to disposal transactions without recourse, given that legal action would be considered uneconomic in cost-benefit terms, or is assigned to a specialist credit collection company.

For the financial statements the value adjustments for performing and impaired loans are calculated according to current regulatory provisions and in a way to obtain a valuation that is as prudent and conservative as possible. In particular, 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 analytically calculated on the basis of debtor solvency, the type of guarantee, the current status of proceedings taken and, above all, on the value of the guarantees. The estimates are always calculated using maximum prudence criteria and performed or validated by qualified internal personnel, organisationally independent of the credit disbursement/assessment/collection processes. These also always take into account the need to dispose of the asset immediately and, after the introduction of the IAS 39, are subject to cash discounting criteria.

The correct implementation of doubtful loans management and assessment activity is also ensured by periodic audits performed internally, by the internal auditing, and externally by the Board of Statutory Auditors and Independent Auditors.

QUANTITATIVE INFORMATION

A) CREDIT QUALITY

A.1 Impaired and performing loan exposures: balances, adjustments, changes, economic and geographic distribution

A.1.1 Loan exposure distribution by related portfolio and by credit quality (book values)

Portfolio/quality *(thousands of Euro)*	Doubtful loans	Substandard loans	Restructured exposures	Impaired past due exposures	Non-impaired past due exposures	Other assets	Total
1. Financial assets held for trading	-	-	-	-	-	57,771	**57,771**
2. Financial assets available-for-sale	-	-	-	-	-	520,884	**520,884**
3. Investments held to maturity	-	-	-	-	-	55,126	**55,126**
4. Due from banks	-	-	-	-	-	119,225	**119,225**
5. Loans to customers	152,121	133,901	41,762	38,380	188,111	4,368,168	**4,922,443**
6. Financial assets designated at fair value	-	-	-	-	-	-	**-**
7. Financial assets held for sale	-	-	-	-	-	-	**-**
8. Hedges	-	-	-	-	-	-	**-**
Total as at 31.12.2013	**152,121**	**133,901**	**41,762**	**38,380**	**188,111**	**5,121,174**	**5,675,449**
Total as at 31.12.2012	**135,513**	**133,729**	**27,284**	**38,199**	**197,346**	**5,248,427**	**5,583,152**

A.1.2 Loan exposure distribution by related portfolio and by credit quality (gross and net values)

Portfolio/quality *(thousands of Euro)*	Impaired assets			Performing			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	-	-	-	X	X	57,771	**57,771**
2. Financial assets available-for-sale	-	-	-	520,884	-	520,884	**520,884**
3. Investments held to maturity	-	-	-	55,126	-	55,126	**55,126**
4. Due from banks	-	-	-	119,225	-	119,225	**119,225**
5. Loans to customers	494,991	(128,827)	366,164	4,579,539	(23,260)	4,556,279	**4,922,443**
6. Financial assets designated at fair value	-	-	-	X	X	-	**-**
7. Financial assets held for sale	-	-	-	-	-	-	**-**
8. Hedges	-	-	-	X	X	-	**-**
Total as at 31.12.2013	**494,991**	**(128,827)**	**366,164**	**5,332,545**	**(23,260)**	**5,309,285**	**5,675,449**
Total as at 31.12.2012	**467,025**	**(132,300)**	**334,725**	**5,270,014**	**(21,587)**	**5,248,427**	**5,583,152**

The Portfolio adjustments on loans to customers only regard write-downs on performing positions.

As at the balance sheet date, there are performing loans subject to renegotiation within the remit of collective agreements. As required by the Bank of Italy in the “Roneata” [publication] of 16 February 2011, an analysis of the seniority of performing loans that are past due but not impaired is reported below:

(thousands of Euro)	Under 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
Loans to customers:					
- loans under renegotiation	-	-	-	-	-
- other exposure	146,818	8,197	33,096	-	188,111
Total as at 31.12.2013	**146,818**	**8,197**	**33,096**	**-**	**188,111**
Total as at 31.12.2012	**147,882**	**20,271**	**28,094**	**1,099**	**197,346**

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**	**Specific adjustments**	**Portfolio adjustments**	**Net exposure**
A.	**CASH EXPOSURES**					
	a)	Doubtful loans	-	-	X	-
	b)	Substandard loans	-	-	X	-
	c)	Restructured exposures	-	-	X	-
	d)	Past due exposures	-	-	X	-
	e)	Other assets	271,452	X	-	271,452
	TOTAL A		**271,452**	**-**	**-**	**271,452**
B.	**OFF-BALANCE SHEET EXPOSURES**					
	a)	Impaired	-	-	X	-
	b)	Other	16,885	X	-	16,885
	TOTAL B		**16,885**	**-**	**-**	**16,885**
	TOTAL A+B		**288,337**	**-**	**-**	**288,337**

Cash exposures comprise all the 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 a 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

As 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

As 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	Specific adjustments	Portfolio adjustments	Net exposure
A.	**CASH EXPOSURES**					
	a)	Doubtful loans	257,360	(105,239)	X	**152,121**
	b)	Substandard loans	148,467	(14,566)	X	**133,901**
	c)	Restructured exposures	48,835	(7,073)	X	**41,762**
	d)	Past due exposures	40,328	(1,948)	X	**38,380**
	e)	Other assets	5,047,040	X	(23,260)	**5,023,780**
	TOTAL A		**5,542,030**	**(128,826)**	**(23,260)**	**5,389,944**
B.	**OFF-BALANCE SHEET EXPOSURES**					
	a)	Impaired	7,214	(201)	X	**7,013**
	b)	Other	529,667	X	(77)	**529,590**
	TOTAL B		**536,881**	**(201)**	**(77)**	**536,603**
	TOTAL A+B		**6,078,911**	**(129,027)**	**(23,337)**	**5,926,547**

The 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 a credit risk, regardless of the purposes of said transactions (trading, hedging, etc.).

A.1.7 Cash exposures from loans to customers: changes in gross impaired exposures

Reasons/Categories *(thousands of Euro)*			Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A.	**Gross exposure at the beginning of the year**		**245,280**	**148,106**	**34,161**	**39,478**
	of which: exposures sold and not derecognised		**3,852**	**1,136**	**-**	**183**
B.	**Increases**		**73,512**	**93,007**	**18,127**	**107,164**
	B.1	Income from performing loan exposure	8,424	51,083	-	101,111
	B.2	Transferred from other categories of impaired exposures	44,396	36,987	16,643	65
	B.3	Other increases	20,692	4,937	1,484	5,988
C.	**Decreases**		**61,432**	**92,646**	**3,453**	**106,314**
	C.1	Transferred to performing loans	186	28,972	-	59,119
	C.2	Derecognitions	25,328	-	-	-
	C.3	Collections	21,118	11,187	2,091	2,951
	C.4	Sale proceeds	14,800	-	-	-
	C.4	Bis. Sale proceeds	-	-	-	-
	C.5	Transferred to other categories of impaired exposures	-	52,487	1,362	44,244
	C.6	Other decreases	-	-	-	-
D.	**Gross exposure at the end of the year**		**257,360**	**148,467**	**48,835**	**40,328**
	of which: exposures sold and not derecognised		4,708	4,330	-	2,612

A.1.8 Cash exposures from loans to customers: changes in overall adjustments

Reasons/Categories *(thousands of Euro)*			**Doubtful loans**	**Substandard loans**	**Restructured exposures**	**Past due exposures**
A.	**Overall adjustments at the beginning of the year**		**109,767**	**14,377**	**6,876**	**1,279**
	of which: exposures sold and not cancelled		305	27	-	1
B.	**Increases**		**30,125**	**10,936**	**748**	**4,883**
	B.1	Adjustments	23,893	8,994	337	4,882
	B.1	bis Loss on disposal	-	-	-	-
	B.2	Transferred from other categories of impaired exposures	6,232	1,942	411	1
	B.3	Other increases		-	-	
C.	**Decreases**		**34,653**	**10,747**	**551**	**4,214**
	C.1	Recoveries on valuation	-	-	-	-
	C.2	Recoveries on collection	7,553	3,339	330	67
	C.2	bis Profit on disposal	-	-	-	-
	C.3	Derecognitions	27,063	-	-	-
	C.4	Transferred to other categories of impaired exposures	-	6,139	221	2,226
	C.5	Other decreases	37	1,269	-	1,921
D.	**Overall adjustments at the end of the year**		**105,239**	**14,566**	**7,073**	**1,948**
	of which: exposures sold and not cancelled		705	107	-	81

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 Exposures to Central administrations and central banks statutory portfolio only.

However, 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 households, 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

As at the balance sheet date, as for the previous financial year, there are no guaranteed loans to banks.

A.3.2 Guaranteed loans to customers

(thousands of Euro)			Net exposure value	Real guarantees (1)				Personal guarantees (2)									Total (1)+(2)
								Credit derivatives					Credit commitments				
									Other derivatives								
				Mortgaged property	Property in financial lease	Securities	Other real guarantees	CLN	Governments and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities	
1.	**Guaranteed cash loan exposures**		**4,002,170**	**3,090,131**	**-**	**54,764**	**24,115**	**-**	**-**	**-**	**-**	**-**	**-**	**22,419**	**525**	**664,291**	**3,856,245**
	1.1	fully guaranteed	3,644,796	2,960,574	-	49,037	22,935	-	-	-	-	-	-	18,759	525	592,966	3,644,796
	-	of which impaired	269,032	228,446	-	236	476	-	-	-	-	-	-	-	-	39,874	269,032
	1.2	partly guaranteed	357,374	129,557	-	5,727	1,180	-	-	-	-	-	-	3,660	-	71,325	211,449
	-	of which impaired	73,552	46,027	-	162	2	-	-	-	-	-	-	-	-	12,797	58,988
2.	**Off balance sheet guaranteed loan exposures:**		**124,504**	**9,471**	**-**	**3,236**	**4,250**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**327**	**102,214**	**119,498**
	2.1	fully guaranteed	104,655	6,220	-	2,040	4,136	-	-	-	-	-	-	-	265	91,994	104,655
	-	of which impaired	3,061	564	-	100	-	-	-	-	-	-	-	-	-	2,397	3,061
	2.2	partly guaranteed	18,849	3,251	-	1,196	114	-	-	-	-	-	-	-	62	10,220	14,843
	-	of which impaired	45	-	-	35	-	-	-	-	-	-	-	-	-	-	35

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**	**Net exposure**	**Specific adjustments**	**Portfolio adjustments**	**Net exposure**	**Specific adjustments**	**Portfolio adjustments**
A. Cash exposures																		
A.1 Doubtful loans	-	-	X	-	-	X	66	(93)	X	-	-	X	127,192	(90,569)	X	24,863	(14,577)	X
A.2 Substandard loans	-	-	X	-	-	X	4,065	(103)	X	-	-	X	120,321	(13,793)	X	9,515	(670)	X
A.3 Restructured exposures	-	-	X	-	-	X	-	-	X	-	-	X	41,762	(7,073)	X	-	-	X
A.4 Past due exposures	-	-	X	-	-	X	1,282	(68)	X	-	-	X	29,511	(1,628)	X	7,586	(253)	X
A.5 Other exposure	422,416	X	-	11,045	X	(56)	91,956	X	(230)	25,033	X	-	2,754,707	X	(14,309)	1,718,624	X	(8,664)
Total A	**422,416**	**-**	**-**	**11,045**	**-**	**(56)**	**97,369**	**(264)**	**(230)**	**25,033**	**-**	**-**	**3,073,493**	**(113,063)**	**(14,309)**	**1,760,588**	**(15,500)**	**(8,664)**
B. Off-balance sheet exposures																		
B.1 Doubtful loans	-	-	X	-	-	X	-	-	X	-	-	X	1,639	(175)	X	2	(26)	X
B.2 Substandard loans	-	-	X	-	-	X	-	-	X	-	-	X	2,310	-	X	152	-	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	2,747	-	X	162	-	X
B.4 Other exposure	1,677	X	-	2,901	X	-	4,958	X	-	20	X	-	420,062	X	(77)	99,713	X	-
Total B	**1,677**	**-**	**-**	**2,901**	**-**	**-**	**4,958**	**-**	**-**	**20**	**-**	**-**	**426,758**	**(175)**	**(77)**	**100,029**	**(26)**	**-**
Total as at 31.12.2013	**424,093**	**-**	**-**	**13,946**	**-**	**(56)**	**102,327**	**(264)**	**(230)**	**25,053**	**-**	**-**	**3,500,251**	**(113,238)**	**(14,386)**	**1,860,617**	**(15,526)**	**(8,664)**
Total as at 31.12.2012	**283,787**	**-**	**-**	**9,986**	**-**	**(35)**	**174,469**	**(273)**	**(221)**	**24,243**	**-**	**(1)**	**3,516,503**	**(113,464)**	**(13,413)**	**1,838,138**	**(19,449)**	**(7,918)**

