2014

Banca Popolare · Volksbank Annual Financial Report

My Volksbank. Present and future.

La vita ti aspetta.

Banca Popolare Volksbank

Banca Popolare dell’Alto Adige
società cooperativa per azioni

Registered office and head office: via del Macello, 55 - I-39100 Bolzano
Share Capital as at 31 December 2014: 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

Our approach to the future

as a Bank is to take action today for tomorrow.

We expect to grow steadily thanks to our broad shareholding base and strong roots in the territory, and to progressively expand our range of action.

We continue to place paramount importance on the interests of our shareholders.

SEHR GEEHRTE DAMEN UND HERREN,
GESCHÄTZTE MITGLIEDER,

Bozen, am 1. März 2015

Das Geschäftsjahr 2014 war ein außerordentlich spannendes und wichtiges Jahr für die Südtiroler Volksbank. Unser Motto für diesen Bericht und die Mitgliederversammlung drückt bestens aus, was 2014 unsere strategischen Überlegungen waren und was unser Credo ist: „Meine Volksbank. Heute und morgen."

Wir haben 2014 richtungsweisende Entscheidungen zur Zukunft unserer Volksbank getroffen. Wir wollen die Volksbank für die Zukunft stark machen und ihre langfristige Überlebensfähigkeit und Autonomie sichern.

Das „Heute und Morgen" hat für uns auch mit Identität zu tun: Die Volksbank hat eine starke Südtiroler Identität. Die Bank wird auch in Zukunft die Governance und den Sitz in Südtirol haben, hier sind unsere historischen Wurzeln. Die Mehrheit der Mitglieder stammt aus Südtirol, der Löwenanteil des Kapitals liegt in Südtiroler Händen. So wie Südtirol von der deutschen und der italienischen Sprache und Kultur geprägt ist, bekennen auch wir uns dazu, die Bank der zwei Kulturen zu sein. Die starke Verankerung in unserem Land war und ist uns auch in Zukunft wichtig.

Zukunftsfähigkeit heißt konkret aber für eine Bank wie die unsere auch: Den Ausgleich zwischen Wachstum, Rendite und Risiko zu finden.

Wachstum

Wachstum hat für unsere Bank viele Facetten. Wichtig ist uns, dass wir nicht sprunghaft, sondern nachhaltig wachsen. Wachstum sehen wir nicht nur als Wachstum, das sich in der Bilanz widerspiegelt, sondern durchaus auch als Verankerung, als strategische Orientierung.

- So freuen wir uns vor allem über den Zuwachs von rund 8.700 neuen Mitgliedern, die wir für unsere Bank gewinnen konnten. Zum Zeitpunkt, da ich Ihnen diesen Brief schreibe, zählt unsere Volksbank über 46.000 Mitglieder. Mit der Integration der Banca Popolare di Marostica in die Volksbank werden wir über 7.000 neue Mitglieder in der Volksbank willkommen heißen. Das stärkt unsere Verankerung im nordost-italienischen Raum und wir werden immer mehr zu einer Bank der zwei Kulturen, in der jede Kultur und Sprache ihren Platz hat.
- Was unser Kerngeschäft angeht, ist es uns 2014 gelungen, in der Krise zu wachsen. Bei Einlagen und Ausleihungen – unserem Kerngeschäft – konnten wir erfreulicherweise zulegen. Das ist auch in den nächsten Jahren unser Bestreben.
- Die Integration der Banca Popolare di Marostica erlaubt es der Volksbank, 2015 und darüber hinaus an Volumen zu wachsen: Wir erhöhen damit Einlagen und Ausleihungen, gewinnen 61 neue Filialen und rund 400 neue Mitarbeiter dazu. Die Volksbank gewinnt mit dieser Integration mehr Sichtbarkeit in Nordost-Italien und eine starke Präsenz in den Provinzen Vicenza und Padua, wo wir bisher noch nicht vertreten waren. Ich freue mich über die positive Abstimmung der Mitglieder im Rahmen der außerordentlichen Mitgliederversammlung, die den Weg frei gemacht hat für neues Wachstum.
- Wachstum bedeutet für uns, auch in Sachen Innovation zu wachsen. Unseren Kunden haben wir auch 2014 innovative neue Dienstleistungen und Produkte präsentiert.
- Im wahrsten Sinn „gewachsen" ist auch unser neuer Hauptsitz in der Bozner Schlachthofstraße. Anfang März sind die Mitarbeiter in das neue Bankgebäude eingezogen. In diesem Gebäude setzen wir auf den Dialog: Die offenen Arbeitsbereiche schaffen die beste Voraussetzung, damit unsere Mitarbeiter sich untereinander noch besser vernetzen und austauschen.

Rendite

Für unsere Mitglieder wollen wir auch in den nächsten Jahren eine vernünftige Rendite erwirtschaften. Die Südtiroler Volksbank hat 2014 einen Gewinn nach Steuern von 20,2 Millionen Euro erwirtschaftet (Vorjahr: 18,7 Mio. Euro).
Die Konjunktur im gesamten Einzugsgebiet war schwach, die Wirtschaftskrise war überall spürbar, das Niedrigzinsumfeld hat die Margen der Banken gedrückt. In Anbetracht dieser Rahmenbedingungen wertet der Verwaltungsrat das Geschäftsergebnis als sehr positiv.

Vor diesem Hintergrund schlägt der Verwaltungsrat der Mitgliederversammlung eine Dividende in der Höhe von 30 Cent pro Aktie vor. Der Vorschlag für den neuen Ausgabepreis für das Jahr 2014 beträgt 19,55 Euro. Die Gesamtrendite der Volksbank-Aktie beträgt damit 3,38 Prozent. Wir haben das Potenzial, den Wert der Volksbank-Aktien in den nächsten Jahren weiter zu steigern. Unsere Strategie ist darauf ausgerichtet, dieses Potenzial zu heben.

Risiko

Jede Bank ist darin gefordert, Geschäftschancen wahrzunehmen – und dies bei einem überschaubaren Risiko zu tun.
Die Kundenausleihungen haben im Vergleich zum Vorjahr zugenommen. Sie liegen bei 5,1 Mrd. Euro (+4,1 Prozent). Auch wenn die Anforderungen an den Kreditnehmer gestiegen sind, ist die Volksbank nach wie vor sehr aktiv in der Kreditvergabe. Kreditentscheidungen treffen wir niemals leichterhand, sondern immer nach sorgfältiger Analyse, zumal wir bei jeder Kreditvergabe auch das Interesse unserer Anteilseigner und die Solidität der Bank im Blick haben. Unsere solide Kapital- und Liquiditätsausstattung und die gute Ausgangsbasis der vergangenen Jahre verschafft uns auch 2015 die Möglichkeit, die Kreditversorgung der Wirtschaft und zukunftsträchtige Projekte zu angemessenen Konditionen zu gewährleisten.

Bei all unseren Überlegungen stehen unsere Kunden im Mittelpunkt. Die persönliche Beziehung zwischen Berater und Bankkunden liegt uns am Herzen. Mit 133 Filialen vor Ort – und künftig den 61 Filialen der Banca Popolare di Marostica – steht die Volksbank für physische Präsenz, Nähe, persönlichen Kontakt und Vertrauen. Wir sind da und werden auch künftig da sein, wo unsere Kunden sind.

Der Start in das neue Geschäftsjahr 2015 ist zum Zeitpunkt, da ich Ihnen diesen Brief schreibe, gut. Der strikte Kundenfokus, unsere langfristige Zielsetzung und strategische Ausrichtung werden uns auch im neuen Jahr helfen, den Kurs zu halten und ein verlässlicher Partner für Kunden, Mitglieder und Mitarbeiter zu sein.

Danke für Ihre Unterstützung und Ihr Vertrauen.

Ihr

Otmar Michaeler
Präsident des Verwaltungsrates

LADIES AND GENTLEMEN,
ESTEEMED SHAREHOLDERS,

Bolzano, 1 March 2015

the past year was both very important and very exciting for Banca Popolare · Volksbank. We would like the slogan "My Volksbank. Present and Future" to underpin this report and the shareholders' meeting to best reflect the strategy we employed in 2014 and our underlying credo.

We made decisions in 2014 that set out our vision of the Bank's future. We would like to make it even stronger, and ensure its solidity and independence.

We believe that identity also influences the present and the future: our strong roots in the Alto Adige region. The registered office and governing bodies will continue to remain in Alto Adige, where our history lies. Most shareholders are from Alto Adige, and most of the capital is in Alto Adige hands. Since Alto Adige is steeped in both Italian and German cultures, we can lay claim to being a bi-cultural Bank. These strong ties to our Province are also important for the future.
However a Bank like ours will have to find the right balance between growth, return and risks in order to face the future.

Growth

Growth means different things to our Bank. We believe in constant growth, not in sporadic spurts. Growth is not something to be found in the financial statements only, but is also based on the Bank's strategic position and its roots in the territory.

- We are especially happy to have added 8,700 new shareholders. The Volksbank can count on about 46,000 shareholders at time of writing. We added another 7,000 shareholders from the merger with Banca Popolare di Marostica. This has strengthened our territorial roots in the Northeast of the country and increases our bi-cultural levels, in which each culture and each language has its place.
- 2014 figures are reassuring with respect to our core business of deposits and loans, since we managed to grow despite the recession. We intend to continue this trend in upcoming years.
- The merger with Banca Popolare di Marostica allowed the Volksbank to increase its volumes for 2015 and beyond: deposits and loans have increased, we acquired 61 new branches and about 400 new workers.
  Volksbank has acquired greater visibility in the Northeast of the country through the merger, with a considerable presence in Vicenza and Padua where we did not have any branches. I am delighted that the shareholders voted in favour at the extraordinary shareholders' meeting as this opens the door for further growth.
- We believe that growth also means improving in terms of innovation. We offered our customers new products and more innovative services in 2014.
- Our new head office in via del Macello in Bolzano has also grown in the true sense of the word. The workers had all transferred to the new building by the beginning of March. Dialogue is the password in the new offices: open workspaces were designed to provide workers with the best conditions to increase contact and exchange.

Returns

We intend to provide our shareholders with good returns in the upcoming years.
Volksbank made a net profit of Euro 20.2 million in 2014 (Euro 18.7 million the previous year).
The economic situation was weak over the entire catchment area, and the effects of the recession were felt everywhere; low interest rates reduced bank profits. In view of this base scenario, the Board of Directors believes that the profit reflects very well on the Bank.

The Board of Directors would therefore like to propose a dividend of 30 cents per share to the shareholders' meeting. It also proposes a new 2014 issue price of Euro 19.55. The total return from a Volksbank share therefore stands at 3.38 percent. There is the potential to further increase share value in years to come. Our strategy is to exploit this potential.

Risk

Each bank will have to identify and exploit commercial opportunities, while keeping the risk factor under control.

Customer loans have increased over the previous year, standing at Euro 5.1 billion (+4.1 percent). Even though there has been an increase in the requirements needed to file a loan application, Volksbank continues to grant many loans.

Decisions on whether to grant a loan or not are never taken lightly, but only after careful analysis, always considering the best interests of the shareholders and Bank solidity. Our solid capital and cash situation will enable us to grant loans to benefit the economy and future projects through 2015 when the right conditions are in place.

We always put the customer first when we make decisions. We are particularly proud of the personal relationships between consultants and customers.
133 branches of its own plus a future 61 Banca Popolare di Marostica branches prove that Volksbank is synonymous with physical presence, proximity, personal contact and trust. We have always been close to our customers, and will continue to be so in the future.