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/ recoveries	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	151,969	104,981	152	258	-	-	-	-	-	-
A.2 Substandard loans	133,390	14,553	511	13	-	-	-	-	-	-
A.3 Restructured exposures	41,762	7,073	-	-	-	-	-	-	-	-
A.4 Past due exposures	38,365	1,947	14	1	-	-	-	-	-	-
A.5 Other exposure	4,957,816	23,039	65,649	220	263	1	-	-	52	-
Total	**5,323,302**	**151,593**	**66,326**	**492**	**263**	**1**	**-**	**-**	**52**	**-**
B. Off-balance sheet exposures										
B.1 Doubtful loans	1,641	201	-	-	-	-	-	-	-	-
B.2 Substandard loans	2,462	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	2,909	-	-	-	-	-	-	-	-	-
B.4 Other exposure	510,652	77	18,678	-	2	-	-	-	-	-
Total	**517,664**	**278**	**18,678**	**-**	**2**	**-**	**-**	**-**	**-**	**-**
Total as at 31.12.2013	**5,840,966**	**151,871**	**85,004**	**492**	**265**	**1**	**-**	**-**	**52**	**-**
Total as at 31.12.2012	**5,767,110**	**(154,124)**	**78,654**	**(644)**	**1,306**	**(6)**	**-**	**-**	**55**	**-**

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	9,148	1,898	141,085	102,019	1,550	841	186	223	151,969	104,981
A.2	Substandard loans	16,101	4,247	117,126	10,284	39	18	124	4	133,390	14,553
A.3	Restructured exposures	-	-	41,762	7,073	-	-	-	-	41,762	7,073
A.4	Past due exposures	16,647	1,068	20,444	821	1,272	58	2	-	38,365	1,947
A.5	Other exposure	154,774	670	4,267,199	21,869	518,314	407	17,529	93	4,957,816	23,039
	Total	**196,670**	**7,883**	**4,587,616**	**142,066**	**521,175**	**1,324**	**17,841**	**320**	**5,323,302**	**151,593**
B.	**Off-balance sheet exposures**										
B.1	Doubtful loans	-	-	1,639	201	-	-	2	-	1,641	201
B.2	Substandard loans	477	-	1,985	-	-	-	-	-	2,462	-
B.3	Other impaired assets	-	-	2,906	-	-	-	3	-	2,909	-
B.4	Other exposure	20,348	-	487,204	77	2,387	-	713	-	510,652	77
	Total	**20,825**	**-**	**493,734**	**278**	**2,387**	**-**	**718**	**-**	**517,664**	**278**
	Total as at 31.12.2013	**217,495**	**7,883**	**5,081,350**	**142,344**	**523,562**	**1,324**	**18,559**	**320**	**5,840,966**	**151,871**
	Total as at 31.12.2012	**195,033**	**(5,378)**	**5,148,495**	**(146,549)**	**409,395**	**(1,200)**	**14,187**	**(997)**	**5,767,110**	**(154,124)**

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	Substandard loans	-	-	-	-	-	-	-	-	-	-
A.3	Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4	Past due exposures	-	-	-	-	-	-	-	-	-	-
A.5	Other exposure	235,647	-	31,015	-	4,699	-	16	-	74	-
	Total	**235,647**	**-**	**31,015**	**-**	**4,699**	**-**	**16**	**-**	**74**	**-**
B.	**Off-balance sheet exposures**										
B.1	Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2	Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3	Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4	Other exposure	7,545	-	9,339	-	-	-	-	-	-	-
	Total	**7,545**	**-**	**9,339**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Total as at 31.12.2013	**243,192**	**-**	**40,354**	**-**	**4,699**	**-**	**16**	**-**	**74**	**-**
	Total as at 31.12.2012	**223,091**	**-**	**42,904**	**-**	**5,458**	**-**	**4**	**-**	**160**	**-**

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	Substandard loans	-	-	-	-	-	-	-	-	-	-
A.3	Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4	Past due exposures	-	-	-	-	-	-	-	-	-	-
A.5	Other exposure	55,985	-	120,280	-	59,382	-	-	-	235,647	-
	Total	**55,985**	**-**	**120,280**	**-**	**59,382**	**-**	**-**	**-**	**235,647**	**-**
B.	**Off-balance sheet exposures**										
B.1	Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2	Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3	Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4	Other exposure	191	-	714	-	6,641	-	-	-	7,545	-
	Total	**191**	**-**	**714**	**-**	**6,641**	**-**	**-**	**-**	**7,545**	**-**
	Total as at 31.12.2013	**56,176**	**-**	**120,994**	**-**	**66,023**	**-**	**-**	**-**	**243,192**	**-**
	Total as at 31.12.2012	**30,181**	**-**	**127,696**	**-**	**65,214**	**-**	**-**	**-**	**223,091**	**-**

B.4 Significant exposures

With the 6th update of the Circular no. 263 “New regulations for the prudential supervision of banks” of 27 December 2010, the prudent regulation in matters of risk concentration was revised to bring it in line with the 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 as at the balance sheet date are reported below:

	Number of significant exposures	Credit exposure (Euro)	Amount weighted for the purposes of the significant exposures (Euro)
31.12.2013	3	547,092	107,842
31.12.2012	5	576,493	152,571

C) SECURITISATIONS AND ASSET DISPOSAL TRANSACTIONS

C.1 Securitisations

QUALITATIVE INFORMATION

Securitisation of residential mortgages – S.P.V. VOBA Finance S.r.l. (September 2006)

Issue characteristics

The first securitisation was completed in the final months of FY 2006 and involved the disposal without recourse of performing loans, comprising mortgages to individuals, to a newly formed SPV (Voba Finance S.r.l.). To finance loan purchases, Voba Finance S.r.l. collects funds on the capital market through the issue of negotiable securities.

The key objective is to obtain liquidity under favourable conditions. By securitisation the objectives achieved are the opposite of those involved in the issue of bonds. In the second case, share capital is traded for the entire duration of the loan as a substantial guarantee to subscribers, whereas in the former case the share capital is freed up, turning the previously traded loans into cash.

For the securitisation, we undersigned a specific servicing contract with the SPV Voba Finance S.r.l. to coordinate and supervise the management and administration of the securitised mortgages, along with credit collection in the event of default by the debtors. An ad hoc credit control system was arranged for the securitised loans to guarantee constant and timely monitoring.

The agreement calls for the payment of an annual fee for the servicing performed and compensation for every file subject to credit collection. It should be specified that the role of servicer is provided from within the company structure, i.e. by the Credit Management Service, reporting to the central financial services department. Monthly and quarterly reports are prepared and issued to the counterparties indicated in the servicing agreement, and copied to central management.

With regard to credit risk management, however, reference should be made to the general Bank activities relating to credit management.

Acting not only as originator but also as servicer, the Company maintains relations with transferred customers.

The portfolio subject to disposal had the following characteristics:

SPV:	VOBA Finance S.r.l.
- Bank interest in the SPV	0%
- Loans disposal date	30 September 2006
- Type of loans transferred	Mortgage loans
- Status of loans transferred	Performing
- Guarantees on loans transferred	Mortgages from first to sixth degree
- Geographic area of loans transferred	Northern Italy
- Business of debtors transferred	Individuals
- Number of loans transferred	4,014
- Price of loans transferred	Euro 378,249,095.23
- Nominal value of loans transferred	Euro 378,249,095.23

The transaction arranger, appointed by the originator, was the Milan branch of Natixis S.A., Paris. The appointed rating agency for the transaction was Moody's Italia S.r.l. – Milan and Fitch Ratings London. Cash manager and calculation agent tasks were performed by Deutsche Bank AG, London, whilst Deutsche Trustee Company Limited, London acts as representative of the noteholders.

The characteristics of the securities issued and listed on the Dublin stock exchange are as follows:

Tranche	Fitch/Moody's rating	Percentage	Total (in Euro)
Class A1	AAA/Aaa	17.00%	64,300,000
Class A2	AAA/A2	78.00%	295,050,000
Class B	AAA/A2	1.50%	5,650,000
Class C	AA/A2	1.50%	5,650,000
Class D	-	2.00%	7,600,000
Total		**100.00%**	**378,250,000**

The Class D securities were fully subscribed by the Company. As at the balance sheet date, SPV Voba Finance S.r.l. fully redeemed the Class A1 securities. A total of 58.6 million in securities remain, 39.7 million of which are Class A2, 5.7 million of which are Class B and 5.7 million of which are Class C and 7.6 million of which are Class D.

Supplementary financial transactions

To guarantee a sufficient liquidity margin for the SPV, we stipulated a subordinated loan agreement with Voba Finance S.r.l. for a total of Euro 30,000,000 as cash reserve, with repayment at market rates.

As an additional guarantee, a swap transaction was arranged with a leading institutional investor. As coupons become payable the Bank collects the average capital return at a market interest rate. The counterparty, on the other hand, guarantees the interest actually collected for that period.

There is a speculative arrangement between the SPV and the same institutional investor. From this, the SPV recognises the actual interest collected for the period and receives the return on the underlying capital at market interest rates, used to pay the coupons on securities issued.

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 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 without 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.
- Bank interest in the SPV	0%
- Loans disposal date	1 September 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
- Total collateral in place	Euro 305,444,996.23
- Performing collateral in place	Euro 305,239,021.99

The characteristics of the securities issued are as follows:

Tranche	Fitch/Moody's rating	Percentage	Total (in Euro)
Class A1	AA/A2	25.73%	102,500,000
Class A2	AA/A2	59.28%	236,100,000
Class C	-	14.99%	59,700,000
Total		**100.00%**	**398,300,000**

The Class D securities were fully subscribed by the Company. A total of 307.3 million in securities remain, 11.6 million of which are Class A1, 236.1 million are Class A2 and 59.7 are Class C; of these, 122.6 million of the class A2 securities and 59.7 million of the class C are held by the Company.

Supplementary financial transactions

To guarantee a sufficient liquidity margin for the SPV, we stipulated an agreement with Voba n. 3 S.r.l. for a cash reserve amounting to Euro 11.0 million as at 31 December 2013.

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 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 without 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.**
- Bank interest in the SPV	0%
- Loans disposal date	1 July 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	Rating S&P/Moody's	Percentage	Total (in Euro)
Class A1	A/A2	72.22%	443,000,000
Junior class	NR	27.78%	170,400,000
Total		**100.00%**	**613,400,000**

The Class D securities were fully subscribed by the Company. As at 31 December 2013, a total of 470.2 million in securities remain, 299.8 million of which are Class A and 170.4 million are Junior class. Of these, 228.7 million of the class A securities and 170.4 million of the Junior class are held by the Company.

Supplementary financial transactions

To guarantee a sufficient liquidity margin for the SPV, we stipulated an agreement with Voba n. 4 S.r.l. for a cash reserve amounting to Euro 12.0 million as at 31 December 2013.

QUANTITATIVE INFORMATION

C.1.1 Exposures from securitisations according to the quality of the underlying assets

Underlying asset quality/Exposures ***(thousands of Euro)***	**Cash exposure**						**Guarantees issued**						**Credit lines**					
	Senior		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**	
	Gross exposure	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**
A. With underlying own assets:	361,600	361,600	4,350	4,350	237,700	237,700	-	-	-	-	-	-	-	-	-	-	-	-
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	361,600	361,600	4,350	4,350	237,700	237,700	-	-	-	-	-	-	-	-	-	-	-	-
B. With underlying third party assets:																		
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.2 Exposures from Bank's own major securitisations according to securitised asset type and exposure type

Securitised asset type/Exposures *(thousands of Euro)*	**Cash exposure**						**Guarantees issued**						**Credit lines**					
	Senior		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**	
	Carrying amount	**Adjustments/recoveries**	**Carrying amount**	**Adjustments/recoveries**	**Carrying amount**	**Adjustments/recoveries**	**Net exposure**	**Adjustments/recoveries**	**Net exposure**	**Adjustments/recoveries**	**Net exposure**	**Adjustments/recoveries**	**Net exposure**	**Adjustments/recoveries**	**Net exposure**	**Adjustments/recoveries**	**Net exposure**	**Adjustments/recoveries**
A. Subject to full derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Subject to partial derecognition																		
C. Not derecognised	361,600	-	4,350	-	237,700	-	-	-	-	-	-	-	-	-	-	-	-	-
C.1 Voba Finance S.r.l.																		
-Mortgage loans	361,600	-	4,350	-	237,700	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.3 Exposures from main third party securitisations according to securitised asset type and exposure type

Underlying asset type/Exposures *(thousands of Euro)*	**Cash exposure**						**Guarantees issued**						**Credit lines**					
	Senior		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**	
	Carrying amount	**Adjustments/recoveries**	**Carrying amount**	**Adjustments/recoveries**	**Carrying amount**	**Adjustments/recoveries**	**Net exposure**	**Adjustments/recoveries**	**Net exposure**	**Adjustments/recoveries**	**Net exposure**	**Adjustments/recoveries**	**Net exposure**	**Adjustments/recoveries**	**Net exposure**	**Adjustments/recoveries**	**Net exposure**	**Adjustments/recoveries**
HIPO – 11 -Spanish residential mortgages	985	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.4 Exposures deriving from securitisations broken down by financial asset portfolio and by type

Exposure / portfolio ***(thousands of Euro)***		**Financial assets held for trading**	**Financial assets - fair value option**	**Financial assets available-for-sale**	**Investments held to maturity**	**Loans**	**31.12.2013**	**31.12.2012**
1.	**Cash exposures**	**-**	**-**	**-**	**985**	**-**	**985**	**1,080**
	- "Senior"	-	-	-	985	-	985	1,080
	- "Mezzanine"	-	-	-	-	-	-	-
	- "Junior"	-	-	-	-	-	-	-
2.	**Off-balance sheet exposures**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	- "Senior"	-	-	-	-	-	-	-
	- "Mezzanine"	-	-	-	-	-	-	-
	- "Junior"	-	-	-	-	-	-	-

C.1.5 Total amount of the securitised assets underlying junior securities or other forms of loan support

Asset/Value ***(thousands of Euro)***			**Traditional securitisations**	**Synthetic securitisations**
A.	**Underlying bank assets:**		**603,650**	**-**
	A.1	Subject to full derecognition	-	-
		1. Doubtful loans	-	X
		2. Substandard loans	-	X
		3. Restructured exposures	-	X
		4. Past due exposures	-	X
		5. Other assets	-	X
	A.2	Subject to partial derecognition	-	X
		1. Doubtful loans	-	X
		2. Substandard loans	-	X
		3. Restructured exposures	-	X
		4. Past due exposures	-	X
		5. Other assets	-	X
	A.3	Not derecognised	603,650	-
		1. Doubtful loans	4,708	-
		2. Substandard loans	4,330	-
		3. Restructured exposures	-	-
		4. Past due exposures	2,612	-
		5. Other assets	592,000	-
B.	**Underlying third party assets:**		-	**-**
	B.1	Doubtful loans	-	-
	B.2	Substandard loans	-	-
	B.3	Restructured exposures	-	-
	B.4	Past due exposures	-	-
	B.5	Other assets	-	-

C.1.6 Interest in SPVs

As at the balance sheet date, as for the previous financial year, no interest was held in SPVs.

C.1.7 Servicer assets - securitised credit collections and repayment of SPV-issued securities

SPV *(thousands of Euro)*	**Securitised assets (year-end figure)**		**Loan collections Made in the year**		**Percentage of securities redeemed (year-end figure)**					
					Senior		**Mezzanine**		**Junior**	
	Impaired	**Performing**	**Impaired**	**Performing**	**Impaired assets**	**Performing assets**	**Impaired assets**	**Performing assets**	**Impaired assets**	**Performing assets**
Voba Finance S.r.l.	4,891	113,538	997	19,477	-	88.95%	-	-	-	-
Voba 3 S.r.l.	1,585	298,611	45	31,555	-	26.85%	-	-	-	-
Voba 4 S.r.l.	5,174	431,273	627	96,018	-	32.33%	-	-	-	-

C.2 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 Finance S.r.l., Voba n. 3 S.r.l. and Voba n. 4 S.r.l securitisations. Please refer to the Notes to the accounts – part B for more information on the debt security transactions against the medium and long term repurchase agreements.

QUANTITATIVE INFORMATION

C.2.1 Financial assets sold and not derecognised: carrying amount and full value

Technical/portfolio formats *(thousands of Euro)*	Financial assets held for trading			Financial assets designated at fair value through profit and loss			Financial assets available-for-sale			Investments held to maturity			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31.12.2013	31.12.2012
A. Cash assets	**1,441**	**-**	**-**	**-**	**-**	**-**	**33,467**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**850,168**	**-**	**-**	**885,076**	**201,982**
1. Debt securities	1,441	-	-	-	-	-	33,467	-	-	-	-	-	-	-	-	-	-	-	34,908	64,462
2. Equity securities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	850,168	-	-	850,168	137,520
B. Derivatives	**-**	**-**	**-**	**X**	**X**	**X**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total as at 31.12.2013	**1,441**	**-**	**-**	**-**	**-**	**-**	**33,467**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**850,168**	**-**	**-**	**885,076**	**X**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,757	-	-	10,757	X
Total as at 31.12.2012	**711**	**-**	**-**	**-**	**-**	**-**	**63,751**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**137,520**	**-**	**-**	**X**	**201,982**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,842	-	-	X	4,842

A = financial assets sold and fully recognised (carrying amount)

B = financial assets sold and partly recognised (carrying amount)

C = financial assets sold and partly recognised (carrying amount)

C.2.2 Financial liabilities from financial assets sold but not derecognised: carrying amount

Liability/Asset portfolio ***(thousands of Euro)***	**Financial assets held for trading**	**Financial designated at fair value through profit and loss**	**Financial assets available-for-sale**	**Investments held to maturity**	**Due from banks**	**Loans to customers**	**Total**
1. Due to customers	**1,437**	**-**	**33,508**	**-**	**-**	**159,646**	**194,591**
a) in relation to assets recognised in full	1,437	-	33,508	-	-	159,646	194,591
b) in relation to assets recognised partly	-	-	-	-	-	-	-
2. Due to banks	-	-	-	-	-	-	-
a) in relation to assets recognised in full	-	-	-	-	-	-	-
b) in relation to assets recognised partly	-	-	-	-	-	-	-
Total as at 31.12.2013	**1,437**	**-**	**33,508**	**-**	**-**	**159,646**	**194,591**
Total as at 31.12.2012	**22,198**	**-**	**73,771**	**-**	**-**	**50,338**	**146,307**

Financial liabilities from financial assets sold but not derecognised regard both securitisations and reverse repurchase agreements against securities recorded as assets. On the other hand, the reverse repurchase agreements made on securities received in repurchase agreements are not included.

C.2.3 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 Finance S.r.l., VOBA N. 3 S.r.l. and VOBA N. 4 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 2013.

Technical/portfolio formats	Financial assets held for trading		Financial assets designated at fair value through profit and 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	31.12.2013	31.12.2012
A. Cash assets														
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	917,194	-	917,194	141,643
B. Derivatives	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**917,194**	**141,643**
C. Associated liabilities														
1. Due to customers	-	-	-	-	-	-	-	-	-	-	603,650		X	27,540
2. Due to banks	-	-	-	-	-	-	-	-	-	-	-	-		-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**603,650**	**-**	**603,650**	**27,540**
Net value (T)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**313,544**	**-**	**313,544**	**114,103**
Net value (T-1)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**114,103**	**-**	**X**	**-**

Key:
A = financial assets sold and fully recognised
B = financial assets sold and partly recognised

B. <u>Financial assets sold and fully derecognised with recognition of the continued involvement</u>

There were no cases of this type as at 31 December 2013.

C.3 Covered Bond Transactions

As at the balance sheet date, there are no existing covered bond transactions.

D) CREDIT RISK MEASUREMENT MODELS

In measuring the credit risk portfolio, the Risk Management department used 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 portfolio loan loss portfolio 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 situation, which is common to all counterparties, and the other representing the specific features of individual counterparties.

However 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 (so-called sensitivity analysis) or more (so-called scenario analysis) economic-financial factors.

Section 2 Market risks

2.1 <u>Interest rate risk and price risk – regulatory trading portfolio</u>

<u>QUALITATIVE INFORMATION</u>

A. General aspects

As at 31 December 2013, the regulatory trading portfolio comprised a relatively modest section 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, the analytical instruments used to measure market risk (interest rate risk and price risk) is the same for all the 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 section 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 on the other hand is from the UCITS shares held and to a lesser extent, the derivative instruments 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 have not undergone any significant changes from the previous year.

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 the finance department 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 department that 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 audit 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:

- interest 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;
- sectoral limits;
- credit sensitivity limits (changes in profit or loss as a result of a change of one percentage point of 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. The calculation approach used is that of Historic Simulation, with the significant addition of exponential weighting of the so-called scenarios (decay factor equal to 0.99), thus achieving the goal of making the recent past more significant that the remote past. The historic series of risk factors have a length equal to 256 working days. The VaR is thus calculated with a 99% confidence interval and a 21 working day horizon (1 month).

The responsibility for daily checks on operating limits, on positions, on Stop-Loss and VaR is entrusted to the Risk management department which, in order to avoid and prevent any possible exceeding of authorised risk limits, thanks to a standardised system of daily reporting, checking and testing approximations on reaching thresholds.

VaR models are intended for management purposes and are not used to calculate the asset requirements on credit risk on which, on the other hand, the standard approach for the purpose of reporting vigilance 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 (date of re-pricing) (Euro)

Currency: Euro

Type/Residual life *(thousands of Euro)*		**Repayable 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***	**-**	**8,844**	**4,220**	**-**	**-**	**5,628**	**-**	**-**
1.1	Debt securities	-	8,844	4,220	-	-	5,628	-	-
	- with option of early redemption	-	-	-	-	-	-	-	-
	- Other	-	8,844	4,220	-	-	5,628	-	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	**-**	**1,438**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Reverse repurchase agreements	-	1,438	-	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	**-**	**28,212**	**1,267**	**8,426**	**(19,269)**	**(14,681)**	**(4,478)**	**-**
3.1	With underlying security	-	1,822	1,678	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	1,822	1,678	-	-	-	-	-
	+ Long positions	-	3,651	1,678	-	-	-	-	-
	+ Short positions	-	(1,829)	-	-	-	-	-	-
3.2	Without underlying security	-	26,390	(411)	8,426	(19,269)	(14,681)	(4,478)	-
	- Options	-	4	-	8,424	731	(4,681)	(4,478)	-
	+ Long positions	-	8	-	8,428	83,759	64,953	28,941	-
	+ Short positions	-	(4)	-	(4)	(83,028)	(69,634)	(33,419)	-
	- Other derivatives	-	26,386	(411)	2	(20,000)	(10,000)	-	-
	+ Long positions	-	145,204	108,254	6,976	68,233	610	-	-
	+ Short positions	-	(118,818)	(108,665)	(6,974)	(88,233)	(10,610)	-	-

Currency: US Dollar

Type/Residual life *(thousands of Euro)*			**Repayable 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***		**-**	**16,917**	**403**	**(1)**	**-**	**-**	**-**	**-**
3.1	With underlying security		-	-	-	-	-	-	-	-
	-	Options	-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
	-	Other derivatives	-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security		-	16,917	403	(1)	-	-	-	-
	-	Options	-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
	-	Other derivatives	-	16,917	403	(1)	-	-	-	-
	+	Long positions	-	25,026	657	130	-	-	-	-
	+	Short positions	-	(8,109)	(254)	(131)	-	-	-	-

Currency: GB pound

Type/Residual life *(thousands of Euro)*			**Repayable 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***		**-**	**18**	**-**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security		-	-	-	-	-	-	-	-
	-	Options	-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
	-	Other derivatives	-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security		-	18	-	-	-	-	-	-
	-	Options	-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
	-	Other derivatives	-	18	-	-	-	-	-	-
	+	Long positions	-	474	-	-	-	-	-	-
	+	Short positions	-	(456)	-	-	-	-	-	-

Currency: Swiss franc

Type/Residual life ***(thousands of Euro)***			**Repayable 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***		**-**	**(13,404)**	**-**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security		-	-	-	-	-	-	-	-
	-	Options	-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
	-	Other derivatives	-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security		-	(13,404)	-	-	-	-	-	-
	-	Options	-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
	-	Other derivatives	-	(13,404)	-	-	-	-	-	-
	+	Long positions	-	4,740	-	-	-	-	-	-
	+	Short positions	-	(18,144)	-	-	-	-	-	-

Currency: Japanese Yen

Type/Residual life *(thousands of Euro)*			**Repayable 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***		**-**	**(288)**	**-**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security		-	-	-	-	-	-	-	-
	-	Options	-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
	-	Other derivatives	-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security		-	(288)	-	-	-	-	-	-
	-	Options	-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
	-	Other derivatives	-	(288)	-	-	-	-	-	-
	+	Long positions	-	186	-	-	-	-	-	-
	+	Short positions	-	(474)	-	-	-	-	-	-