2015 has got off to a good start. The attentiveness to customers, the long-term objectives and strategic position will also help us in the new year to stay on course and continue to be a reliable partner for customers, shareholders and workers.

Thank you for your support and trust.

Sincerely,

Otmar Michaeler
Chairman of the Board of Directors

COMPANY REPORTS AND FINANCIAL STATEMENTS

CONTENTS

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 (**)

BOARD OF ARBITRATORS

Chairman
Max Bauer

Standing Arbitrators
Gino Bernardi
Walter Kompatscher

Substitute Arbitrators
Hansjörg Cimadom
Richard Stampfl

BOARD OF STATUTORY AUDITORS

Chairman
Heinz Peter Hager

Standing Auditors
Joachim Knoll
Georg Hesse

Substitute Auditors
Massimo Biasion
Emilio Lorenzon

MANAGEMENT

General Manager
Johannes Schneebacher

Deputy General Manager
Stefan Schmidhammer

INDEPENDENT AUDITORS

BDO S.p.A.

(*) Independent directors as per art. 29 (6) of the articles of association
(**) Members of the Credit Committee

NOTICE CALLING THE SHAREHOLDERS' MEETING

NOTICE CALLING THE 2015 ORDINARY SHAREHOLDERS' MEETING

The Board of directors called the ordinary shareholders' Meeting of Banca Popolare dell'Alto Adige Soc.coop.pa, on first call, on 27 March 2015 at 9.00 at the bank's head office, and, on second call, **on Saturday 28 March 2015 at 10.30,** at the premises set up for the shareholders' meeting in Bolzano, via del Macello 14, to discuss the following agenda:

1. The 2014 Reports by the Board of directors, the Board of statutory auditors and the Independent Auditors; approval of the draft financial statements and consequent decisions.
   Determination of the 2015 share premium on Banca Popolare dell'Alto Adige shares, based on art. 10 of the articles of association

2. Report on implementation of the remuneration policies in 2014, changes to the remuneration policy rules

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

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:

(i) at the branches:
    Area Manager; Branch Manager; Assistant Branch Manager; Agency Owner; Corporate Manager, Private area Manager;

(ii) 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, 20 February 2015

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

Mr Otmar Michaeler

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 - Fax 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 – Völs 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

BOLZANO PROVINCE	
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 – Mühlbach Via K. Lanz 50 - K.-Lanz-Straße 50	tel. 0472-811 520
S. Leonardo in Passiria – St. Leonhard in Passeier Via Passiria 14 - Passeirer Straße 14	tel. 0473-254380
S. Lorenzo di Sebato – St. Lorenzen Via Josef Renzler 17 - Josef-Renzler-Str. 17	tel. 0474-544780
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

BELLUNO PROVINCE	
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

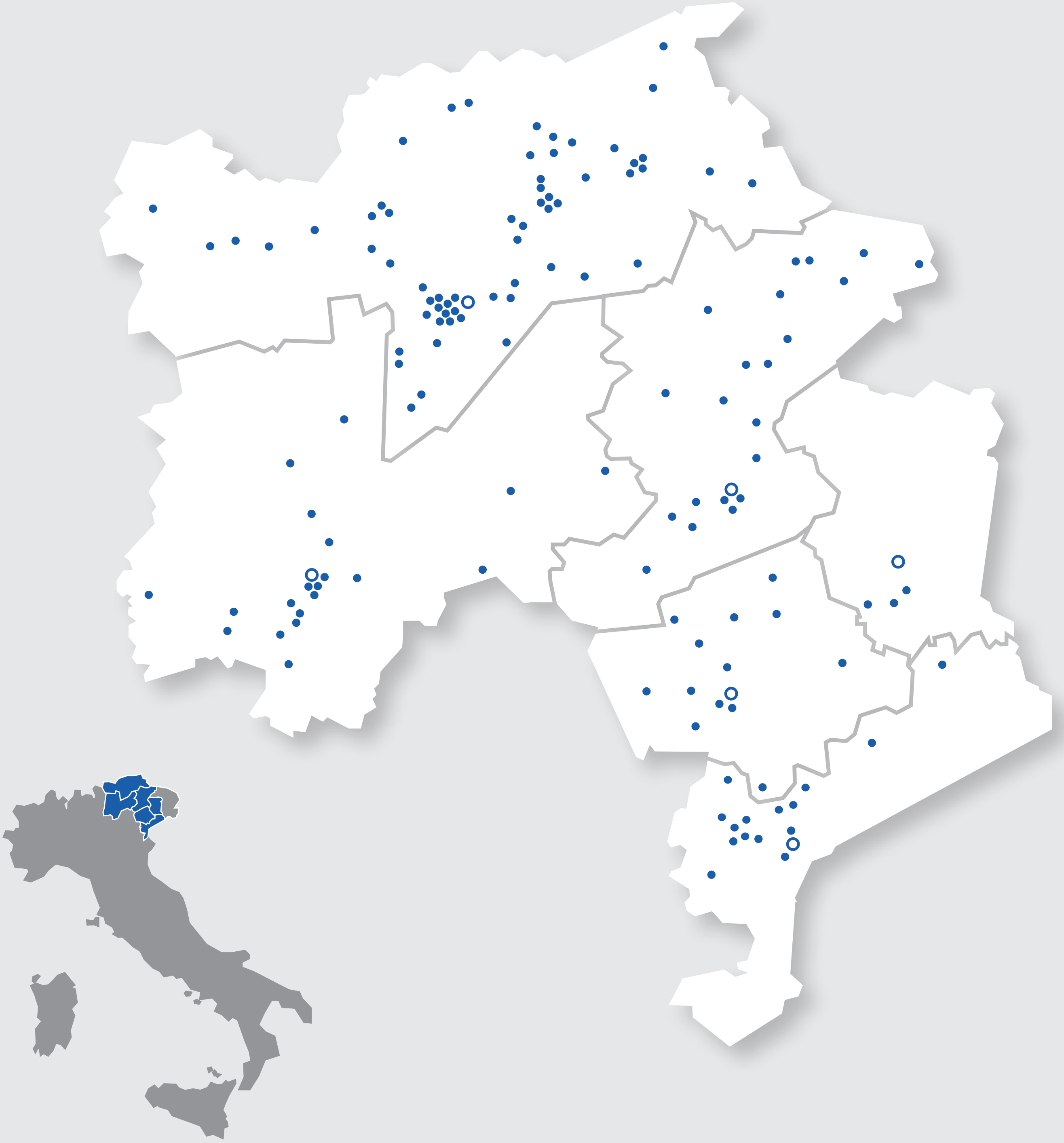
TRENTO PROVINCE	
Ala Via della Roggia 10	tel. 0464-912520
Arco Via S. Caterina 20	tel. 0464-912510
Borgo Valsugana Corso Vicenza 47	ATM
Borgo Valsugana Via Hippoliti 11/13	tel. 0461-211060
Cavalese Viale Libertà 7	tel. 0462-248500
Cles Piazza Navarrino 16/17	tel. 0463-840510
Fondo Via Cesare Battisti 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
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
Crocetta del Montello Via Andrea Erizzo 64	tel. 0423-974620
Mogliano Veneto Via degli Alpini 16/g/f/e	tel. 041-5446660
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. 041-5446690
Marcon Viale della Repubblica 2	tel. 041-5446680
Martellago Via Friuli 28	tel. 041-5446780
Mira Via Alfieri 9/c	tel. 041-5446790
Mira Via Venezia, 120	tel. 041-5446730

VENICE PROVINCE	
Mirano Via Cavin di Sala 39	tel. 041-5446710
Noale Via Tempesta 31	tel. 041-5446630
Portogruaro Via S. Agnese 28	tel. 0421-480810
San Donà di Piave Via Vizzotto 92	tel. 0421-480800

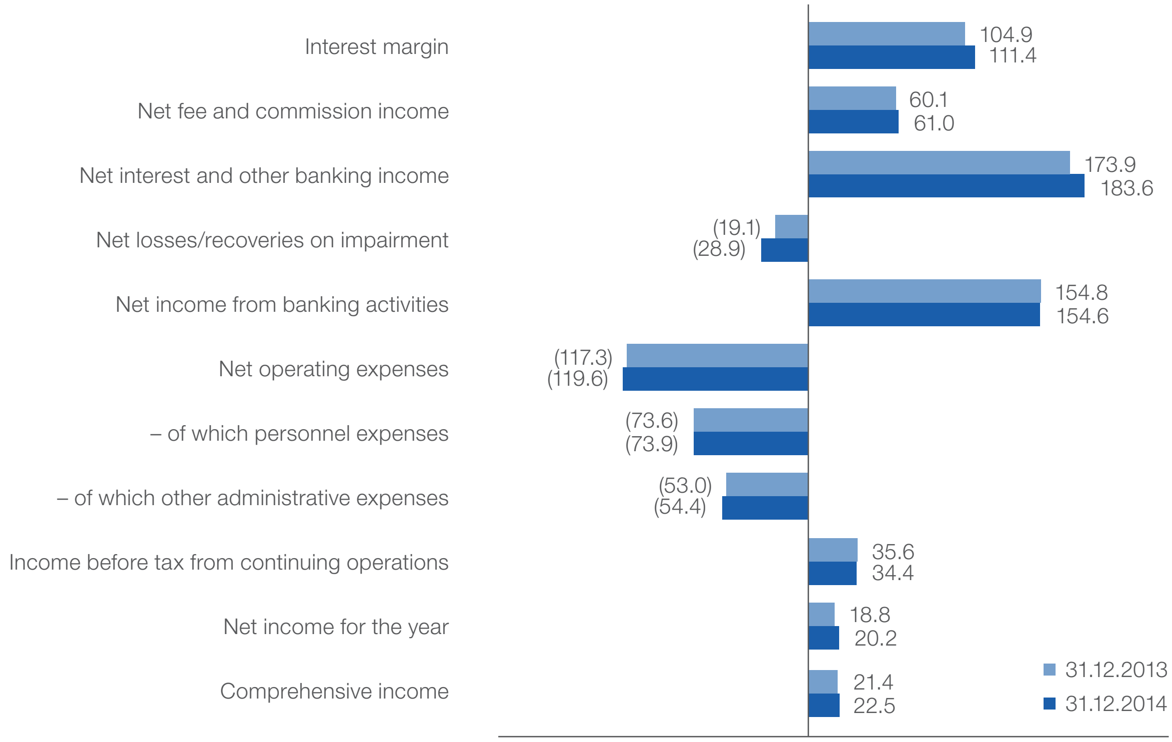
VENICE PROVINCE	
Spinea Piazza Marconi 17	tel. 041-5446670
Venice Mestre P.zza Mercato 51 - Fraz. Marghera	tel. 041-5446800
Venice Mestre Via Rovereto 8 - Fraz. Chirignago	tel. 041-5446600
Venice Mestre Via Torre Belfredo 23 - Villa Toesca	tel. 041-5446750