Currency: Other

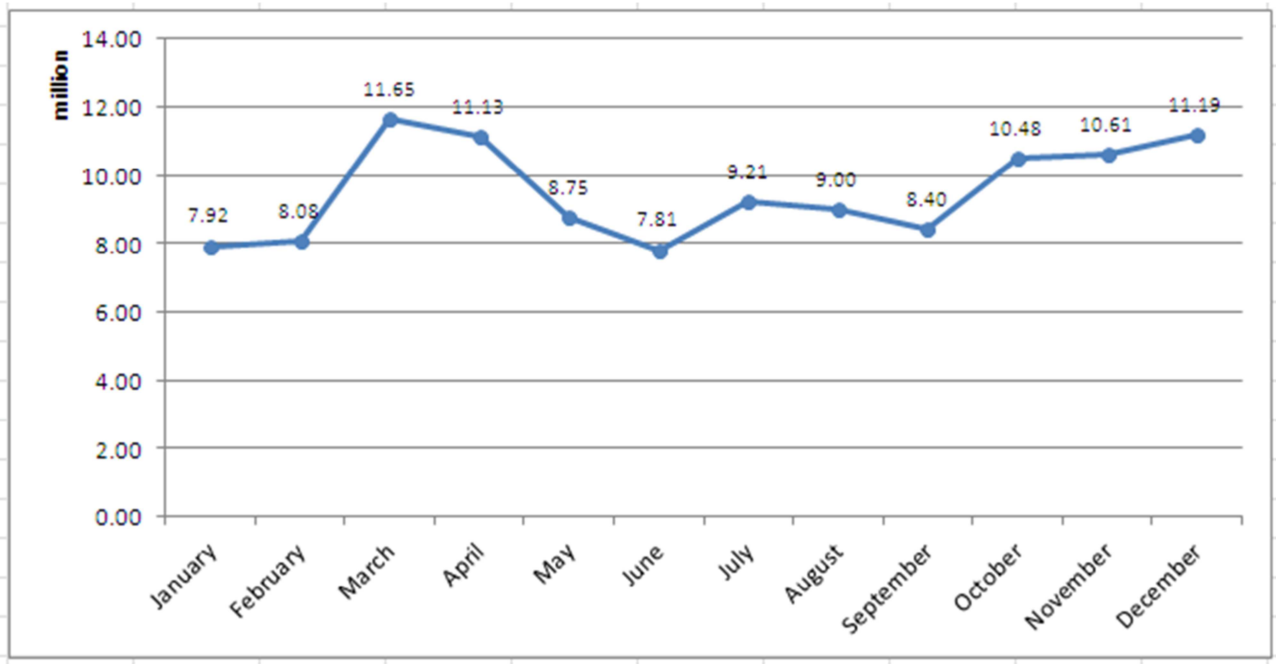
Type/Residual life *(thousands of Euro)*		Repayable on demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified life
1.	***Cash assets***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1	Debt securities	-	-	-	-	-	-	-	-
	- with option of early redemption	-	-	-	-	-	-	-	-
	- Other	-	-	-	-	-	-	-	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	**-**	**256**	**-**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security	-	-	-	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security	-	256	-	-	-	-	-	-
	Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	256	-	-	-	-	-	-
	+ Long positions	-	440	-	-	-	-	-	-
	+ Short positions	-	(184)	-	-	-	-	-	-

2. Regulatory trading portfolio: breakdown of the exposures in equity securities and share indexes by leading countries of the listed market

The Company did not hold any equity securities or share indexes classified in the regulatory trading portfolio as at the date of the financial statements.

3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

The monthly VaR trends for 2013 are shown below (confidence 99%, monthly confidence interval) with respect to the entire proprietary portfolio of Banca Popolare • Volksbank.



In addition to the monthly 99% VaR, a daily 99.9% VaR is 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).

The above mentioned figure as at December 2013 (daily 99.9% VaR) amounted to Euro 3.06 million: this means that the proprietary portfolio could suffer a loss equal 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 the 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 flat 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 inclination 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 banking book management and investment strategies are based on criteria of 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 rules and regulations for managing interest rate risk are also contained in the "Policy of the Finance Department" 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), the determination of the effect of an instantaneous shift parallel to the interest rate curve equal to one percentage point (± 100 bps) which is assumed to occur instantaneously and in parallel on all maturity dates during the day after the reference date;
- in relation to the present value of capital, the complete repricing (full valuation) of the receivables and payable postings subsequent to a parallel shift of two percentage points (± 200 bps), and recalculating of the difference (“delta”) with respect to previous state. The risk indicator represents the ratio between the change of overall worth and the regulatory capital.

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 computer 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 Service then, 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 and the present value of the share capital to the interest rate risk; specific limits were set for these indicators:

- ΔMI % indicator: Interest Margin difference (shock ±1%) / Expected Interest Margin
- ΔVE % indicator: Economic Value difference (shock ±2%) / Regulatory Capital

A limit of 6% is set for the first indicator whereas a limit of 16% is set for the second. The Risk Management Service is responsible for verifying the limitations presented in the preceding paragraph, at least once every month.

As at 31 December 2013, with reference to Banca Popolare • Volksbank's banking book, the following observations are noted regarding the interest margin:

- for a sudden shock of -100 bps on the interest rate curve, a negative impact of 2.9% of the margin, quantifiable in a loss of Euro 3.4 million;
- for a sudden shock of +100 bps on the interest rate curve, a positive impact of 4.3%, quantifiable in a gain of Euro 5 million.

As regards, instead, the effects on the economic value of the financial postings of the banking book, from the analysis performed it is noted that:

- in case of a parallel decrease in rates of 200 bps, this value would increase by Euro 54 million, 9.6% of the Regulatory Capital;
- for an increase of 200 bps, a reduction of Euro 43 million is estimated, that is 7.7% of the Regulatory Capital.

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 the Value at Risk (VaR) with a confidence of 99% in a time horizon of 21 days with the historical exponential method.

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

As at the balance sheet date, there is no fair value hedging, just as for the previous year.

As regards the hedge accounting of the flat-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 2013, the liabilities defined above were hedged by means of (unlisted) OTC Interest Rate Swap derivative contracts.

C. Cash flow hedging

As 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 the Exchange risk.

QUANTITATIVE INFORMATION

1. Banking book: breakdown by residual life (re-pricing date) of financial assets and liabilities (Euro)

Currency: Euro

Type/Residual life *(thousands of Euro)*	**Repayable 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	**1,901,517**	**2,660,092**	**205,494**	**134,675**	**472,442**	**127,071**	**97,682**	**-**
1.1 Debt securities	24,983	141,987	156,702	91,477	209,765	48,154	3,142	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	24,983	141,987	156,702	91,477	209,765	48,154	3,142	-
1.2 Loans to banks	1,704	30,353	-	6,210	-	-	-	-
1.3 Loans to customers	1,874,830	2,487,752	48,792	36,988	262,677	78,917	94,540	-
- current accounts	1,297,412	11,937	3,186	3,251	43,743	-	-	-
- Other loans	577,418	2,475,815	45,606	33,737	218,934	78,917	94,540	-
- with option of early redemption	324,836	2,388,079	25,200	16,724	146,543	78,382	94,509	-
- other	252,582	87,736	20,406	17,013	72,391	535	31	-
2. Cash liabilities	**2,330,640**	**1,269,449**	**332,624**	**475,366**	**639,280**	**6,153**	**159,646**	**-**
2.1 Due to customers	2,260,031	246,855	136,885	183,975	7,830	-	159,646	-
- current accounts	1,892,044	-	-	-	-	-	-	-
- other amounts due	367,987	246,855	136,885	183,975	7,830	-	159,646	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	367,987	246,855	136,885	183,975	7,830	-	159,646	-
2.2 Due to banks	70,549	511,897	-	41,803	5,278	-	-	-
- current accounts	18,299	-	-	-	-	-	-	-
- other amounts due	52,250	511,897	-	41,803	5,278	-	-	-
2.3 Debt securities	60	510,697	195,739	249,588	626,172	6,153	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	60	510,697	195,739	249,588	626,172	6,153	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**(75,039)**	**(44,818)**	**14,989**	**101,026**	**3,848**	**-**	**-**
3.1 With underlying security	-	172	30	(11)	(185)	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	172	30	(11)	(185)	-	-	-
+ long positions	-	1,031	147	91	187	-	-	-
+ short positions	-	(859)	(117)	(102)	(372)	-	-	-
3.2 Without underlying security	-	(75,211)	(44,848)	15,000	101,211	3,848	-	-
- Options	-		-	-		-	-	-
+ long positions	-		-	-		-	-	-
+ short positions	-	-	-	-		-	-	-
- Other derivatives	-	(75,211)	(44,848)	15,000	101,211	3,848	-	-
+ long positions	-	129,000	58,304	15,000	101,211	3,848	-	-
+ short positions	-	(204,211)	(103,152)	-	-	-	-	-
4. Other off-balance sheet transactions	**(175,050)**	**462**	**-**	**711**	**21,703**	**43,319**	**108,855**	**-**
+ long positions	1	462	-	711	21,703	43,319	108,855	-
+ short positions	(175,051)	-	-	-	-	-	-	-

Currency: US Dollar

Type/Residual life *(thousands of Euro)*	**Repayable 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	**4,629**	**291**	**603**	**380**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	4,628	-	-	-	-	-	-	-
1.3 Loans to customers	1	291	603	380	-	-	-	-
- current accounts	1	-	-	-	-	-	-	-
- Other loans	-	291	603	380	-	-	-	-
- with option of early redemption	-	291	603	380	-	-	-	-
- Other	-	-	-	-	-	-	-	-
2. Cash liabilities	**23,503**		**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	23,435	-	-	-	-	-	-	-
- current accounts	21,262	-	-	-	-	-	-	-
- Other amounts due	2,173	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	2,173	-	-	-	-	-	-	-
2.2 Due to banks	68		-	-	-	-	-	-
- current accounts	51	-	-	-	-	-	-	-
- other amounts due	17		-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

Currency: Swiss franc

Type/Residual life *(thousands of Euro)*	**Repayable 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	**5,961**	**16,964**	**10,608**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	96	-	-	-	-	-	-	-
1.3 Loans to customers	5,865	16,964	10,608	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	5,865	16,964	10,608	-	-	-	-	-
- with option of early redemption	5,865	16,964	10,608	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**8,646**	**12,465**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	3,200	-	-	-	-	-	-	-
- current accounts	2,472	-	-	-	-	-	-	-
- other amounts due	728	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	728	-	-	-	-	-	-	-
2.2 Due to banks	5,446	12,465	-	-	-	-	-	-
- current accounts	5,416	-	-	-	-	-	-	-
- other amounts due	30	12,465	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	

Currency: Japanese Yen

Type/Residual life ***(thousands of Euro)***	**Repayable 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	**326**	**1,672**	**1,262**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	26	-	-	-	-	-	-	-
1.3 Loans to customers	300	1,672	1,262	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	300	1,672	1,262	-	-	-	-	-
- with option of early redemption	300	1,672	1,262	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**912**	**2,073**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	290	-	-	-	-	-	-	-
- current accounts	290	-	-	-	-	-	-	-
- other amounts due	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	622	2,073	-	-	-	-	-	-
- current accounts	622	-	-	-	-	-	-	-
- other amounts due		2,073	-	-	-	-	-	-
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	-		-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	

Currency: GB pound

Type/Residual life *(thousands of Euro)*	**Repayable 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	**621**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	621	-	-	-	-	-	-	-
1.3 Loans to customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
2. Cash liabilities	**747**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	740	-	-	-	-	-	-	-
- current accounts	736	-	-	-	-	-	-	-
- other amounts due	4	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	4	-	-	-	-	-	-	-
2.2 Due to banks	7	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other amounts due	7	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

Currency: Other

Type/Residual life ***(thousands of Euro)***	**Repayable 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	**371**	**28**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	371	-	-	-	-	-	-	-
1.3 Loans to customers		28	-	-	-	-	-	-
- current accounts		-	-	-	-	-	-	-
- other loans	-	28	-	-	-	-	-	-
- with option of early redemption	-	28	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**713**		**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	713	-	-	-	-	-	-	-
- current accounts	713	-	-	-	-	-	-	-
- other amounts due	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-		-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	
- other amounts due	-		-	-	-	-	-	
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	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

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 the positions comprising the performing assets and burdensome 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 financial year, the modified duration calculated for the receivables and payable postings of the entire financial statements and the duration gap were moderate. Should the interest rate structure translate upwards in parallel by 200 bps, the equity would record a drop of 43.4 million Euro on 31 December 2013.

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 generating source of exchange risk.

Exchange rate risks are managed centrally at the Treasury Service; 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 flow transmitted immediately to the Forex interbank market.

The integrated Treasury IT system (Murex) then permits efficient flow management of spot, 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 extremely prudent attitude of the Bank, which unfolds 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**		**9,738**	**33,534**	**3,260**	**621**	**37**	**334**
	A.1	Debt securities	-	-	-	-	-	-
	A.2	Equity securities	3,835	-	-	-	-	-
	A.3	Loans to banks	4,628	96	26	621	37	334
	A.4	Loans to customers	1,275	33,438	3,234	-	-	-
	A.5	Other financial assets	-	-	-	-	-	-
B.	**Other assets**		340	999	19	108	16	135
C.	**Financial liabilities**		**23,502**	**21,111**	**2,985**	**746**	**357**	**356**
	C.1	Due to banks	68	17,911	2,695	7	-	-
	C.2	Due to customers	23,434	3,200	290	739	357	356
	C.3	Debt securities	-	-	-	-	-	-
	C.4	Other financial liabilities	-	-	-	-	-	-
D.	**Other liabilities**		**-**	**-**	**-**	**-**	**-**	**-**
E.	**Financial derivatives**		**17,319**	**(13,404)**	**(288)**	**18**	**303**	**(46)**
	-	Options	-	-	-	-	-	-
		+ long positions	-	-	-	-	-	-
		+ short positions	-	-	-	-	-	-
	-	Other derivatives	17,319	(13,404)	(288)	18	303	(46)
		+ long positions	25,812	4,740	186	474	397	43
		+ short positions	(8,493)	(18,144)	(474)	(456)	(94)	(89)
	Total		**35,890**	**39,273**	**3,465**	**1,203**	**450**	**512**
	Total liabilities		**31,995**	**39,255**	**3,459**	**1,202**	**451**	**445**
	Difference (+/-)		**3,895**	**18**	**6**	**1**	**(1)**	**67**

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 and interim notional values

Underlying assets / Derivative type *(thousands of Euro)*	**31.12.2013**		**31.12.2012**	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
1. Debt securities and interest rates	320,605	27,947	373,536	23,920
a) Options	18,611	-	19,549	-
b) Swap	298,112	-	353,908	-
c) Forward	382	1,447	79	170
d) Futures	3,500	26,500	-	23,750
e) Other	-	-	-	-
2. Equity securities and share indexes	-	-	-	2,017
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	-	-	2,017
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	36,276	-	52,071	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	36,276	-	52,071	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	-	-	-	-
5. Other assets	-	-	-	-
Total	**356,881**	**27,947**	**425,607**	**25,937**
Average values	**420,254**	**22,870**	**539,795**	**19,230**

A.2 Banking book: end of year and interim notional values

A.2.1 Hedges

As 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)*		**31.12.2013**		**31.12.2012**	
		Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
1.	Debt securities and interest rates	323,814	-	474,439	
	a) Options	15,000	-	25,538	-
	b) Swap	307,364	-	448,901	-
	c) Forward	1,450	-	-	-
	d) Futures	-	-	-	-
	e) Other	-	-	-	-
2.	Equity securities and share indexes	-	923	-	-
	a) Options	-	-	-	-
	b) Swap	-	-	-	-
	c) Forward	-	923	-	
	d) Futures	-	-	-	-
	e) Other	-	-	-	-
3.	Currency and gold	-	-	-	-
	a) Options	-	-	-	-
	b) Swap	-	-	-	-
	c) Forward	-	-	-	-
	d) Futures	-	-	-	-
	e) Other	-	-	-	-
4.	Goods	-	-	-	-
5.	Other assets	-	-	-	-
	Total	**323,814**	**923**	**474,439**	**-**
	Average values	**388,985**	**-**	**565,841**	**-**

A.3 Financial derivatives: positive gross fair value – breakdown by product

Underlying assets / Derivative types *(thousands of Euro)*		**Positive fair value**			
		31.12.2013		**31.12.2012**	
		Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
A.	**Regulatory trading portfolio**	**4,781**	**-**	**8,820**	**11**
	a) Options	681	-	500	-
	b) Interest rate swap	4,046	-	8,067	-
	c) Cross currency swap	-	-	-	-
	d) Equity swap	-	-	-	-
	e) Forward	54	-	253	11
	f) Futures	-	-	-	-
	g) Other	-	-	-	-
B.	**Banking book – hedging**	**-**	**-**	**-**	**-**
	a) Options	-	-	-	-
	b) Interest rate swap	-	-	-	-
	c) Cross currency swap	-	-	-	-
	d) Equity swap	-	-	-	-
	e) Forward	-	-	-	-
	f) Futures	-	-	-	-
	g) Other	-	-	-	-
C.	**Banking book – other derivatives**	**9,272**	**-**	**15,828**	**-**
	a) Options	-	-	2	-
	b) Interest rate swap	9,266	-	15,826	-
	c) Cross currency swap	-	-	-	-
	d) Equity swap	-	-	-	-
	e) Forward	6	-	-	-
	f) Futures	-	-	-	-
	g) Other	-	-	-	-
	Total	**14,053**	**-**	**24,648**	**11**

A.4 Financial derivatives: negative gross fair value – breakdown by product

Underlying assets / Derivative types *(thousands of Euro)*		**Negative fair value**			
		31.12.2013		**31.12.2012**	
		Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
A.	**Regulatory trading portfolio**	**6,991**	**-**	**11,966**	**-**
	a) Options		-		-
	b) Interest rate swap	6,815	-	11,616	-
	c) Cross currency swap	-	-	-	-
	d) Equity swap	-	-	-	-
	e) Forward	176	-	350	-
	f) Futures	-	-	-	-
	g) Other	-	-	-	-
B.	**Banking book – hedging**	**-**	**-**	**-**	**-**
	a) Options	-	-	-	-
	b) Interest rate swap	-	-	-	-
	c) Cross currency swap	-	-	-	-
	d) Equity swap	-	-	-	-
	e) Forward	-	-	-	-
	f) Futures	-	-	-	-
	g) Other	-	-	-	-
C.	**Banking book – other derivatives**	**285**	**-**	**457**	**-**
	a) Options		-	-	-
	b) Interest rate swap	284	-	457	-
	c) Cross currency swap	-	-	-	-
	d) Equity swap	-	-	-	-
	e) Forward	1	-	-	-
	f) Futures	-	-	-	-
	g) Other	-	-	-	-
	Total	**7,276**	**-**	**12,423**	**-**

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	**-**	**-**	**194,588**	**138,477**	**-**	**-**	**1,444**
- notional value	-	-	186,397	134,207	-	-	1,437
- positive fair value	-	-	681	4,046	-	-	7
- negative fair value	-	-	6,815	-	-	-	-
- future exposure	-	-	695	224	-	-	-
2) Equity securities and share indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currency and gold	**-**	**-**	**25,561**	**-**	**-**	**10,976**	**33**
- notional value	-	-	25,412	-	-	10,832	33
- positive fair value	-	-	14	-	-	40	-
- negative fair value	-	-	121	-	-	55	-
- future exposure	-	-	14	-	-	49	-
4) Other values	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives: regulatory trading portfolio – notional values, gross positive and negative fair values for counterparties – contracts that come under offsetting agreements

As 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**	**-**	**-**	**327,271**	**-**	**-**	**5,294**	**-**
	- notional value	-	-	317,376	-	-	5,000	-
	- positive fair value	-	-	8,997	-	-	269	-
	- negative fair value	-	-	284	-	-	-	-
	- future exposure	-	-	614	-	-	25	-
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 values**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	- notional value	-	-	-	-	-	-	-
	- positive fair value	-	-	-	-	-	-	-
	- negative fair value	-	-	-	-	-	-	-
	- future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives: banking book – notional values, gross positive and negative fair values for counterparties – contracts that come under offsetting agreements

As 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**	**222,062**	**110,348**	**24,470**	**356,880**
A. 1	Financial derivatives on debt securities and interest rates	185,786	110,348	24,470	320,604
A. 2	Financial derivatives on equity securities and share indexes	-	-	-	-
A. 3	Financial derivatives on exchange rates and gold	36,276	-	-	36,276
A. 4	Financial derivatives on other stocks	-	-	-	-
B.	**Banking book**	**203,755**	**116,211**	**3,848**	**323,814**
B. 1	Financial derivatives on debt securities and interest rates	203,755	116,211	3,848	323,814
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 stocks	-	-	-	-
	Total 31.12.2013	**425,817**	**226,559**	**28,318**	**680,694**
	Total 31.12.2012	**504,679**	**351,378**	**43,989**	**900,046**

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

As 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

As 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

As 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

As 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

As 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

As 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

As 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 value and future exposure for counterparties

As 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. Under this risk there are the following definitions for each component of liquidity risk:

- the refinancing risk in turn can 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, the withdrawal risk, i.e., an unexpected, greater than anticipated withdrawal of deposits by customers, the 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 expansions 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 be broken down in turn 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/counterparts or concentration on certain technical forms, to the extent that the withdrawal of funds by a limited number of counterparts, 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., is 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 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;

- 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 innovations in matters of governance and liquidity risk management contained in Bank of Italy Circular no. 263 of 27 December 2006 and subsequent revisions, which in turn incorporates the guidance enacted by the Committee of European Banking Supervisors (CEBS) and by the Basel Committee on Banking Supervision. These rules and regulations are based on the principle that an adequate governance and liquidity risk management system, integrated with the overall risk management system, is fundamental for maintaining the stability of the individual banks and of the market. This entails rules in 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. On the other hand, the definition and control of compliance with operational limits lies with the Risk Management Service, an independent control department. 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 crisis 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 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 pressurised 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 quantity and quality terms. The listing and strong rating help to rapidly unfreeze the financial instruments;
- manage the 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 so-called maturity ladder was prepared; that is, surveillance system for the net financial position which allows the balances and therefore the imbalances between expected inflows and outflows over predefined time bands and, through the formation of cumulative imbalances, the calculation of the net financial requirement (or surplus) in the time horizon considered.

To measure the Bank's liquidity risk, the so-called 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, interbank deposits, bond issues, securitisations, movement of securities owned, extraordinary movement. The data is processed to prevent determination of 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 analysis, 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 haircut of securities that can be readily liquidated
- non/limited roll-over of maturing loans and renewing lines of credit/credit openings
- reduction in rollover of interbank funding
- reduction in rollover of interbank funding
- revocation/non-renewal or reduction of credit lines received
- increase utilisation of credit lines granted
- increase haircut of securities that can be readily liquidated
- increasing 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 (CFL, Contingency Funding Plan) are clearly defined in the policy; a contingency is declared when there is problematic progression in a predefined series of exogenous and endogenous 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:

- the transfer of the 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
- the transfer of the fees resulting from the transformation of maturities from the sales network to the treasury unit
- the possibility of precisely assessing the actual fee at the level 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 interbank 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 2013, 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)*	**Repayable on demand**	**From 1 to 7 days**	**From 7 to 15 days**	**From 15 days to 1 month**	**From 1 month 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	**1,279,312**	**24,364**	**12,983**	**126,175**	**235,974**	**252,868**	**441,040**	**1,679,273**	**1,658,896**	**30,353**
A.1 Treasury securities	-	-	-	79	-	45,338	102,796	248,990	24,500	-
A.2 Other debt securities	1	-	22	2,068	94,070	15,227	22,005	103,852	32,956	-
A.3 UCITS units	61,138	-	-	-	-	-	-	-	-	-
A.4 Loans	1,218,173	24,364	12,961	124,028	141,904	192,303	316,239	1,326,431	1,601,440	30,353
- Banks	876	-	-	800	-	-	6,210	-	-	30,353
- Customers	1,217,297	24,364	12,961	123,228	141,904	192,303	310,029	1,326,431	1,601,440	-
Cash liabilities	**2,332,836**	**43,043**	**31,207**	**49,001**	**347,335**	**246,662**	**435,882**	**1,505,969**	**240,679**	**-**
B.1 Deposits and current accounts	2,277,109	11,723	19,931	48,644	135,620	133,659	182,816	7,803	-	-
- Banks	73,346	-	3,000	-	-	-	-	-	-	-
- Customers	2,203,763	11,723	16,931	48,644	135,620	133,659	182,816	7,803	-	-
B.2 Debt securities	60	607	11,276	357	207,599	110,872	253,066	993,166	31,033	-
B.3 Other liabilities	55,667	30,713	-	-	4,116	2,131	-	505,000	209,646	-
Off-balance sheet transactions	**(2,799)**	**(2,075)**	**48**	**-**	**(23,204)**	**(42,479)**	**(107,976)**	**21,475**	**151,993**	**-**
C.1 Financial derivatives with exchange of principal amount	-	(2,217)	48	-	(2,977)	(134)	1,493	(228)	-	-
- Long positions	-	4,206	229	104	612	571	1,763	462	-	-
- Short positions	-	(6,423)	(181)	(104)	(3,589)	(705)	(270)	(690)	-	-
C.2 Financial derivatives without exchange of principal amount	(2,088)	142	-	-	1,476	974	(1,506)	-	-	-
- Long positions	4,727	142	-	-	1,543	1,009	244	-	-	-
- Short positions	(6,815)	-	-	-	(67)	(35)	(1,750)	-	-	-
C.3 Due from deposits and loans	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	(711)	-	-	-	(21,703)	(43,319)	(107,963)	21,703	151,993	-
- Long positions	1	462	-	-	-	-	711	21,703	151,993	-
- Short positions	(712)	(462)	-	-	(21,703)	(43,319)	(108,674)	-	-	-
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	-	-	-	-	-	-	-	-	-	-

Illustration of financial assets that were subject to securitisations where the bank undersigned all liabilities issued by SPV (so-called self-issued securitisation) upon issue.