OUTLINE OF ECONOMIC-FINANCIAL DATA AND INDICES

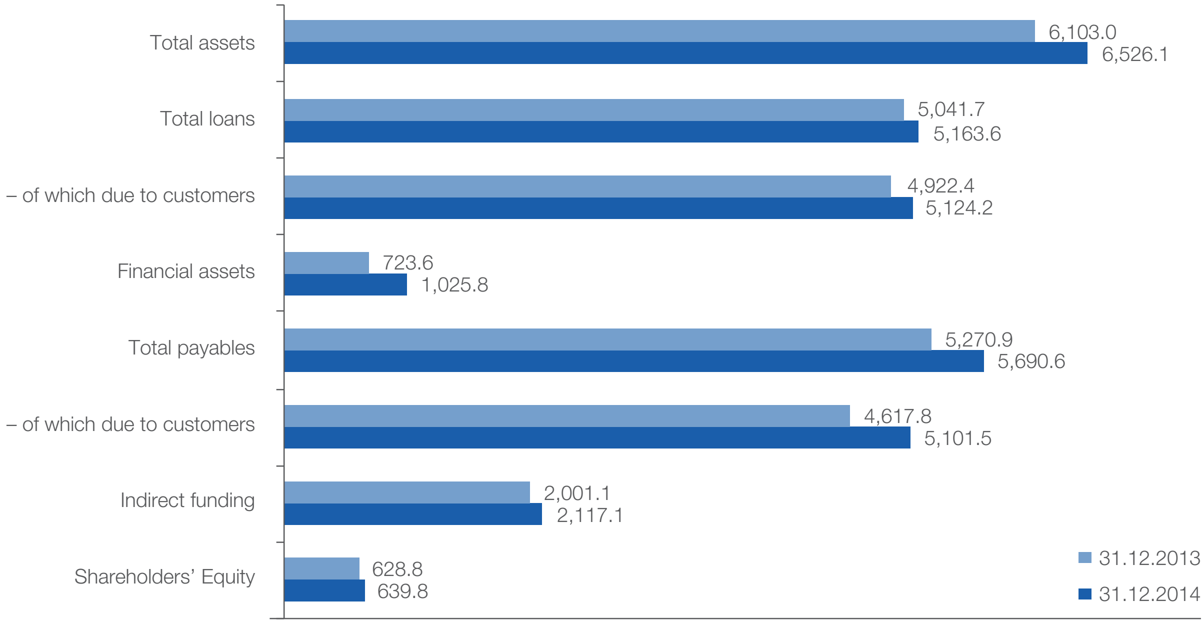
Below is an outline of bank data and indices calculated on the basis of accounting records.

Main Income Statement Figures



Income Statement Figures	**31.12.2014**	**31.12.2013**	**Change**	
(millions of Euro)			**Absolute**	**%**
Interest margin	111.4	104.9	6.4	6.13 %
Net fee and commission income	61.0	60.1	0.9	1.57 %
Net interest and other banking income	183.6	173.9	9.7	5.58 %
Net losses/recoveries on impairment	(28.9)	(19.1)	(9.9)	51.76 %
Net income from banking activities	154.6	154.8	(0.2)	−0.11 %
Net operating expenses	(119.6)	(117.3)	(2.3)	1.96 %
- of which personnel expenses	*(73.9)*	*(73.6)*	*(0.3)*	*0.40 %*
- of which other administrative expenses	*(54.4)*	*(53.0)*	*(1.5)*	*2.74 %*
Net income before tax	34.4	35.6	(1.2)	−3.30 %
Net income for the year	20.2	18.8	1.5	7.89 %
Comprehensive income	22.5	21.4	1.1	5.24 %

Main Balance Sheet Figures



Balance Sheet Figures	**31.12.2014**	**31.12.2013**	**Change**	
(millions of Euro)			**Absolute**	**%**
Total assets	6,526.10	6,103.00	423.10	6.93 %
Total loans	5,163.60	5,041.70	121.90	2.42 %
- of which due to customers	5,124.20	4,922.40	201.70	4.10 %
Financial assets	1,025.80	723.60	302.20	41.76 %
Total payables	5,690.60	5,270.90	419.70	7.96 %
- of which due to customers	5,101.50	4,617.80	483.70	10.48 %
Indirect funding	2,117.10	2,001.10	115.90	5.79 %
Shareholders' Equity	639.80	628.80	11.00	1.76 %

Main Ratios

Economic and financial ratios and other information	31.12.2014	31.12.2013
Financial Indicators		
Structural ratios (%)		
Loans to customers / total assets	78.52%	80.66%
Loans to customers / direct funding from customers (retail)	100.58%	108.52%
Fixed assets / total assets	2.53%	2.49%
Total risk-weighted assets (RWA) / total assets	67.45%	72.80%
Goodwill / total assets	0.62%	0.66%
Direct funding / total assets	78.17%	75.66%
Managed funding / indirect funding	45.19%	41.25%
Leverage (*)	10.84	11.88
Inter-bank balance (thousands of Euro)	(546,255)	(526,650)
Number of employees	1,041	1,061
Number of bank branches	133	134
Profitability ratios (%)		
ROE	3.33%	3.13%
ROA (net profit / total assets)	0.31%	0.31%
Cost to income ratio	67.22%	70.13%
Cost of risk (Net adjustments to loans / net loans to customers)	53BP	39BP
Basic EPS (earnings per share - earnings per share basis)	0.53	0.49
Diluted EPS (earnings per share - earnings per diluted share)	0.53	0.49
Risk ratios (%)		
Net non-performing loans / net loans to customers	6.71%	7.44%
Degree of doubtful loan hedging	41.66%	40.89%
Degree of substandard loan hedging	12.18%	9.81%
Degree of performing loan hedging	0.50%	0.51%
Regulatory capital (thousands of Euro) and capital ratios		
Tier 1 capital (CET 1)	586,510	571,842
Total own funds	587,742	573,305
Total risk-weighted assets (RWA)	4,401,166	4,443,619
Ratio - Tier 1 capital	13.32%	12.87%
Ratio - Total own funds	13.35%	12.90%
Price/shareholders' equity	114.41%	114.30%
Price/tangible equity	122.42%	122.60%
Non-Financial Indicators		
Productivity ratios (in Euro)		
Direct funding per employee	4,900,601	4,352,289
Loans to customers per employee	4,922,353	4,639,437
Assets under management per employee	919,006	777,998
Administered assets per employee	1,114,681	1,108,096
Net interest and other banking income per employee	176,355	163,882

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

DIRECTORS' REPORT

DIRECTORS' REPORT

1.1. FINANCIAL ENVIRONMENT AND MARKETS

1.1.1. THE INTERNATIONAL AND NATIONAL ECONOMIC ENVIRONMENT ([1])

Growth in the United States at year-end exceeded expectations, in part due to higher consumption. On the other hand, production in Japan fell also in the third quarter.

GDP in China for 2014 may not equal or be higher than the stated annual growth - amounting to 7.5% - for the first time.

GDP in Brazil was affected by the weak investments in 2014. There was a significant worsening of the financial and economic situation in Russia as a result of the sanctions imposed in July, the devaluation of the rouble and the fall in the price of crude oil. This led to a reduction in corporate and consumer confidence.

The steady growth increased further near the end of the year in India.

Consumer inflation and the price of raw materials fell especially towards the end of the year.

Inflation also fell in the United States, the United Kingdom and Japan. Inflation stayed relatively low in important emerging countries such as India and China. Inflation in Russia has risen steeply (11.45%), mainly as a result of the lower number of food products available due to the block on imports from certain Western countries and the strong devaluation of the rouble.

Consumer inflation was negative at year-end in the euro area for the first time since 2009. Economic growth is still negligible despite the refinancing operations by the ECB.

There was a slight increase in GDP in the euro area in the second half of the year, due in part to increased consumption. At year-end growth rates varied among the individual countries in the euro area, but in general, to a limited extent.

There was an easing off of the trend of reducing loans to companies, and a slight increase in loans to families (1.1%).

The ECB has carried out an asset-backed security purchase programme and covered bond purchase programme. The objective of the covered bond purchase programme is to provide more long-term refinancing. A total of 306 intermediaries in the euro area took part in these programmes according to the Bank of Italy, obtaining a total of Euro 129.8 billion in funds.

Household consumption in Italy is increasing, albeit at modest levels. However, investment levels are still low.

Italian GDP fell by 0.1% by mid 2014 compared to the same period for the previous year according to Bank of Italy figures. The slight increase in household consumption (0.1%) was not enough to offset the reduction in investments that slowed down economic activity.

Companies considered the general economic situation to be less dramatic in the final 3 months of 2014. This was despite the fact that about half of all companies will not change the amount they are prepared to invest in 2015.

Reduced confidence in the future economic situation is hindering growth in household expenditure. There was a slight increase in household consumption of durable goods.

There was a slowdown in exports in the third quarter mainly caused by the stagnation of countries in the Eurosystem, with an uncertain atmosphere in the final quarter of the year.

The balance of the current accounts continued to improve and there was stronger demand for Italian securities from abroad.

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.

There was a slight increase in the number of people working and the total hours worked in the second half of 2014. Due to an increase in work availability, unemployment rate did not fall.
The consumer inflation rate was very low at the end of 2014. It was estimated by the Bank of Italy that the inflation rate in 2015 would be slightly negative.

1.1.2. THE MARKETS

There was increased volatility in international financial markets, partly due to the significant reduction in oil prices for emerging countries. The risk premiums for Greece increased significantly but those for the other countries were unchanged.
There was a reduction in returns from 10-year government securities in developed economies. This was due to a shift towards less risky assets and the expectation of very low inflation.
According to the Bank of Italy, returns at the end of 2014 for securities from developed economies such as the United States, United Kingdom, Germany and Japan amounted to around 2.0 %, 1.6 %, 0.5 % and 0.3 % respectively.
The new elections in Greece led to a 15% increase in interest rates on Greek securities. The spread in countries like Italy, Spain and Germany stayed roughly the same.
There have been no changes for risk premiums on bonds with investment grade ratings denominated in euros, but there have been for those denominated in US dollars.
The strong decrease in the price of oil has caused increases in spreads especially for high yield securities denominated in US dollars from energy companies.
The volatility of share markets increased during the year. Stock exchange indices were only positive in the United States and Japan in the final few months of 2014 due to the negative signals from the economy and the national bank.
The stock exchange index fell in Italy. The Greek political situation did not affect the returns on Italian securities due to positive expectations attached to the next ECB intervention. However, there was an increase in volatility.
The reduction in the rating of Italian debt by Standard & Poor's from BBB to BBB- in December did not cause negative effects on returns from the government securities. The securities benefitted from further interventions expected by the ECB to stabilise prices.
The spread between the 10-year Italian government securities and the corresponding German Bund has remained the same since September, amounting to 139 points.
The difference in returns between government securities in euros with high ratings and bonds issued by non financial companies has remained the same since September, amounting to 95 points. Premiums on the credit default swaps of the most important Italian banks increased by 33 basis points. The credit default swaps of leading French banks increased slightly. The credit default swaps of German banks remained stable over the same time period.
Net repayments on bank bonds were made in the third quarter of 2014 in the Eurosystem countries, including in Italy. According to information from the Bank of Italy, placements by Italian banks were still weak in the third quarter of 2014 with respect to gross issues only.

1.2 THE BANKING SYSTEM ([2])

1.2.1. OPERATING AND REGULATORY BACKGROUND

There has been a reduction in the amount of loans granted to companies over the past few months. The two-fold reason behind this includes the increased riskiness of businesses from the demand side and the low levels of investments on the supply side.

There has been a slight improvement in the terms of loans offered to companies. Larger companies have generally gained more benefit from the improved terms than the smaller companies.

Private party funding slightly increased in the second half of 2014. With respect to the individual categories, there was an increase in total current accounts and a reduction in the net placements of bonds.

According to information from the Bank of Italy in the third quarter of 2014, banks forming part of a bank loan survey declared that the loan terms offered to families and companies were the same as the previous period.

The effect of the official rate cut in September by the ECB was to cut the cost of credit further. This reduction in costs regarded both large companies and smaller companies.

With respect to families, the ratio of new doubtful loans to loans fell. There was an improvement in the quality of loans to manufacturing industries and services. Credit quality has fallen for construction companies.

The five biggest Italian bank groups increased profitability up to September 2014 according to their consolidated quarterly reports. This slight increase is mainly due to reduced adjustments to loans and an increase in revenues from commissions.

Interest margins have increased on average, with Net interest and other banking income decreasing slightly. At the end of September, the capital ratios of the five leading groups were the same as they were in June.

1.2.2. LOANS AND DEPOSITS ([3])

Euro deposits of customers in all the banks in Italy, represented by resident customer deposits ([4]) and bonds (net of those repurchased) fell yoy by 1.6% as at the end of 2014. Bank funding from resident customers stood at 1,700.9 billion. At the end of 2007 - prior to the beginning of the financial crisis - it amounted to about 1,513 billion, with a 188 billion increase between the end of 2007 and now.

Resident customer deposits increased by +3.6% (+43 billion) while bond funding fell by 13.8% (it had fallen by 9.4% at the end of 2013), with a reduction in absolute terms of 70.8 billion. Trends in deposits from abroad were still negative at the end of 2014.

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.

3 Source: ABI Monthly Outlook

4 Comprising: current account deposits, fixed term deposits not including those related to assignment of debts, deposits redeemable with notice and repurchase agreements. The deposits do not include transactions with central counterparties.

	Funding (Deposits and bonds)		Resident customer deposits [5]		Bonds [6]	
	€ mln	Change % y/y	€ mln	Change % y/y	€ mln	Change % y/y
Dec. - 2013	1,728,686	−1.83	1,215,131	1.96	513,555	−9.77
Jan. - 2014	1,718,473	−1.85	1,205,838	2.34	512,635	−10.46
Feb. - 2014	1,717,459	−2.15	1,210,835	1.48	506,624	−9.85
Mar. - 2014	1,723,455	−1.96	1,224,133	1.28	499,322	−9.08
Apr. - 2014	1,721,980	−1.31	1,225,641	1.17	496,339	−6.94
May - 2014	1,727,304	−0.56	1,235,889	2.43	491,415	−7.35
Jun. - 2014	1,709,940	−1.33	1,229,490	2.12	480,450	−9.18
Jul. - 2014	1,700,773	−1.13	1,229,675	2.66	471,098	−9.84
Aug. - 2014	1,708,400	−0.99	1,242,275	3.02	466,125	−10.31
Sep. - 2014	1,704,087	−0.82	1,244,759	3.64	459,328	−11.17
Oct. - 2014	1,690,056	−2.47	1,239,818	2.28	450,238	−13.53
Nov. - 2014	1,706,718	−1.57	1,259,134	3.51	447,584	−13.50
Dec. - 2014	1,700,973	−1.60	1,258,251	3.55	442,722	−13.79

The average interest rate of bank funding from customers (including the return from the deposits, bonds and repurchase agreements in euros, applied to the household and non-financial company sector) amounted to 1.49% at the end of 2014 (1.89% at the end of 2013). The deposit rate in euros applied to families and non-financial companies stood at 0.71% (0.98% in December 2013). The rate on repurchase agreement transactions increased to 1.55% from 1.53% at the end of 2013, while the bond yields fell to 3.16% from 3.44% at the end of 2013.

(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. - 2013	0.97	0.41	1.53	3.44	1.88
Jan. - 2014	0.95	0.38	1.73	3.42	1.86
Feb. - 2014	0.94	0.38	1.97	3.39	1.84
Mar. - 2014	0.94	0.39	1.92	3.37	1.80
Apr. - 2014	0.89	0.37	2.02	3.33	1.75
May - 2014	0.87	0.37	1.69	3.34	1.74
Jun. - 2014	0.86	0.36	1.62	3.31	1.71
Jul. - 2014	0.83	0.32	1.70	3.29	1.67
Aug. - 2014	0.81	0.32	1.65	3.28	1.64
Sep. - 2014	0.79	0.31	1.76	3.21	1.60
Oct. - 2014	0.79	0.27	1.80	3.21	1.58
Nov. - 2014	0.74	0.27	1.65	3.17	1.51
Dec. - 2014	0.71	0.25	1.55	3.16	1.49

At the end of 2014, 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 1,820.6 billion, down by 1.8% (1,845.5 billion at the end of 2013). At the end of 2007 - before the crisis began - these loans amounted to 1,673 billion, with an absolute increase in value of 147 billion.

Loans to residents in Italy in the private sector stood at 1,554.4 billion compared to 1,590.6 billion at the end of 2013 (-2.3%). They amounted to 1,450 billion at the end of 2007 (+104 billion approximately between 2007 and now).

Loans to families and non-financial companies stood at 1,417.5 billion, up, albeit to a limited extent, by +0.1% from the end of 2013 (when it was 1,416.1 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.

5 Deposits of ordinary resident private customers, not including IFM deposits or central government deposits. Current accounts, fixed-term deposits, deposits redeemable with notice and repurchase agreements are included. Balances related to transactions with central counterparties and fixed-term deposits related to debt assignment transactions are not included.

6 Bonds are expressed at their nominal values in euros and include the underlying liabilities. Bonds acquired from banks are not included. They refer to both resident and non-resident customers.

	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. - 2013	1,853,072	−3.88	1,590,616	−4.18	1,416,096	−3.97
Jan. - 2014	1,853,045	−3.29	1,588,358	−3.72	1,439,642	−2.34
Feb. - 2014	1,847,350	−3.37	1,582,625	−3.91	1,434,200	−2.57
Mar. - 2014	1,851,104	−3.13	1,583,113	−3.66	1,431,290	−2.09
Apr. - 2014	1,840,453	−2.94	1,574,271	−3.48	1,427,729	−2.08
May - 2014	1,834,225	−3.11	1,567,061	−3.69	1,420,005	−2.42
Jun. - 2014	1,843,084	−2.18	1,575,185	−2.84	1,426,082	−1.41
Jul. - 2014	1,830,453	−2.49	1,564,859	−3.22	1,429,808	−1.28
Aug. - 2014	1,814,002	−2.49	1,550,352	−3.14	1,412,937	−1.45
Sep. - 2014	1,820,282	−2.22	1,556,629	−2.80	1,420,861	−0.83
Oct. - 2014	1,811,577	−2.10	1,551,110	−2.61	1,416,279	−0.69
Nov. - 2014	1,816,332	−1.45	1,550,745	−2.15	1,413,889	−0.36
Dec. - 2014	1,820,596	−1.75	1,554,367	−2.28	1,417,500	−0.10

The average weighted interest rate of loans to families and non-financial companies processed by the Italian Banking Association "ABI" amounted to 3.61% as at December 2014, down by 21 bps from December 2013. It was 6.18% at the end of 2007. The interest rate on new loans in Euro to non-financial companies stood at 2.48% in December 2014 (3.45% in December 2013). It was 5.48% at the end of 2007. The interest on loans to families to buy homes in Euro stood at 2.76% in December 2013 (3.50% at the end of 2013). 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 euro zone	
	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. - 2013	3.82	5.45	3.45	3.50	0.25	0.28	2.08
Jan. - 2014	3.90	5.60	3.40	3.50	0.25	0.29	2.06
Feb. - 2014	3.89	5.52	3.47	3.43	0.25	0.29	1.88
Mar. - 2014	3.88	5.45	3.44	3.44	0.25	0.31	1.83
Apr. - 2014	3.90	5.46	3.33	3.34	0.25	0.33	1.76
May - 2014	3.87	5.41	3.29	3.36	0.25	0.33	1.63
Jun. - 2014	3.87	5.36	3.09	3.26	0.15	0.24	1.53
Jul. - 2014	3.81	5.24	3.09	3.21	0.15	0.21	1.40
Aug. - 2014	3.78	5.19	2.95	3.12	0.15	0.19	1.24
Sep. - 2014	3.76	5.19	2.87	2.99	0.05	0.10	1.18
Oct. - 2014	3.70	5.14	2.66	2.90	0.05	0.08	1.10
Nov. - 2014	3.65	5.05	2.55	2.91	0.05	0.08	1.00
Dec. - 2014	3.61	4.95	2.48	2.76	0.05	0.08	0.90

1.2.3. ASSETS UNDER MANAGEMENT

According to data from Assogestioni, 2014 was a record year for assets under management. Net funds amounted to Euro 128.6 billion.
With respect to mutual funds, the net funds of 87 billion was the best result in the last 14 years.
The most highly requested fund category in 2014 was the flexible fund category which recorded Euro 41 billion in subscriptions / assets under management during the year.
According to Assogestioni, the long term funds still played an important role in 2014 with over Euro 70 million in funds, mainly from subscription to bonds and flexible funds.
Total funds under management amount to 1,579 billion.
This figure shows the confidence that investors have in assets under management and how important they are in the portfolios of Italian families.

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.
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.
The prospective merger with Banca Popolare di Marostica therefore reflects the tangible pursuit of these medium and long term goals.

1.4. LONG TERM TRENDS

1.4.1. EUROPEAN SINGLE SUPERVISORY MECHANISM AND COMPETITIVE CONTEXT

The European single supervisory mechanism ("SSM") completely restructured the financial intermediary supervisory system; this was implemented as a result of inadequate economic growth, increasing uncertainties on sovereign risk and doubts regarding the ability of the single currency to survive.
The initiatives that have already been undertaken in this sense were necessary to provide stabilisation which is an essential requirement for economic growth. The single supervisory mechanism is a first step towards further integration between EU countries and an important factor in preventing sovereign debt crises, since one of the factors that triggered the financial crisis was a lack of confidence in the single currency project. Finally, common supervision and a centralised system to resolve crises form the basis for financial stability at European level.
The terms applied to loans are being actively standardised through banking union and other economic policy actions - especially the monetary policy measures recently adopted by the ECB. The comprehensive assessment by the ECB of leading European banks provided a significant contribution towards increasing the level of transparency with respect to the stability of the financial system.
Further progress is expected with the progressive harmonisation of the supervision procedures. Even though market terms for loans will not be completely standardised until the economic crisis has been fully resolved, there have already been signs of a gradual improvement in the indicators of the Eurosystem situation over the past few months.
The progressive implementation of the interventions aimed at banking union will have a significant impact on competition in the financial system in all European countries. The recent decree on cooperative banks is just one example. The European banking system, and the Italian one in particular, need to achieve high standards of efficiency.
Right from the first steps taken by the Single Supervisory Mechanism, the supervisory authorities have paid special attention to the capital situation of the banks. It was necessary to set adequate capitalisation goals in order to restore confidence in the banking system. We expect that the results of the comprehensive assessment will be followed by interventions aimed at avoiding pro-cyclical behaviour by the banking system that could damage prospects of recovery. The actions being taken to strengthen capital bases may provide an incentive to make it harder to get loans. Generalised capital increases by the banking system as a whole could result in a credit crunch, with adverse effects on economic recovery and the banking system itself.
This conflict between micro regulatory goals and economic policy could lead to further pressure on the banking system, which will be required to make significant progress in terms of improving efficiency. The quantitative easing announced by the ECB will not replace the requirement for greater competitiveness in the banking system.