In November 2008, the Company carried out a securitisation in which it subscribed to all the liabilities issued by the SPV upon issue. The financial assets subject to the aforementioned transaction are listed below:

	VOBA 2 S.r.l.
Bank interest in the SPV	0.00%
Loans disposal date	1 November 2008
Type of loans transferred	Mortgage loans
Status of loans transferred	Performing
Guarantees on loans transferred	Mortgages from first to sixth degree
Geographic area of loans transferred	Northern Italy
Business of debtors transferred	Private individuals and companies
Number of loans transferred	1,845
Price of loans transferred (Euro)	Euro 304,128,167.83
Nominal value of loans transferred including accruals (Euro)	Euro 304,128,167.83

The characteristics of the subscribed ABS securities relative to the self-issued securitisation are shown below:

VOBA 2 S.r.l.			
Tranche	**Rating S&P/Moody's**	**Percentage**	**Total (in Euro)**
Class A	AA/A2	80.60%	245,150,000
Class B	NR/Ba1	16.40%	49,900,000
Class C	-	3.00%	9,079,000
Total		**100.00%**	**304,129,000**

Currency: US Dollar

Items / Timescales *(thousands of Euro)*			**Repayable on demand**	**From 1 to 7 days**	**From 7 to 15 days**	**From 15 days to 1 month**	**From 1 month 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			**8,464**	**42**	**-**	**36**	**213**	**602**	**370**	**-**	**-**	**-**
A.1	Treasury securities		-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities		-	-	-	-	-	-	-	-	-	-
A.3	UCITS units		3,835	-	-	-	-	-	-	-	-	-
A.4	Loans		4,629	42	-	36	213	602	370	-	-	-
	-	Banks	4,628	-	-	-	-	-	-	-	-	-
	-	Customers	1	42	-	36	213	602	370	-	-	-
Cash liabilities			**23,502**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1	Deposits and current accounts		23,485	-	-	-	-	-	-	-	-	-
	-	Banks	51	-	-	-	-	-	-	-	-	-
	-	Customers	23,434	-	-	-	-	-	-	-	-	-
B.2	Debt securities		-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities		17	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions			**-**	**13,991**	**(32)**	**-**	**2,957**	**403**	**(1)**	**-**	**-**	**-**
C.1	Financial derivatives with exchange of principal amount		-	13,991	(32)	-	2,957	403	(1)	-	-	-
	-	Long positions	-	21,194	178	102	3,552	657	130	-	-	-
	-	Short positions	-	(7,203)	(210)	(102)	(595)	(254)	(131)	-	-	-
C.2	Financial derivatives without exchange of principal amount		-	-	-	-	-	-	-	-	-	-
	-	Long positions	-	-	-	-	-	-	-	-	-	-
	-	Short positions	-	-	-	-	-	-	-	-	-	-
C.3	Due from deposits and loans		-	-	-	-	-	-	-	-	-	-
	-	Long positions	-	-	-	-	-	-	-	-	-	-
	-	Short positions	-	-	-	-	-	-	-	-	-	-
C.4	Irrevocable commitments to disburse funds		-	-	-	-	-	-	-		-	-
	-	Long positions	-	-	-	-	-	-	-	-	-	-
	-	Short positions	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

Currency: Swiss franc

Items / Timescales *(thousands of Euro)*		**Repayable on demand**	**From 1 to 7 days**	**From 7 to 15 days**	**From 15 days to 1 month**	**From 1 month 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		**3,253**	**87**	**381**	**5,272**	**11,977**	**12,608**	**15**	**-**	**-**	**-**
A.1	Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3	UCITS units	-	-	-	-	-	-	-	-	-	-
A.4	Loans	3,253	87	381	5,272	11,977	12,608	15	-	-	-
	- Banks	96	-	-	-	-	-	-	-	-	-
	- Customers	3,157	87	381	5,272	11,977	12,608	15	-	-	-
Cash liabilities		**8,646**	**-**	**-**	**12,463**	**-**	**-**	**-**	**-**	**-**	**-**
B.1	Deposits and current accounts	8,616	-	-	12,463	-	-	-	-	-	-
	- Banks	5,416	-	-	12,463	-	-	-	-	-	-
	- Customers	3,200	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities	30	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions		**-**	**(13,095)**	**-**	**(309)**	**-**	**-**	**-**	**-**	**-**	**-**
C.1	Financial derivatives with exchange of principal amount	-	(13,095)	-	(309)	-	-	-	-	-	-
	- Long positions	-	4,740	-	-	-	-	-	-	-	-
	- Short positions	-	(17,835)	-	(309)	-	-	-	-	-	-
C.2	Financial derivatives without exchange of principal amount	-	-	-	-	-	-	-	-	-	-
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.3	Due from deposits and loans	-	-	-	-	-	-	-	-	-	-
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.4	Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

Currency: Japanese Yen

Items / Timescales *(thousands of Euro)*	**Repayable on demand**	**From 1 to 7 days**	**From 7 to 15 days**	**From 15 days to 1 month**	**From 1 month 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	**26**	**212**	**33**	**325**	**1,165**	**1,437**	**50**	**-**	**-**	**-**
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	26	212	33	325	1,165	1,437	50	-	-	-
- Banks	26	-	-	-	-	-	-	-	-	-
- Customers	-	212	33	325	1,165	1,437	50	-	-	-
Cash liabilities	**912**	**-**	**1,382**	**691**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	912	-	1,382	691	-	-	-	-	-	-
- Banks	622	-	1,382	691	-	-	-	-	-	-
- Customers	290	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**-**	**(288)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
C.1 Financial derivatives with exchange of principal amount	-	(288)	-	-	-	-	-	-	-	-
- Long positions	-	186	-	-	-	-	-	-	-	-
- Short positions	-	(474)	-		-	-	-	-	--	-
C.2 Financial derivatives without exchange of principal amount	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Due from deposits and loans	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

Currency: Other

Items / Timescales *(thousands of Euro)*		Repayable on demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 month 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		**992**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1	Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3	UCITS units	-	-	-	-	-	-	-	-	-	-
A.4	Loans	992	-	-	-	-	-	-	-	-	-
	- Banks	992	-	-	-	-	-	-	-	-	-
	- Customers	-	-	-	-	-	-	-	-	-	-
Cash liabilities		**1,459**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1	Deposits and current accounts	1,452	-	-	-	-	-	-	-	-	-
	- Banks	-	-	-	-	-	-	-	-	-	-
	- Customers	1,452	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities	7	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions		**-**	**(32)**	**-**	**306**	**-**	**-**	**-**	**-**	**-**	**-**
C.1	Financial derivatives with exchange of principal amount	-	(32)	-	306	-	-	-	-	-	-
	- Long positions	-	564	-	350	-	-	-	-	-	-
	- Short positions	-	(596)	-	(44)	-	-	-	-	-	-
C.2	Financial derivatives without exchange of principal amount	-	-	-	-	-	-	-	-	-	-
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.3	Due from deposits and loans	-	-	-	-	-	-	-	-	-	-
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.4	Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

2. Disclosure on pledged assets recognised in the financial statements

Technical formats		Pledged BV	Pledged FV	Not pledged BV	Not pledged FV	Total 31.12.2013	Total 31.12.2012
1.	Cash and cash equivalents	-	X	54,320	X	54,320	49,607
2.	Debt securities	209,645	209,868	485,298	486,190	694,943	494,049
3.	Equity securities	-	-	19,718	-	19,718	16,294
4.	Loans	1,010,592	X	3,956,013	X	4,966,605	5,064,407
5.	Other financial assets	-	X	84,865	X	84,865	77,724
6.	Non-financial assets	-	X	282,558	X	282,558	245,335
	Total 31.12.2013	**1,220,237**	**209,868**	**4,882,772**	**486,190**	**6,103,009**	**X**
	Total 31.12.2012	**1,184,647**	**243,280**	**4,762,769**	**253,475**	**X**	**5,947,416**

Key		
BV	=	Book value
FV	=	Fair value

3. Disclosure on proprietary pledged assets not recognised in the financial statements

Technical formats		Pledged	Not pledged	Total 31.12.2013	Total 31.12.2012
1.	**Financial assets**	**1,037,913**	**30,545**	**1,068,458**	**1,467,133**
	- Securities	1,037,913	30,545	1,068,458	1,467,133
	- Other	-	-	-	-
2.	**Non-financial assets**	**-**	**-**	**-**	**-**
	Total 31.12.2013	**1,037,913**	**30,545**	**1,068,458**	**X**
	Total 31.12.2012	**1,416,588**	**50,545**	**X**	**1,467,133**

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 Audit System, by all the 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;
- attenuate the expected effects of these events;
- enhance the overall operational efficiency;
- protect the bank's reputation and image.

Monitoring and measuring of operational losses

The most advanced method for measuring the operational risk profile involves the combined use of information regarding historical internal and external operational 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) interbank 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 department 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 polices.

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 Operational risk Committee. The main sources of operational risk manifestation are identified in those meetings 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. All the results of analyses and the corrective actions identified are then submitted to the Board of Directors.

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 service also carries out internal analyses and number processing of the operational losses on the basis of the data on the internal database, with the aim of calculating the VaR values of the operational losses (Operational VaR, i.e. potential loss). The model involves a MonteCarlo simulation based on 60,000 scenarios. The operational 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 2013, the model estimated the potential operational losses in 1 year with a confidence interval of 99% (1 year for every 100).

For the purpose of calculating the asset requirements with reference to operating risk, the Bank adopted the Traditional Standardised Approach, starting from 31 December 2012, in compliance with the regulatory provisions of Basel II. This provides 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. The Bank of Italy assumes that the gross income is the significant indicator, as identified in the net interest and other banking income (income statement item 120).

Identification and assessment of operational risks

A key element in the identification, assessment and implementation of actions to reduce operational risks in company operations is the corporate 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;
- monitoring risks;

and the aim is to direct and support the departments involved in pursuing the strategic goals.

The assessment of intrinsic and residual operational risks is carried out through a self-assessment risk 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 company 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 made 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.

Managing the control processes

Within the Internal Audit 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 company 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 company control departments, and which - among other things - is in charge of establishing priorities and coordinating the control activities.

In addition, monitoring of the operating risks uses the results from the monitoring and analyses of operating losses contained in the periodic report drawn up by the Risk management department and related discussions by the operating risk 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 company 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,
- 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, to checking compliance with risk limits and the external and internal regulatory provisions, to checking the consistency of various transactions with the strategic risk-reward goals, and to alerting to behaviour or events that depart from usual operations.

The Risk Management department (as the department that manages risk), the Compliance area (which incorporates the regulatory compliance department and anti-money laundering department) and the Manager in Charge 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.

The third level controls are carried out by the Internal Audit office in their role as internal auditors.

The audits aim to identify anomalous performance, violation of procedures and regulations, and assessment of the overall performance of the internal audit 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 reports in 2013 recorded 130 new reports with a gross loss of 591 thousand, of which 65% of cases were due to internal or external fraud (amounting to 43% of the value), 8% from processing errors (6% of the value), 28% due to other factors, forged banknotes, system errors, and legal disputes etc. (51% of the value).

By way of comparison, 225 events occurred in 2012, corresponding to gross losses equal to Euro 495,071.

17 cases were reported to the DIPO in 2013 (reporting threshold Euro 5,000) with a gross loss of Euro 527,049.

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 size of the 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 anticipated capital strength therefore takes into account both the regulatory and operational constraints.

Capital adequacy over time therefore reflects both the capital requirements correlated with the multiyear objectives set in the strategic plan. In the process of defining the annual objectives for the annual budget, a compatibility test is performed with the level of capitalisation, as a function of the expected dynamics of the aggregates balance-sheet and income statement items.

Capital adequacy is the result of several managerial decisions, such as the dividends policy, the definition of extraordinary financial transactions (share capital increases, the issuing of convertible loans, the optimisation of assets, etc.) as well as the loan policy in relation to the riskiness of the entrusted 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.

The bank's shareholders' equity consists of the sum of the balances for the following liability items:

- share capital net of the equivalent value of the treasury shares bought back
- share premium reserve
- reserve
- valuation reserves
- income for the year

Banca Popolare • Volksbank's shareholders' equity, including the valuation allowances and provisions and of the net profit for the year, as at 31 December 2013, amounts to 628.8 million, an increase over the previous year's figure of 619.1 million.

B. QUANTITATIVE INFORMATION

B.1 Company capital: breakdown

Items/Amounts *(thousands of Euro)*				31.12.2013	31.12.2012
1.	**Share capital**			**152,508**	**76,275**
2.	**Share premium reserve**			**202,459**	**202,459**
3.	**Reserves**			**255,528**	**247,360**
	-	retained earnings:		225,385	217,217
		a)	legal	108,900	106,700
		b)	extraordinary	101,923	95,607
		c)	treasury shares	-	-
		d)	other	14,562	14,910
	-	other		30,143	30,143
4.	**Equity instruments**			-	**-**
5.	**(Treasury shares)**			-	**-**
6.	**Valuation reserves**			**(476)**	**71,387**
	-	Financial assets available-for-sale		1,179	(447)
	-	Property and equipment		-	-
	-	Intangible assets		-	-
	-	Foreign investment hedges		-	-
	-	Cash flow hedges		-	-
	-	Exchange differences		-	-
	-	Discontinued operations		-	-
	-	Actuarial gains (losses) on defined benefit plans		- (1,655)	(2,615)
	-	Portion of valuation reserves of equity-accounted investees		-	-
	-	Special revaluation laws		-	74,449
7.	**Net income (loss)**			**18,767**	**21,583**
	Total			**628,786**	**619,063**

B.2 Valuation reserves of financial assets available-for-sale: breakdown

Asset/Value *(thousands of Euro)*		31.12.2013		31.12.2012	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve
1.	Debt securities	1,992	(603)	1,348	(453)
2.	Equity securities	447	(10)	-	(11)
3.	UCITS units	486	(1,133)	168	(1,499)
4.	Loans	-	-	-	-
	Total	**2,925**	**(1,746)**	**1,516**	**(1,963)**

B.3 Valuation reserves of financial assets available-for-sale: annual changes

(thousands of Euro)		Debt securities	Equity securities	UCITS units	Loans
1.	**Opening balance**	**895**	**(11)**	**(1,331)**	**-**
2.	**Positive variations**	**1,907**	**448**	**1,147**	**-**
	2.1 Increases in fair value	1,731	448	790	-
	2.2 Reallocation to income statement of negative reserves	176	-	357	-
	- from impairment	-	-	243	-
	- from disposal	176	-	114	-
	2.3 Other changes	-	-	-	-
3.	**Negative variations**	**1,413**	**-**	**463**	**-**
	3.1 Decrease in fair value	488	-	297	-
	3.2 Losses on impairment	-	-	-	-
	3.3 Reallocation to income statement of positive reserves: from disposal	925	-	166	-
	3.4 Other changes	-	-	-	-
4.	**Closing balance**	**1,389**	**437**	**(647)**	**-**

B.4 Valuation reserves relating to defined benefit plans: annual changes

(thousands of Euro)	31.12.2013		31.12.2012	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
Defined benefit plans	-	(1,655)	-	(2,616)
Total	**-**	**(1,655)**	**-**	**(2,616)**

	(thousands of Euro)	2013
1.	**Opening balance**	**(2,616)**
2.	**Positive changes**	**1,000**
	2.1 Profits from changes to discount rates	-
	2.2 Other actuarial gains	372
	2.3 Other changes	628
3.	**Negative changes**	**39**
	3.1 Losses due to discount rate adjustments	-
	3.2 Other actuarial losses	-
	3.3 Other changes	39
4.	**Closing balance**	**(1,655)**

Section 2 Regulatory capital and adequacy ratios

Regulatory capital and adequacy ratios are calculated in conformity with the Bank of Italy provisions in the Circular no. 263 of 27 December 2006 ("New regulations for the prudential supervision of banks") and with the Circular no. 155 of 18 December 1991 ("Instructions for compiling reports on regulatory capital and on prudential ratios"), as amended.