Development of the banking system will therefore be highly uncertain, both with respect to the complexity of the financial system and with respect to the intensity and extent of the interventions that the European Institutions will decide to implement.

1.4.2. REGULATION AND CAPITAL MANAGEMENT

The new capitalisation measures introduced from 2014, determined in accordance with rules that best represent actual capital adequacy, will be increasingly viewed as the first step towards ensuring sound, prudent management.
The capital requirements regulation (CRR) for banks will be subject to continuous regulatory development, which has already been announced. The Basel Committee intends to review the standardised credit risk method among other things. It would appear to be reasonable to expect treatment that more closely corresponds to the actual risk shown by this class of assets during the years of the financial crisis. The quality of the credit portfolio and the levels of capital will therefore become increasingly important in the calculation of the capital requirements with respect to exposures between banks. The European Banking Authority introduced harmonised default definitions for prudential purposes in Europe. Further harmonisation measures are expected with respect to this aspect.
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 take 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 Company 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

In January 2015, the Board of Directors decided on the 2015 - 2018 strategic plan which identifies the guidelines and actions to take over the next few years.
The business plan sets out a number of ordinary and extraordinary actions to streamline the organisation while regaining the right revenue / cost balance to allow it to maintain adequate future profitability and ensure that cash flow and capital remain at optimal levels, along with adequate growth. This is all underlain by the quality level of the services already provided, also with an eye towards consolidating its leadership position as a territorial bank which customers have always recognised.
The main guidelines on which the business plan were based were identified in accordance with the new operating context which has changed considerably, partly due to the prospective merger with Banca Popolare di Marostica:
- establishment of a culture of trust which encourages engagement and growth of the stakeholders;
- capitalising on the brand which is synonymous with paying close attention to its shareholders, attentive to customer requirements and a customised approach;
- maintenance of the profile of a solid regional bank, with its roots strongly linked to the territory;
- creation of strong links with the Province with an increasingly multi-channel distribution model aimed at providing consultancy services;
- further strengthening capital solidity to guarantee independence and future growth;
- maintenance of methodical, excellent risk governance, especially with respect to loans;
- balanced growth and strong control over cash flow;
- efficient management of human and technological resources and operating procedures;
- achievement of maximum level profitability and productivity goals for the banks in the Northeast;
- achievement of a leadership position in regional terms, partly tanks to the synergy created by integration with the BPM group.

These goals will be realised through focused action on six specific areas of operation:
- Commercial positioning: strong roots in the territory, multi-channel distribution model focused on consultation services;

- Capital: solid capital basis, guaranteeing growth and independence;
- Risk: risk governance and management, with specific focus on credit risk, integration with the risk appetite framework and loan strategy;
- Cash flow: balanced growth and strong protection of cash flow through constant monitoring of ALM levels and adequate balancing of Loan/Deposit ratios;
- Resource management: streamlining expenses, fostering talent and job succession, management of resource mobility, review of procedures, engagement with resources, developing skills.

Special significance is given to the merger with BPM in the plan, the synergy that can be achieved and the integration plan. The synergy that can be achieved has been identified as revenue (optimising sales, pricing, development of areas where the bank has traditional roots, selective actions to reinforce the network), costs (rationalisation of structures, company simplification, automation and digitalisation of the BPM procedures, IT consolidation synergy, streamlining expenditure processes, re-insourcing BPM activities), and risks and funding (alignment of loan policies and procedures, taking action to reduce the level of non-performing loans and improvement of funding costs).

The ongoing weak economic situation will mean 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.

1.6. SIGNIFICANT EVENTS DURING THE YEAR

New head office

Work began on building the new head office of the Bank during 2013. It is in Via del Macello, 55, in the same area where the previous head office had been located.

The new head office should be fully operational by 9 March 2015. The official opening ceremony of the new office will also be held in March.

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	9 March 2015
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 the second half of the year, 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 November and involved transactions relating to 300 counterparties for a nominal capital value of Euro 15.7 million.
This transfer led to the cancellation of the aforesaid transactions from the financial statements.

Draft terms of Merger with Banca Popolare di Marostica

In the second half of 2013, Banca Popolare · Volksbank, in association with Banca Popolare di Marostica S.c.p.a.r.l., initiated a feasibility study regarding a possible business combination, partly using specific due diligence checks and analysis of possible structures to carry out the transaction, including through external advisors.
Banca Popolare di Marostica interrupted the feasibility study in December 2013, including with reference to the upcoming Shareholders’ Meeting, which was then held on 19 January 2014 and which had renewed the corporate bodies.
In March 2014, Banca Popolare di Marostica started a competitive process to identify a bank with high standing with whom it could consider a merger. Within the scope of that process, on 11 April 2014, Banca Popolare · Volksbank received the indications and details required to commence the due diligence stage, which ended on 3 June 2014.
On 26 June 2014, Banca Popolare · Volksbank made a binding offer, in which the essential elements of the business project were set out, the legal structure proposed, the amount of the bid, the post-merger governance structure, the measures that would be adopted to protect employment levels and the measures to enhance the value of the territory where Banca Popolare di Marostica is based. Banca Popolare · Volksbank made an addition to its binding offer on 23 July 2014. On 31 July 2014, Banca Popolare di Marostica informed Banca Popolare · Volksbank that it was the only bank admitted to the negotiation stage.
On 24 October 2014, the boards of directors of Banca Popolare · Volksbank and Banca Popolare di Marostica decided on the draft terms for the merger by incorporation between Banca Popolare di Marostica and Banca Popolare · Volksbank.
On 13 January 2015, the Bank of Italy issued its authorisation, in accordance with article 57 of Legislative Decree 385/93, to the merger with Banca Popolare di Marostica, and all the other authorisations required within the scope of the decision to merge.
On 23 January 2015, the Board of Directors of Banca Popolare · Volksbank called an extraordinary shareholders’ meeting for the shareholders of Banca Popolare dell’Alto Adige Soc. Coop.pa, on first call, on 22 February 2015 at 9.00 at the bank’s head office, and, on second call, on Monday, 23 February 2015 at 18.00, at the premises set up for the shareholders’ meeting in Merano - Kurhaus, Corso Libertà 31, to discuss the following agenda:

1. Examination and approval of the draft terms of the merger by incorporation between Banca Popolare di Marostica Soc. Coop. p.a.r.l. and Banca Popolare dell’Alto Adige Soc. Coop. p.a. pursuant to Articles 2501 et seq. of the Italian Civil Code and consequent amendments to the Articles of Association of the absorbing company. Inherent and consequent resolutions; delegation of powers.

2. Revocation of the authorisation to increase the share capital as well as issue a convertible bond, granted to the Board of Directors in 19 April 2013 and not exercised.

Conferral of new authorisation to the Board of Directors so that it may, by 31 December 2019, see to a divisible share capital increase of up to a nominal maximum of Euro 20,000,000 and the issue, on one or more occasions, of a convertible bond up to a nominal maximum of Euro 100,000,000 with consequent amendment of Article 6.2 of the Articles of Association.

The documentation relating to the draft terms of the merger was published on the Internet site of Banca Popolare · Volksbank at: www.bancapopolare.it e www.volksbank.it

On 27 January 2015, the Anti-trust Authority announced that it would not go ahead with launching the preliminary investigation on the transaction in question since it did give rise to the establishment or strengthening of a dominant position to the extent that it would substantially and permanently eliminate or reduce the competition.

The Board of Directors stated that the potential 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.

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.

Closing of the VOBA N. 2 S.r.l. 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 transfer of 4,164 loans for a total value of Euro 479,791,803.44.

Like the 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 held in 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.

Change in the IRAP (Regional tax on productive activities) rate

Article 2 of the spending review decree (66/2014) established the permanent reduction of the IRAP rate, starting from 2014.

The basic rate was reduced from 4.65 to 4.20 % for banks and financial companies. In view of this change, the actual rates will have to be recalculated using an automatic procedure on the basis of which the regional change adopted, with respect to the pre-existing basic rate, is summed algebraically to the new measures provided for under the decree.

This change had a positive impact as at 31 December 2014 due to the need to recalculate the assets and liabilities recorded on the financial statements as deferred tax assets and deferred tax liabilities for IRAP.

Deferred tax assets for IRAP for a total of 1.0 million were recorded on the financial statements of 31 December 2013, almost all of which as a contra entry to the income statement. On the other hand, the deferred tax liabilities for IRAP amounted to 3.7 million, of which 0.5 million as a contra entry to shareholders' equity. The adjustment of the assets and liabilities to the new rates therefore resulted in crediting the income statement with income of an estimated Euro 0.6 million for 2014.

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 or loss";
- the item "Net adjustments to property and equipment and intangible assets" includes the income statement items "Net adjustments to/recoveries on property and equipment" and "Net adjustments to/recoveries on intangible assets";
- the item "Net losses/recoveries on impairment of loans and other financial activities" includes the item "Profits (losses) on disposal or repurchase of loans", the item "Net losses/recoveries on impairment of loans" and the item "Net losses/recoveries on impairment of other financial activities";
- the item "Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments" includes the items "Profits (losses) on disposal or repurchase of investments held to maturity", "Net losses/recoveries on impairment of investments held to maturity", and the item "Profits (losses) on disposal of investments".

Overall development of the economic result

The results of operations in 2014 confirm the well-balanced position of aggregate balance sheet items, the solid financial position and adequate liquidity. Profitability from day to day operations remained at adequate levels, with a yoy increase of net interest of 6.1%.

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 continued to make a significant contribution towards the overall profitability.

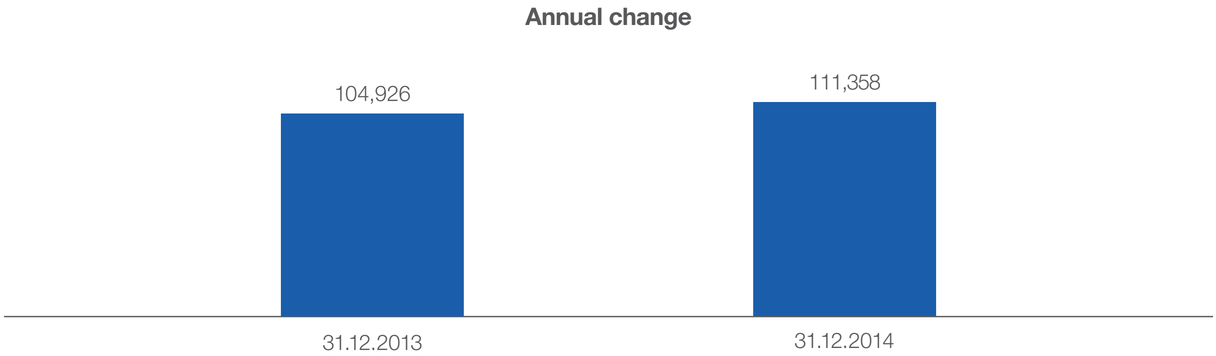
Retail banking performance - which is the core business of the Company - has improved compared to 2013. More specifically, interest margins and net commissions are still increasing mainly since market funding costs are substantially stable and the progressive adjustment of interest income. Profit margins were still reduced in 2014 since interest rates were at historically minimum levels.