In 2009, the European community institutions approved various measures (directives 2009/27/EC, 2009/83/EC and 2009/111/EC, known, comprehensively, as "CRD II") tending, on one hand, to strengthen the prudential European regulation in some of the profiles that were revealed to be weak by the 2007-2008 financial crisis, on the other hand, to resolve the interpretive uncertainties that emerged in the first years of regulation's application (directives 2006/48/EC and 2006/49/EC).

With the recent updates of the Circular no. 263 of 27 December 2006, some of these innovations are applied in Italy for aspects regarding banks and banking groups, also incorporating the relevant guidelines later enacted by the Committee of European Banking Supervisors (CEBS).

In 2013, EU bodies approved the 2013/36/EU directive, known as “CRD IV” and the related (EU) regulation no. 575 known as “CRR” which introduces the standards defined by the Basel Committee for banking supervision into the European Union (known as “Basel 3”). The new regulations, which will take effect from notice of 31 March 2014, will be defined in the supervisory provisions of the Bank of Italy in its Circular 285 of 17 December 2013 (“Supervisory provisions for banks”) and Circular 286 of 17 December 2013 (“Instructions for compiling prudential notifications for banks and stockbrokers”).

2.1 Regulatory Capital

A. QUALITATIVE INFORMATION

Pursuant to Circular no. 263 of 27 December 2006, Regulatory capital consists of the sum of the tier I capital, admitted in the calculation without limitation, and of the Tier II capital, which is admitted within the maximum limits of the tier I capital. Investments in associates and companies subject to joint control, innovative and non innovative share capital instruments, hybrid capital instruments, and subordinated assets, held in other banks and holding companies are deducted from these aggregates.

Also deducted are investments in insurance companies and the subordinated liabilities issued by the companies themselves, if calculated by the issuer for the purpose of drafting the balance-sheet, as well as additional facts related to the calculation of the capital requirements.

Specific adjustments (the so-called “prudential filters”) having the objective of protecting the quality of the regulatory capital and of reducing the potential volatility associated with the adoption of the new international accounting standards IAS/IFRS are applied in both Tier I capital and in the Tier II capital.

The supervisory regulations anticipated that certain balance-sheet components recognised in the financial statements of the banking and financial intermediaries based on the international accounting standards be considered for the purpose of calculating regulatory capital within determined limits, according to rules agreed to on an international level (the so-called prudential filters).

In particular, as regards the revaluation reserves relative to the debt securities in the “Financial assets available-for-sale” portfolio, the supervisory provisions anticipate two options:

a) with regards to the securities issued by Central administrations of countries belonging to the European Union included in the “Financial assets available-for-sale”, completely neutralise both the pluses and the minuses, as if the securities were measured at cost.
b) fully deduct the capital loss from Core Tier 1 capital and partially include the capital gains in Tier 2 capital, according to an “asymmetrical” approach.

The sub b) option– adopted by the Bank – allows, among other things, the continuous discounting of the negative assessments, thus preventing sudden drops (cliff effect) when the reductions of value begin to resemble impairment. This approach was deemed more suitable for the Bank's operational characteristics, also taking into account possible instances of turbulence in the markets such as those recorded for government securities during the year, where this “asymmetric” mechanism, through the deduction of the capital loss, risks causing unjustified volatility of regulatory capital as a result of sudden variations in the performance of the securities not related to enduring changes of the issuers credit rating.

1. Tier I capital

The Core Tier I capital of Banca Popolare • Volksbank is composed entirely of paid-in share capital, reserves (including share premium reserves) and income for the year (in accordance with the distribution proposal), net of intangible assets, recorded in the financial statements under item 120 in the assets, and of any treasury shares on hand.

Banca Popolare • Volksbank has neither innovative capital instruments, nor hybrid equity instruments.

2. Tier II capital

Banca Popolare • Volksbank's Tier II capital includes the valuation reserves.

3. Tier III capital

There are no Tier III capital components.

B. QUANTITATIVE INFORMATION

(thousands of Euro)	31.12.2013	31.12.2012
A. Tier I capital before application of prudential filters	**573,588**	**492,796**
B. Tier I capital prudential filters:	(1,746)	(5,232)
B.1 Positive IAS/IFRS prudential filters (+)	-	-
B.2 Negative IAS/IFRS prudential filters (-)	(1,746)	(5,232)
C. Tier I capital gross of deductible elements (A+B)	**571,842**	**487,564**
D. Elements deductible from Tier I capital	-	-
E. Total Core Tier 1 capital (C-D)	**571,842**	**487,564**
F. Tier II capital before application of prudential filters	**2,925**	**75,966**
G. Tier II capital prudential filters:	(1,462)	(758)
G.1 Positive IAS/IFRS prudential filters (+)	-	-
G.2 Negative IAS/IFRS prudential filters (-)	(1,462)	(758)
H. Tier II capital gross of deductible elements (F+G)	**1,463**	**75,208**
I. Elements deductible from Tier II capital	-	-
L. Total Tier 2 capital (Tier 2) (H-J)	**1,463**	**75,208**
M. Elements deductible from total Tier I and Tier II capital	-	
N. Regulatory Capital (E + L - M)	**573,305**	**562,772**
O. Tier 3 capital	-	-
P. Regulatory capital including Tier 3 (N+O)	**573,305**	**562,772**

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

Based on prudent supervisory provisions, the overall capital requirement is equal to the sum of the capital requirements specified for credit, counterparty, market, and operational risks.

The relevant “standard methods” were adopted for the credit, counterparty, and market risks. The basic method was used for the operational risks.

B. QUANTITATIVE INFORMATION

In accordance with Chapter 2, paragraph 7, part F of Circular 262 (“Banks' financial statements: layouts and preparation”), in the standard method, the “unweighted amounts” correspond to the exposure that takes into account the prudential filters, the risk mitigation techniques, and the loan conversion factors (E* in the supervisory reports multiplied by the loan conversion factors in case of the guarantees and commitments).

In items C.1, C.2, and C.3, the weighted risk assets are determined to be the total capital requirements (item B.6) multiplied by 12.5 (the inverse of the minimum obligatory coefficient equal to 8%).

Banca Popolare • Volksbank complies with the minimum obligatory capital requirements anticipated for banks not belonging to banking groups.

	Category/Values	Unweighted amounts		Weighted/required amounts	
		31.12.2013	31.12.2012	31.12.2013	31.12.2012
A.	**RISK ASSETS**				
A.1	**Credit risk and counterparty risk**	**6,341,504**	**6,206,175**	**4,128,077**	**4,227,652**
	1. Standard method	6,341,504	6,206,175	4,128,077	4,227,652
	2. Method based on internal ratings	-	-	-	-
	2.1 Basic	-	-	-	-
	2.2 Advanced	-	-	-	-
	3. Securitisations	-	-	-	-
B.	**REGULATORY CAPITAL REQUIREMENTS**				
B.1	**Credit risk and counterparty risk**			**330,246**	**338,212**
B.2	**Market risk**			**1,885**	**2,566**
	1. Standard method			1,885	2,566
	2. Internal models			-	-
	3. Concentration Risk			-	-
B.3	**Operational risk**			**23,359**	**23,056**
	1. Basic method			-	-
	2. Standard method			23,359	23,056
	3. Advanced method			-	-
B.4	**Other prudential requirements**			**-**	**-**
B.5	**Other calculation items**			**-**	**-**
B.6	**Total prudential requirements (B1+B2+B3+B4+B5)**			**355,490**	**363,834**
C.	**RISK ASSETS AND ADEQUACY RATIOS**				
C.1	Weighted risk assets			4,443,619	4,547,930
C.2	Tier 1 capital/Weighted risk assets (Core Tier I capital ratio)			12.87%	10.72%
C.3	Regulatory capital including Tier 3/ Weighted risk assets (Total capital ratio)			12.90%	12.37%

Starting from the reports referring to 31 December 2012, the Company calculates the regulatory capital required in terms of market risk in accordance with the standard method. The basic method had been used previously.

PART G BUSINESS COMBINATIONS CONCERNING COMPANIES OR BUSINESS BRANCHES

Section 5 Business combinations carried out during the year

No business combinations were carried out during the financial year

Section 6 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 7 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 activities.

The remuneration paid is governed by the remuneration policies approved by the shareholders' meeting decisions

(thousands of Euro)	**31.12.2013**
Directors	989
Statutory Auditors	322
Key personnel	3,008
Total	**4,319**

Remuneration of key personnel *(thousands of Euro)*	**31.12.2013**
of which	
- short-term benefits	2,481
- post-retirement benefits	252
- long-term benefits	169
- employment termination benefits	106
- share-based payments	-
Total	**3,008**

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 natural and juridical persons 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 bodies, that is to say the Directors, the Statutory Auditors, the General Manager, the Deputy General Manager;
- the other related parties, which include:
  - close relatives – common-law spouses, children, children of common-law spouses, and dependants of subjects or of the subject's common-law spouse – of Directors, Statutory Auditors, 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.

The table shows the capital and income relationships with the related parties indicated in the previous paragraphs. The impacts of these transactions on each financial statement items in percent are also provided.

Transactions with subsidiaries

(thousands of Euro)	**Loans granted**	**Subscribed bonds**	**Loans obtained**	**Bonds issued**	**Guarantees**	**Commitments**
31.12.2013	7,176	-	-	-	768	-
Impact	0.15%	0.00%	0.00%	0.00%	0.22%	0.00%
	Interest received on loans granted	**Interest received on subscribed bonds**	**Interest paid on loans obtained**	**Interest paid on bonds issued**	**Commissions and other revenues**	**Commissions and other costs**
2013	122	-	-	-	103	-
Impact	0.07%	0.00%	0.00%	0.00%	0.15%	0.00%

Transactions with associated companies

(thousands of Euro)	**Loans granted**	**Subscribed bonds**	**Loans obtained**	**Bonds issued**	**Guarantees**	**Commitments**
31.12.2013	5,822	-	247	-	-	-
Impact	0.12%	0.00%	0.01%	0.00%	0.00%	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**
2013	182	-	-	-	15	-
Impact	0.10%	0.00%	0.00%	0.00%	0.02%	0.00%

Transactions with Directors, Statutory Auditors, members of General Management and Central Management

(thousands of Euro)	**Directors**		**Statutory Auditors**		**Strategic managers**		**Total**
	Direct	**Indirect**	**Direct**	**Indirect**	**Direct**	**Indirect**	
Agreed credit limit	2,872	80,791	3,361	15,775	53	107	102,959
Commitments	2,642	48,324	1,735	13,511	40	104	66,356
Impact	0.05%	0.98%	0.04%	0.27%	0.00%	0.00%	1.35%
Credit commitments	-	14,461	11	46	-	-	14,518
Impact	0.00%	4.09%	0.00%	0.01%	0.00%	0.00%	4.10%
Direct funding	1,116	31,959	96	2,029	536	369	36,105
Impact	0.02%	0.69%	0.00%	0.04%	0.01%	0.01%	0.78%
Indirect funding	116	11,438	49	77	60	83	11,823
Impact	0.01%	0.57%	0.00%	0.00%	0.00%	0.00%	0.59%
Interest income	70	1,589	43	244	0	2	1,948
Impact	0.04%	0.91%	0.02%	0.14%	0.00%	0.00%	1.11%
Interest expense	19	546	1	34	3	3	606
Impact	0.03%	0.78%	0.00%	0.05%	0.00%	0.00%	0.86%
Fee and commission income and other income	14	295	5	49	0	1	364
impact	0.02%	0.43%	0.01%	0.07%	0.00%	0.00%	0.53%

PART I SHARE-BASED PAYMENT ARRANGEMENTS

As at the balance sheet date, there are no share-based payment arrangements.