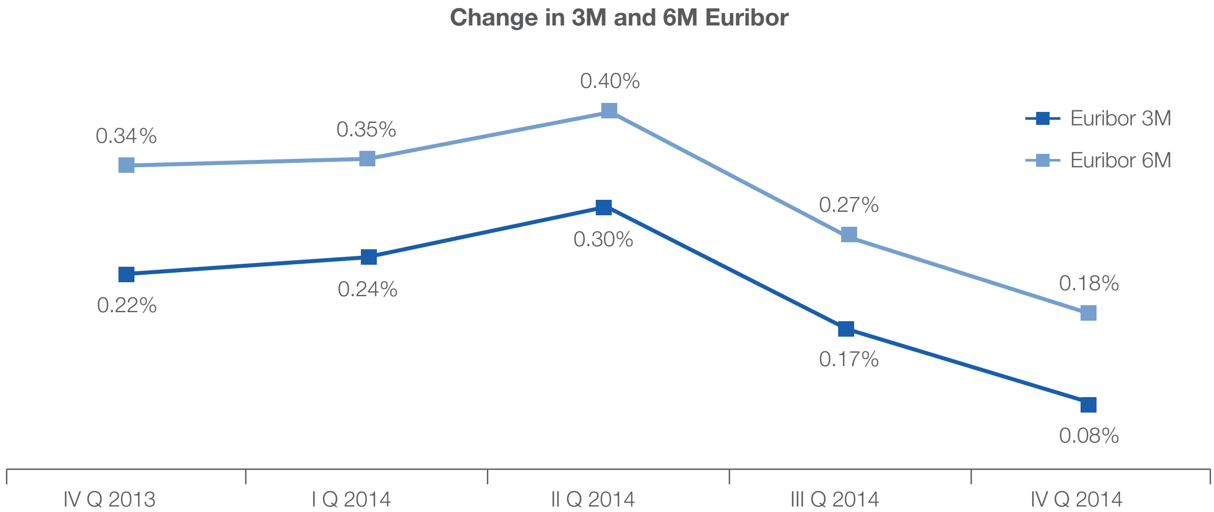
Fee and commission expense also included the charges related to the liabilities issued by the Company and used for the Long Term Refinancing Operations promoted by the European Central Bank, and were down due to the cancellation of guarantees for a total of 100 million in March.

Loan write-downs increased 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 53 bps in 2014, compared to 39bps in the previous year.

Reclassified income statement	**31.12.2014**	**31.12.2013**	**Change**	
(thousands of Euro)			**Absolute**	**%**
Net interest	111,358	104,926	6,432	6.1%
Dividends and profits (losses) on investments carried at equity	1,142	(462)	1,605	−347.1%
Financial margin	**112,501**	**104,463**	**8,037**	**7.7%**
Net fee and commission income	61,038	60,096	942	1.6%
Net financial result	10,619	7,162	3,457	48.3%
Other operating income/expenses	17,032	16,548	485	2.9%
Other operating income	**88,689**	**83,806**	**4,883**	**5.8%**
Net operating income	**201,190**	**188,269**	**12,920**	**6.9%**
Personnel expenses	(73,898)	(73,601)	(297)	0.4%
Administrative expenses	(54,447)	(52,993)	(1,454)	2.7%
Net adjustments to property and equipment and intangible assets	(6,501)	(6,949)	449	−6.5%
Operating charges	**(134,847)**	**(133,544)**	**(1,303)**	**1.0%**
Operating profit (loss)	**66,343**	**54,725**	**11,618**	**21.2%**
Net adjustments to loans, guarantees and commitments	(28,336)	(18,529)	(9,808)	52.9%
Net adjustments to other assets	(1,839)	(352)	(1,486)	421.9%
Net provisions for risks and charges	(1,795)	(311)	(1,484)	477.6%
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	20	32	(12)	−38.0%
Profit (loss) for current operations	**34,393**	**35,566**	**(1,173)**	**−3.3%**
Taxes on income from continuing operations	(14,146)	(16,799)	2,653	−15.8%
Net Income (loss)	**20,247**	**18,767**	**1,481**	**7.9%**

Net interest is up by 6.1% to 111.4 million (+6.4 million compared to the 104.9 million in 2013). The year 2014 was characterised by a historically minimum interest rate, partly due to the particularly acute recession. In this context, lending volumes increased slightly even though it was necessary to keep strict control over the assumption of risk. This growth is mainly due to the constant attention to cost of funding, and prudent re-pricing of the assets. Interest income from customers grew by +4.5% (+6.9 million) while interest expense on amounts due to customers and debt securities issued (including those with the fair value option) increased by 0.93% to 39.3 million, compared to 38.9 million the previous year. Interest income on financial instruments fell by 11.7% to 16.0 million compared to 18.1 million the previous year (-2.1 million).

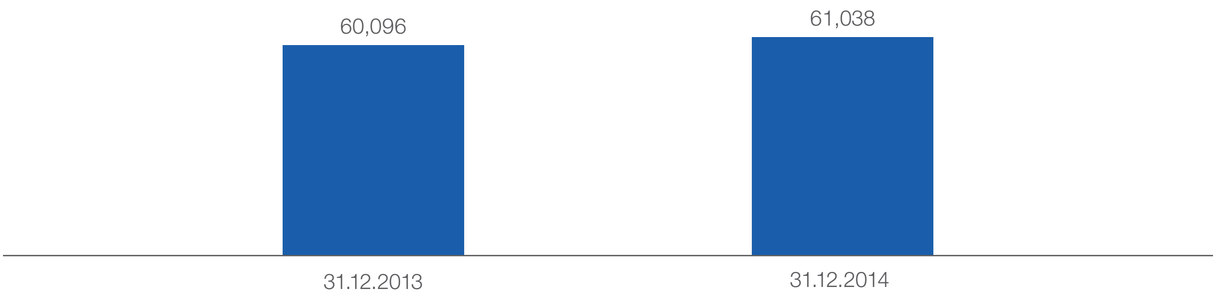




Dividends and profits (losses) on investments carried at equity include the dividends approved in the year and the adjustments to investments in associates and companies subject to joint control due to adjustment of the carrying amount to the losses incurred in the year.

Net fees and commissions amounted to 61.0 million, up by 1.57% compared to 60.1 million of the previous year. 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. This difference also benefitted from the aforementioned partial cancellation of 100 million, of the State guarantee. The most important changes include the increase in management, brokerage and consulting services, which stand at 15.1 million (+15.47% compared to 13.12 million in 2013), a drop of -5.05% of the net income from landholdings and management of current accounts and relationships with customers (-1.7 million).

Net fee and commissions - Annual change



The net financial result was significantly positive, standing at +10.6 million compared to +7.2 million in the previous year.

In particular, against a loss in trading of Euro 1.8 million compared to the positive 2013 result (+1.5 million) in a particularly complex and highly volatile market, there was a highly positive result from the instruments classified as AFS, with a net profit of Euro +12.2 million, further up from the +4.9 million in 2013.

Maintenance of the interest rates at historically low levels in 2014 made it necessary to identify the sectors that could ensure a positive, or at least satisfactory result. 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 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 52.8% to 267 thousand (566 million in 2013) and refer to the result of the trading of its own bond issues on the secondary market.

The profits on financial assets and liabilities designated at fair value were very minor 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.

Other operating expenses/income amounting to 17.0 million (16.5 million in 2013) increased by +2.93%, partly due to the increase in the amounts recovered from third parties for costs incurred.

Overall, other operating income stood at 88.7 million, up by +5.83% compared to the 86.8 million in 2013.

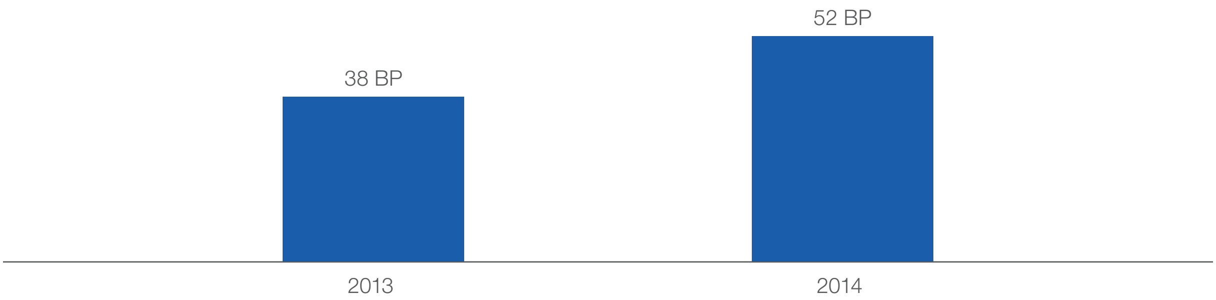
Operating charges amounted to 134.8 million, up by +0.98% compared to 133.6 million of the previous year. More specifically:

- personnel expenses were 73.9 million (+0.40%). As already mentioned above, and as detailed in the financial statements, actuarial losses (gains) during the year, amounting to -1.7 million, were recognised under a specific reserve in shareholders' equity starting from 2012, as permitted under the new version of IAS 19;

- administrative expenses amounted to 54.4 million (+2.74% compared to the 53.0 million of 2013) mainly due to the increase in amounts paid to professionals, management costs for computer services by the outsourcer and stamp duty charges;
- net adjustments to/recoveries on property and equipment and intangible assets were down by 6.45% to 6.5 million.

Net value adjustments for loan impairment or other financial transactions stood at 28.3 million, up by +52.9% compared to 18.5 million in the previous year. Due to the constant monitoring of risk assumption, the increase during the year corresponds to the climate of substantial economic stagnation during the year. The overall cost of credit was 53 bps, up from the 39 bps of 2013.

Cost of credit (annualised BPS)



Credit risk continued to be constantly monitored in 2014. The total adjustment provisions amount to 3.09% of gross loans (3.00% in 2013). The hedging of doubtful loans is 41.66% (40.89% in 2013), up despite the sale of a portfolio of doubtful loans which had already been written-down to a significant extent. The hedging of substandard loans is 12.18% (9.81% in 2013) and the percentage of write-down for performing loans stood at 0.50%, very similar to the 0.51% at the end of 2013.

With reference to the other components of this item, the result includes 1.2 million in loss related to the sale of a portfolio of loans classified as doubtful in November. The sale regarded a portfolio with 300 names, with a nominal value, including capital and interest, of 15.7 million, leading to the write-off of the loans from the financial statements.

Net provisions for risks and charges amounted to 1.8 million (311 thousand in 2013). The increase over 2013 is mainly due to provisions relating to customer claims and a legal dispute where the Bank is a defendant.

Gross profit for the year is slightly down by 3.30% to 34.4 million (35.6 million in 2013).

Taxes amounted to Euro 14.1 million (16.8 million in 2013). The tax rate stood at 41.1% (47.2% in 2013), with the reduction mainly due to the removal of the IRES increase provided for in 2013 which had increased the rate from the current 27.5 to 36%, with an increase of 8.5% for 2013 alone.

Net profit for the year amounted to Euro 20.2 million, up by 7.9% compared to 18.8 million in 2013.