PART L SEGMENT REPORTING

The disclosure concerning operating segments was prepared in accordance with the specifications of IFRS 8, which came into force starting from 2009, which provides for presentation of the disclosures consistent with the methods adopted by Bank management for making operational decisions. Therefore, the operating segments indentified and the disclosure in this paragraph based on the internal reporting used by company management for the purpose of allocating resources to the various segments and for analyzing the respective performance.

Criteria for identifying combination of the operating segments

The identification and combination of the operating segments in conformity with attachment IFRS 8 was conducted, unlike that anticipated by IAS 14, by indentifying the operating segments in accordance with the "operational approach" used by management when measuring performance:

- Private individuals;
- Firms;
- 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.

The following sectors were identified for the purpose of geographical segmentation.

- Trentino – Alto Adige;
- Veneto and Friuli Venezia Giulia

For the purpose of reconciling the sector results with the Bank's income, it is noted that the measuring criteria for the sector disclosure reported in this section are consistent with those used in the internal reports, as required by the accounting standards of reference and they are also consistent with the accounting standards used for the preparation of the financial statements for the financial year, in that they are deemed more suitable for the purpose of attaining a true and fair view of the company's financial position.

Analysis by business segments: income statement figures

(thousands of Euro)	**Private individuals**	**Companies**	**Finance**	**Other**	**Total**
Interest margin	36,089	63,808	5,029	-	104,926
Net fee and commission income	25,567	37,229	-2,700	-	60,096
Financial margin	-	-	8,857	-	8,857
Net interest and other banking income	**61,656**	**101,037**	**11,186**	**-**	**173,879**
Net losses/recoveries on impairment	(1,433)	(18,245)	609	-	(19,068)
Net income from banking activities	**60,224**	**82,791**	**11,795**	**-**	**154,810**
Administrative expenses	-	-	-	(126,595)	(126,595)
Provisions for risks and charges	-	-	-	(311)	(311)
Amortisation of intangible assets and depreciation of property and equipment	-	-	-	(6,949)	(6,949)
Other operating income/expenses	-	-	-	16,548	16,548
Profits (losses) on investments in associates and companies subject to joint control / on disposal of investments	-	-	-	(1,937)	(1,937)
Income (loss) before tax from continuing operations	**60,224**	**82,791**	**11,795**	**(119,244)**	**35,566**

Analysis by business segments: balance sheet figures

(thousands of Euro)	Private individuals	Companies	Finance	Other	Total
Due from banks	-	-	119,225	-	119,225
Loans to customers	1,788,748	3,120,525	29,104	-15,933	4,922,443
Equity shares	-	-	723,629	-	723,629
Due to banks	-	-	645,875	-	645,875
Direct funding	3,380,285	869,975	343,741	23,777	4,617,779
- Due to customers	1,950,429	816,872	257,734	-	3,025,036
- Securities issued	1,429,856	53,103	86,007	23,777	1,592,743
Indirect funding	1,259,832	30,316	-	1,114	1,291,262

It is noted that the operating income and the company's activities are performed in Italy, confirming that the company is rooted in the reference territory, a factor of strategic significance in company development. The analysis of balance-sheet and income data by geographical area is provided below.

Analysis by geographical area: balance sheet figures

(thousands of Euro)	Trentino and Alto Adige	Veneto and Friuli Venezia Giulia	Total
Due from banks	119,225	-	119,225
Loans to customers	3,717,619	1,204,824	4,922,443
Equity shares	723,629	-	723,629
Due to banks	645,875	-	645,875
Direct funding	3,604,233	1,013,545	4,617,779
- Due to customers	2,370,854	654,182	3,025,036
- Securities issued	1,233,379	359,363	1,592,743
Indirect funding	948,690	342,572	1,291,262

Analysis by geographical area: income statement figures

(thousands of Euro)	Trentino and Alto Adige	Veneto and Friuli Venezia Giulia	Total
Interest margin	73,421	31,505	104,926
Net fee and commission income	44,187	15,908	60,096
Financial margin	8,857	-	8,857
Net interest and other banking income	**126,466**	**47,413**	**173,879**
Net losses/recoveries on impairment	(15,559)	(3,509)	(19,068)
Net income from banking activities	**110,907**	**43,903**	**154,810**
Administrative expenses	(104,124)	(22,470)	(126,595)
Provisions for risks and charges	(311)	-	(311)
Amortisation of intangible assets and depreciation of property and equipment	(5,418)	(1,532)	(6,949)
Other operating income/expenses	13,611	2,937	16,548
Profits (losses) on investments in associates and companies subject to joint control / on disposal of investments	(1,937)	-	(1,937)
Income (loss) before tax from continuing operations	**12,727**	**22,839**	**35,566**

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 2013 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**	**Addressee**	**Remuneration (1)**
Independent Audit	BDO S.p.A.	Banca Popolare • Volksbank	48
Certification services	BDO S.p.A.	Banca Popolare • Volksbank	30
Total			**78**

The amounts do not include 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
Office in Bolzano (BZ) Italy, Via Siemens no. 18
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 2013
BALANCE SHEET

(amounts in Euro)		**31.12.2013**	**31.12.2012**
ASSET ITEMS			
A.	**Share capital not paid in**	**-**	**-**
B.	**Fixed assets**		
	I. Intangible assets	-	-
	II. Property and equipment	261,175	286,829
	III. Financial investments	101	2,549,889
	Total fixed assets (B)	**261,276**	**2,836,718**
C.	**Current assets**		
	I. Inventories	83,654	83,654
	II. Loans	144,942	389,168
	III. Financial assets under current assets	-	-
	IV. Cash and cash equivalents	58	209
	Total current assets (C)	**228,654**	**473,031**
D.	**Prepayments and accrued Income**	**12,155**	**14,426**
TOTAL		**502,085**	**3,324,175**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

BALANCE SHEET

LIABILITY ITEMS			31.12.2013	31.12.2012
A.	**Shareholders' Equity Items**			
	I.	*Share capital*	30,000	30,000
	IV.	*Legal reserve*	-	-
	VII.	*Other reserves*	(45,000)	(75,000)
	VIII.	*Profits/losses carried over*	(954,823)	480,603
	IX.	*Net income (loss)*	986,849	(1,435,426)
	Total		**17,026**	**(999,823)**
B.	**Provisions for risks and charges**		**45,000**	**465,000**
C.	**Employee termination indemnities**		**-**	**-**
D.	**Payables**			
	3.	Due to shareholders for loans	391,526	3,469,543
	5.	Due to other financial institutions	-	294,890
	6.	Advances	-	-
	7.	Trade payables	5,325	50,309
	12.	Tax payables	24,799	24,212
	13.	Payables to social security institutions.	-	-
	14.	Other payables	18,409	18,409
	Total		**440,059**	**3,857,363**
E.	**Accrued expenses and deferred income**		**-**	**1,635**
TOTAL			**502,085**	**3,324,175**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013
INCOME STATEMENT

(in Euro)		**31.12.2013**	**31.12.2012**
A.	Production value	415,069	1,027,547
B.	Production costs	466,411	(1,825,594)
	Difference between production value and costs (A-B)	**(51,342)**	**(798,047)**
C.	Financial income and expenses	1,038,191	(637,380)
D.	Adjustments/recoveries on investments	-	-
E.	Extraordinary items	-	1
	Income before taxes (A-B+C+D+E)	**986,849**	**(1,435,426)**
	22. Taxes on income – current and deferred	-	-
	23. Net income (loss)	**986,849**	**(1,435,426)**

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
Office in Bolzano (BZ) Italy, Via Siemens no. 18
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 2013

BALANCE SHEET

(amounts in Euro)			**31.12.2013**	**31.12.2012**
ASSET ITEMS				
A.	**Share capital not paid in**		**-**	**-**
B.	**Fixed assets**			
	I.	*Intangible assets*	-	-
	II.	*Property and equipment*	4,228,481	4,155,332
	III.	*Financial investments*	-	-
	Total fixed assets (B)		**4,228,481**	**4,156,002**
C.	**Current assets**			
	I.	*Inventories*	-	-
	II.	*Loans*	869,328	885,012
	III.	*Financial assets under current assets*	-	-
	IV.	*Cash and cash equivalents*	13,842	27,562
	Total current assets (C)		**883,170**	**912,574**
D.	**Prepayments and accrued Income**		**212**	**422**
TOTAL			**5,111,863**	**5,068,998**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

BALANCE SHEET

LIABILITY ITEMS				31.12.2013	31.12.2012
A.	**Shareholders' Equity Items**				
	I.	*Capital*		10,000	10,000
	IV.	*Legal reserve*		-	-
	VII.	*Other reserves*		1,432	1,811
	VIII.	*Profits/losses carried over*		-	-
	IX.	*Net income (loss)*		(297,636)	(80,381)
	Total			**(286,204)**	**(68,570)**
B.	**Provisions for risks and charges**			**699,412**	**674,412**
C.	**Employee termination indemnities**			**-**	**-**
D.	**Payables**				
		3.	Due to shareholders for loans	1,396,514	1,356,189
		4.	Due to banks	3,244,075	3,010,425
		7.	Trade payables	55,923	93,173
		12.	Tax payables	2,014	2,873
		14.	Other payables	129	490
	Total			**4,698,655**	**4,463,150**
E.	**Accrued expenses and deferred income**			**-**	**6**
TOTAL				**5,111,863**	**5,068,998**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013
INCOME STATEMENT

			31.12.2013	31.12.2012
(in Euro)				
A.	Production value		130,064	201,747
B.	Production costs		(214,766)	(62,947)
	Difference between production value and costs (A-B)		**(84,702)**	**138,800**
C.	Financial income and expenses		(212,934)	(214,159)
D.	Adjustments/recoveries on investments		-	-
E.	Extraordinary items		-	2
	Income before taxes A-B+C+D+E)		**(297,636)**	**(75,357)**
	22.	Taxes on income - current and deferred	-	(5,024)
	23.	**Net income (loss)**	**(297,636)**	**(80,381)**

Financial Statements of the subsidiary Orizzonti del Lago S.r.l.

Orizzonti del Lago S.r.l.

Orizzonti del Lago S.r.l. - Single shareholder company
Registered office in Bolzano (BZ), Via Alto Adige, 40/VII
Share capital of Euro 25,000, fully paid in
Listed in the Bolzano Business Register
Tax code 02308500988
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 2012
BALANCE SHEET

(amounts in Euro)		**31.12.2012**	**31.12.2011**
ASSET ITEMS			
A.	**Share capital not paid in**	**-**	**-**
B.	**Fixed assets**		
	I. Intangible assets	3,025	4,539
	II. Property and equipment	-	223
	III. Financial investments	-	-
	Total fixed assets (B)	**3,025**	**4,762**
C.	**Current assets**		
	I. Inventories	15,215,718	14,189,708
	II. Loans	1,316,811	1,756,296
	III. Financial assets under current assets	-	-
	IV. Cash and cash equivalents	-	-
	Total current assets (C)	**16,532,529**	15,946,004
D.	**Prepayments and accrued Income**	**-**	-
TOTAL		**16,535,554**	**15,950,766**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012
BALANCE SHEET

LIABILITY ITEMS				**31.12.2012**	**31.12.2011**
A.	**Shareholders' Equity Items**				
	I.	*Capital*		25,000	25,000
	IV.	*Legal reserve*		110	-
	VII.	*Other reserves*		8,414,011	8,411,921
	VIII.	*Profits/losses carried over*		(156,705)	(156,705)
	IX.	*Net income (loss)*		(23,748)	2,202
	Total			**8,258,668**	**8,282,418**
B.	**Provisions for risks and charges**			**3,688,080**	**3,688,080**
C.	**Employee termination indemnities**			**-**	**-**
D.	**Payables**				
		3.	Due to shareholders for loans	-	-
		5.	Due to other financial institutions	-	-
		6.	Advances	-	-
		7.	Trade payables	-	-
		12.	Tax payables	-	-
		13.	Payables to social security institutions.	-	-
		14.	Other payables	4,588,806	3,980,268
	Total			4,588,806	3,980,268
E.	**Accrued expenses and deferred income**			**-**	**-**
TOTAL LIABILITIES				**16,535,554**	**15,950,766**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012
INCOME STATEMENT

		31.12.2012	31.12.2011
(in Euro)			
A.	Production value	1,026,012	470,828
B.	Production costs	(883,000)	(274,100)
	Difference between production value and costs (A-B)	**143,012**	**196,728**
C.	Financial income and expenses	(165,099)	(188,317)
D.	Adjustments/recoveries on investments	-	-
E.	Extraordinary items	1	1
	Income before taxes A-B+C+D+E)	**(22,086)**	**8,412**
	22. Taxes on income - current and deferred	(1,662)	(6,210)
	23. Net income (loss)	**(23,748)**	**2,202**