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 or loss" includes the balance sheet liability items "Due to customers", "Debt securities issued" and "Financial liabilities designated at fair value through profit or loss", and they essentially represent direct funding;
- the item "Other liabilities" includes the balance sheet liability items "Tax liabilities", "Other liabilities", "Employee termination indemnities" and "Provisions for risks and charges";
- 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 assets	**31.12.2014**	**31.12.2013**	**Change**	
(thousands of Euro)			**Absolute**	**%**
Cash and cash equivalents	51,173	54,320	(3,148)	−5.8%
Financial assets and investments	1,025,785	723,629	302,156	41.8%
Due from banks	39,420	119,225	(79,805)	−66.9%
Loans to customers	5,124,169	4,922,443	201,726	4.1%
Property and equipment	118,497	104,397	14,100	13.5%
Intangible assets	41,842	42,581	(739)	−1.7%
Other assets	125,238	136,414	(11,177)	−8.2%
Total assets	**6,526,124**	**6,103,009**	**423,115**	**6.9%**

Reclassified liabilities	**31.12.2014**	**31.12.2013**	**Change**	
(thousands of Euro)			**Absolute**	**%**
Due to banks	585,675	645,875	(60,200)	−9.3%
Due to customers, debt securities issued and liabilities designated at fair value	5,101,526	4,617,779	483,748	10.5%
Financial liabilities held for trading	3,402	7,276	(3,873)	−53.2%
Other liabilities	195,698	203,293	(7,595)	−3.7%
Shareholders' Equity:				
- Share capital and reserves	619,574	610,019	9,555	1.6%
- Net income (loss)	20,247	18,767	1,481	7.9%
Total liabilities and shareholders' equity	**6,526,124**	**6,103,009**	**423,115**	**6.9%**

Bank Payables and Receivables

Interbank Relations	**31.12.2014**	**31.12.2013**	**Change**	
(thousands of Euro)			**Absolute**	**%**
Due from banks	39,420	119,225	(79,805)	−66.9%
Due to banks	585,675	645,875	(60,200)	−9.3%
Net banking position	**(546,255)**	**(526,650)**	**(19,605)**	**3.7%**

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 546.3 million, slightly worse than the 526.7 million at the end of 2013.

Loans to Customers

Customer lending amounted to 5,124.2 million, up by 4.1% compared to 31 December 2013, when the item stood at 4,922.4 million (+201.7 million).

Financing	**31.12.2014**	**31.12.2013**	**Change**	
(thousands of Euro)			**Absolute**	**%**
Current accounts	1,312,556	1,357,920	−45,364	−3.34%
Repurchase agreements	–	19,635	−19,635	−100.00%
Mortgages	3,091,557	2,987,456	104,101	3.48%
Credit cards, personal loans, and loans on salary	87,065	78,513	8,552	10.89%
Other transactions	486,902	478,919	7,983	1.67%
Debt securities	146,089	–	146,089	–
Total	**5,124,169**	**4,922,443**	**201,726**	**4.10%**

Short-term loans amounted to 1,799.5 million, down 3.07% (-57.0 million) compared to the 1,856.5 million at the end of the previous year; the medium and long term loans, mainly represented by mortgage loans, showed an increase of 258.7 million (+8.44%) to 3,324.7 million.

Concerning loans to customers, the mortgage loans comprise 60.33% of net unimpaired loans, up compared to the 60.69% at 31 December 2013.

Current accounts comprise 25.62% of net customer lending, down from last year's 27.59%.

The continuing support to the economy and families is clearly seen by the distribution and trend of lending. Private lending rose compared to last year, by 2.68%. Lending to the business sector was up as a whole by +1.60%.

Customer Lending	**31.12.2014**	**31.12.2013**	**Change**	
(thousands of Euro)			**Absolute**	**%**
Private individuals	1,807,726	1,760,589	47,137	2.68%
Manufacturing industry	1,436,925	1,448,710	(11,785)	−0.81%
Sales	425,807	375,565	50,242	13.38%
Services	1,240,118	1,229,626	10,492	0.85%
Public authorities, financial and insurance sector	213,593	107,953	105,640	97.86%
Total	**5,124,169**	**4,922,443**	**201,726**	**4.10%**

Gross impaired loans at 31 December 2014 amounted to 483.1 million, down by 2.4% compared to 495.0 million of the previous year. This improvement is mainly due to the aforementioned sale of a portfolio of doubtful loans for a gross total value of 15.7 million. The percentage of the net non-performing loans on the total of net customer lending was 6.71%, down from 7.44% the previous year.

Impaired Loans	31.12.2014	31.12.2013	Change	
(thousands of Euro)			**Absolute**	**%**
Gross amounts	483,149	494,995	(11,846)	−2.39 %
Adjustments	(139,278)	(128,827)	(10,451)	8.11 %
Net Balance	**343,871**	**366,168**	**(22,297)**	**−6.09 %**

Net doubtful loans rose by +8.76% to 165.4 million, compared to 152.1 million of the previous year. As noted, the degree of hedging was 41.66% compared to last year's 40.89%. The percentage of net doubtful loans to the total of net lending was 3.23%, significantly up from the 3.09% of the previous year.

Net substandard loans amounted to 140.8 million, up by 5.13% compared to the 133.9 million of the previous year. The percentage of hedging stood at 12.18%, up from the 9.81% of the previous year. The percentage of net problem loans over net lending stood at 2.75%, slightly up compared to 2.72% in the previous year.

Net restructured loans amounted to 20.2 million, significantly down from the 41.8 million of the previous year. The percentage of write-downs stood at 2.59%, a decrease compared to the 14.48% the previous year, mainly due to the doubtful classification given to certain positions. The percentage of net problem loans over net lending stood at 0.40%, down compared to 0.85% in the previous year.

Past-due and overdue loans amounted to 17.4 million, down by 54.62% compared to 38.4 million of the previous year. The percentage of write-downs stood at 5.78%, up from the 4.83% of the previous year.

Net performing loans amounted to 4,780.3 million, a 4.92% rise over the 4,556.3 million of the previous year. The estimate of the collective impairment of performing loans led to a 24.2 million adjustment, up from the 23.3 million in 2013. The percentage of collective write-downs stood at 0.50%, slightly down from the 0.51% the previous year.

The percentage of gross impaired loans compared to gross lending stood at 9.14%, down from the 9.75% of the previous year.

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

Indices of loan hedging	31.12.2014	31.12.2013
Hedging of doubtful loans	41.66 %	40.89 %
Hedging of substandard loans	12.18 %	9.81 %
Hedging of restructured loans	2.59 %	14.48 %
Hedging of past-due loans	5.78 %	4.83 %
Hedging of performing loans	0.50 %	0.51 %

Asset quality	31.12.2014	31.12.2013
Gross impaired loans / gross loans	9.14 %	9.75 %
Net impaired loans / net loans	6.71 %	7.44 %
Gross doubtful loans / gross loans	5.36 %	5.07 %
Net doubtful loans / net loans	3.23 %	3.09 %
Gross substandard loans / gross loans	3.03 %	2.93 %
Net substandard loans / net loans	2.75 %	2.72 %

Financial assets

Treasury securities portfolio	31.12.2014	31.12.2013	Change	
(thousands of Euro)			Absolute	%
Financial assets held for trading (HFT)	46,982	57,807	(10,824)	–18.73%
Financial assets available-for-sale (AFS)	919,419	605,540	313,880	51.83%
Financial assets held to maturity (HTM)	54,757	55,126	(368)	–0.67%
Investments	4,626	5,157	(531)	–10.31%
Total	**1,025,785**	**723,629**	**302,156**	**41.76%**

This segment showed the following trends:

- financial assets held for trading, consisting of 39.3 million in debt securities and 7.6 million in financial trading derivatives (of which 6.0 million pertaining to the fair value option), amounted to 47.0 million, down by 18.73% compared to 57.8 million in 2013;
- financial assets available-for-sale, consisting of 815.4 million in debt securities, 19.5 million in equity instruments and 84.5 million in investment funds, amounted to 919.4 million, a considerable increase compared to 605.5 million in 2013 (+51.83%).
- the investments the Company is capable and intends to hold to maturity amounted to 54.8 million, substantially the same as the 55.1 million in 2013. Financial instruments were not classified under that category during the year.

Investments

Equity investments continued to be scaled back during the year.

On 3 February 2014, the Company sold the investment in the company Acquazzurra S.r.l. with respect to construction of a property - residential complex in the centre of Pordenone. The related amount was removed from the financial statements.

The following equity investments were held as at 31 December 2014:

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

Voba Invest S.r.l. in liquidation

The company, with its registered office in Bolzano, has a share capital of Euro 30,000, fully paid in and fully held by Banca Popolare · Volksbank. On 14 June 2011, the subsidiary VOBA Invest S.r.l. was placed in liquidation. The liquidation proceedings started up in 2011 and continued through 2014.

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.

Valpolicella Alta Società Agricola S.r.l.

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

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

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

Quartiere Brizzi S.r.l.

The business purpose of the Company, with registered office in Chienes (BZ), is property dealings, including the purchase, sale, exchange, renovation and leasing of 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 in addition to a shareholder loan for an original amount of Euro 1 million in order to strengthen the capital base of the company. The amount paid was fully attributed to the equity investment which is therefore recorded in the financial statements of 31 December 2014 for a total value of Euro 0.9 million.

Tre S.r.l.

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

Property and equipment

Property and equipment amounted to 118.5 million, a 14.1 million increase compared to 104.4 million at the end of December 2013 (+13.5%). The increase is mainly due to the capitalisation of the costs related to construction of the new head office (15.9 million), completion of which is expected by March 2015. In addition, the expenditure for capitalised improvements amounted to a total of 1.0 million for the year, while further 2.5 million can be attributed to the purchase of movable assets and electronic systems. Depreciation recorded amounted to a total of 5.4 million (5.6 million in 2013).

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 1.4 million (2.2 million at year-end 2013). There were no significant investments in intangible assets during the year. Amortisation amounted to 1.1 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 2014 customer administered assets, comprising direct and indirect funding with institutional counterparties, amounted to 12,342.8 million, a rise of approximately 6.94% over 11,541.4 million as at 31 December 2013.

Direct funding from customers amounted to 5,101.5 million, a rise of 483.7 million (+10.5%) over the figure at 31 December 2013 (4,617.8 million). The significant increase shows how well the Company is regarded in its territory.

Direct deposits	**31.12.2014**	**31.12.2013**	**Change**	
(thousands of Euro)			**Absolute**	**%**
Savings and current accounts, certificates of deposit	2,992,228	2,830,505	161,723	5.7%
Debt securities issued	1,594,218	1,592,682	1,535	0.1%
Other payables	405,192	159,646	245,546	153.8%
Reverse repurchase agreements on securities	109,888	34,945	74,943	214.5%
Total	**5,101,526**	**4,617,779**	**483,747**	**10.5%**

Breaking down the figure there was an increase in demand deposits, comprising current accounts and demand deposits (+161.7 million and +5.7%), which makes up 58.6% of direct funding, against similar figures for the time deposits (+0.10%), comprising debt securities issued (+1.5 million).

Out of the total amount of debt securities issued, 6.8 million pertained to bonds issued under the EMTN programme and subscribed to by institutional customers.

There was an increase in other payables to 405.2 million (+153.8%), mainly due to the placement of liabilities relating to securitisations with third counterparties, for which the Company had initially subscribed to the entire issue. Repurchase agreements, which amounted to 109.9 million, were up by +214.5% compared to 2013 (+74.9 million).

At 31 December 2014, indirect funding from private customers amounted to about 2,117.1 million, up by +5.8% compared to 2,001.1 million in the previous year (+115.9 million).

Indirect Deposits - technical form	31.12.2014	31.12.2013	Change	
(thousands of Euro)			**Absolute**	**%**
Administered indirect funding	1,160,383	1,175,689	(15,307)	–1.3%
Investment funds	798,207	692,426	105,781	15.3%
Insurance products	158,478	133,030	25,449	19.1%
Total	**2,117,068**	**2,001,145**	**115,923**	**5.8%**

Administered indirect funding amounted to 1,160.4 million, a decrease of 1.3% compared to the previous year.
Assets under management, standing at 956.7 million, were up by 15.9% compared to 825.5 million at the end of 2013 (+131.2 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, unchanged compared to the previous year.
Shareholders' Equity at 31 December 2014, including year-end profit of 20.2 million, amounted to 639.8 million, (+11.0 million compared to 628.8 million at year-end 2013).
Regulatory capital stood at 587.7 million, up by 14.4 million compared to 573.3 million at the end of 2013.

Total own funds	31.12.2014	31.12.2013	Change	
(thousands of Euro)			**Absolute**	**%**
Tier 1 capital (CET 1)	586,510	571,842	14,668	2.6%
Transitory regime - Impact on T2	1,232	1,463	(231)	–15.8%
Deductible elements	–	–	–	
Total own funds	**587,742**	**573,305**	**14,437**	**2.5%**

The ratio between tier 1 capital and total weighted assets (common equity tier 1 ratio) was 13.32% compared to 12.87% as at 31 December 2013 (which was calculated in accordance with the previous Basel 2 provisions). The ratio between regulatory capital and total weighted assets (total capital ratio) stood at 13.35%, up compared to last year's 12.90%.

CAPITAL RATIOS	31.12.2014	31.12.2013 (*)	Change
Common Equity Tier 1 Ratio	13.32%	12.87%	45BP
Total capital ratio	13.35%	12.90%	45BP
Risk-weighted assets (RWA)	4,401,166.4	4,443,619.5	(34,002.9)

(*) The amounts related to 31.12.2013 are those resulting from application of the pre-existing Basel 2 provisions.
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 Company.

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 Company from ECB loans and the requirement to improve operating efficiency.

The rating was subsequently confirmed by the DBRS agency in a report published on 23 May 2014.

On 30 October, the ratings agency Standard & Poor's gave a BB+ rating to Banca Popolare · Volksbank, compared to the previous BBB- rating with a negative outlook, citing the impact of the reported merger with Banca Popolare di Marostica. On 18 December 2014, the ratings agency Standard & Poor's gave a BB rating to Banca Popolare · Volksbank, compared to the previous BB+ rating with a stable outlook (it had previously been negative).

The agency referred to the prospects for the Italian economy which were weaker than had previously been expected, and an expectation that it would stay weak for the next two years. The agency believes that this situation will continue to have a negative influence on the quality of the assets and profitability of Italian banks, especially in terms of higher losses on loans. The agency also believes that the risk profile of Banca Popolare · Volksbank has been weakened by the increased economic risk of Italy and the lower loan quality attached to Banca Popolare di Marostica. The improvement in the outlook, from negative to stable was justified by the agency since it assumed that the rating assigned to Banca Popolare · Volksbank already incorporated most of the risks that it perceives in relation to the Italian economic situation and the merger with Banca Popolare di Marostica.

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, amended into the version approved by the Board of Directors on 22 March 2013, and added to the internal rules that govern the various aspects of governance in accordance with the supervisory guidelines and provisions.

Changes to the articles of association

After the decision at the shareholders’ meeting of 19 April 2013, there were no further changes made to the articles of association.
Within the scope of the merger with Banca Popolare di Marostica, a process was initiated to change the articles of association in order to account for the elements of agreement under negotiation with Banca Popolare di Marostica. This process was sent to the Bank of Italy on 28 October 2014 within the scope of authorising the draft terms of the merger. As described in more detail in the section relating to significant events during the year, the supervisory authorities authorised the request, also with respect to the changes in the articles of association. Please refer to the specific section in this report for more details.

Remuneration Policy Update

On 18 November 2014, the Bank of Italy added a new chapter on Remuneration Policies and incentives to the Supervisory Provisions for Banks (Circular no. 285 of 17 December 2013), which incorporates the contents of the directive 2013/36/EU (CRD IV) and annuls the Provision of 30 March 2011 (Supervisory Provisions on remuneration policies and practices and incentives in banks and bank groups).
The Board of Directors decided to submit the remuneration and incentive policies that comply with the new provisions to the 2015 Ordinary shareholders’ meeting.

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, 25 January 2013, 18 July 2014 and 23 January 2015, complies with the specific prescriptions laid down by Italian Legislative Decree 231/2001. With its adoption Banca Popolare · Volksbank continued to affirm and spread its corporate culture based on:

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

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

- raise awareness that if the rules in question are violated then this may constitute an offence and result in sanctions 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 consists of the following members:
- Compliance Department Manager;
- Internal Audit Department Manager;
- Risk Management Service Manager;
- Legal Service Manager;
- One external legal expert (criminal lawyer) with specific skills and experience.

The Supervisory Body did not find any breaches of the Organisational Model in 2014; this stands as proof that the information is adequate for the Supervisory Board to fully oversee the Model, assess its effectiveness and handle its revision.

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, establishing constant dialogue with the customer who can use all the channels available, including innovative ones, and the services on offer (information, consultancy, contact and the sale of products) are integrated among the various channels.

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

As part of our continued efforts to improve the efficiency of our distribution network, in 2014 the Conegliano branch in via Cristoforo Colombo was closed, with the self-area only being left open.

Distribution channels (no.)	**31.12.2014**	**31.12.2013**
Traditional branches	133	134
Bank4fun branches	1	1
Corporate consultancy centres	7	7
Private consultancy centres	7	7
ATM	156	156
POS	4,942	4,537

As at 31 December 2014, Banca Popolare · Volksbank had about 195,000 customers, of which about 145,000 private individuals, 27,000 young customers of up to 27 years old and 17,500 companies.

Customer breakdown (no. of customers)	**31.12.2014**	**31.12.2013 (*)**
Private (incl. young customers)	172,607	167,499
Businesses	17,390	16,232
Other (public administration, associations…)	4,616	4,552
Total	**194,613**	**188,283**

(*) the database was updated using the new calculation methods introduced in 2014, therefore the amounts cannot be compared with those set out in the previous financial statements.

Customer relations were strengthened further in 2014. The intention to strengthen the role of consultants continued, including with an initiative extended to all the customers aimed at achieving excellent relations with the customer, creating regular opportunities for the bank and the client to meet.

The intention is to place the emphasis on customer care, both with respect to consultation and sales, and also the after sales aspects.

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 Company 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 continued customer care, also trying to increase the focus on after-sales efforts in order to achieve truly excellent customer relations.

The specific commercial initiatives are being developed to distinguish the Bank's services from the competition, ensuring, among other things, 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.

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. 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.

Banca Popolare · Volksbank aims at constantly strengthening its territorial roots as a regional bank through close involvement by the locals as shareholders and stakeholders in the Company, and it has established itself as a bank that can make an important contribution to the development of the local economy.

1.10.2. THE TERRITORIAL NETWORK AND SALES ACTIVITIES

Banca Popolare · Volksbank is implementing a customer separation strategy in order to become more specialised in its approach to management and consultancy, know-how and personalised assistance, and also by availing of consultancy centres for the top customers. This will ensure that customers are managed on a structured, professional basis, with their specific requirements being met.

Private and Corporate Banking customers for example will therefore now be assisted by specialised consultants at the consultancy centres in the territorial offices.

The consultancy given at these centres includes concrete service promises in tandem with binding consultation procedures that the staff follow scrupulously.

The intention to strengthen the role of consultants continued in 2014, including with an initiative extended to all the customers aimed at achieving excellent relations with the customer, creating regular opportunities for the bank and the client to meet.

The Company wished to place the emphasis on customer care, both with respect to consultation and sales, and also the after sales aspects.

Territorial distribution of branches	**31.12.2014**	**31.12.2013**
Trentino-Alto Adige	**84**	**84**
– Bolzano	64	64
– Trento	20	20
Veneto	**46**	**47**
– Belluno	21	21
– Treviso	12	13
– Venice	13	13
Friuli Venezia Giulia	**3**	**3**
– Pordenone	3	3
Total	**133**	**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 prestigious 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 level agreements ("SLAs") which provide for an annual structured interview among other things, and supported by specific consultancy applications.

1.10.3. LOANS TO CUSTOMERS

Private customers

The Banca Popolare · Volksbank consultant continuously monitors customer relations: the customer is followed during the entire relationship cycle, with a section dedicated specially to young people, then to when the customer starts work and finally with adult customers offering many different solutions to meet their specific requirements.

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

About 173,000 private customers are followed in the branches and consultancy centres of Banca Popolare · Volksbank. About 9,000 private banking customers are followed by specialised consultants with a wealth management approach.

The commercial dealings of Banca Popolare · Volksbank revolve around "constructive dialogue" whereby the consultant can "discover" the customer's requirements and provide them with added value, proposing the appropriate solutions.

The areas cover the building up of assets, life and non-life insurance, home mortgages for first houses, consumer credit and pension requirements.

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

Corporate customers

The aim of Banca Popolare · Volksbank is to provide companies with consultation services and global assistance in accordance with their requirements. A meeting is therefore held with each company in order to discover their short-term requirements, in addition to their medium and long-term requirements.
Around 2,000 corporate customers are followed on a more focused basis, on the basis of well-defined criteria, and taking account of their requirements. The consultants organise a meeting at least once a year, in which Banca Popolare · Volksbank informs them of their rating, the evaluation criteria are explained, concrete suggestions are provided on how to improve their rating with the Company, and finally, they are given their Rating Report. The aim of this meeting is to get a comprehensive picture of the company's requirements.
A number of different information evenings were organised in 2014 called Banca Popolare · Volksbank meets business people". Within the scope of these meetings, the shareholders, customers, representatives of trade associations and Company management met to discuss current economic-related matters.

Young customers

Banca Popolare · Volksbank has invested in the youth segment for a number of years. Young people of between 11 and 18 can use the services provided under the brand bank4fun.
There is a youth consultant in every branch, who is available for personal consultation by young customers and their parents.
The bank4fun site was the most successful online section in recent years: the platform www.bank4fun.it provides a community where young people can meet and talk about the various arguments that interest them. Around 4,000 users registered on the bank4fun web-page during the year. The direct b@nking or sms b@nking online services are popular with young people and are used to carry out all their banking operations online.
The sites is not just used for young people to stay in contact with friends, but also to find out more about interesting current affairs. Articles on different matters are written and published on a daily basis.
Young customers can use the new contact form to contact the Company at any time, and make an appointment with the youth consultant at the branch. Bank4fun has always placed great emphasis on customer safety. All the contents put online are examined by bank4fun before being published. In addition, users have to agree to certain rules of conduct and their parents must sign the general terms in effect.
Bank4fun offers specific bank products especially for young people such as an Orange savings book, the Orange Account, the Conto Uni or the Conto Start. In addition, young people can take advantage of certain discounts by joining up with the "Club Orange" when events are being held, or get up to 30% discounts in over 200 shops and services.
The events and exhibitions organised by the Company for young people have also become unmissable events. Numerous trips, workshops and tournaments are always being proposed and carried out in collaboration with a number of different youth associations. The branches contribute towards increasing the visibility of the brand on a targeted basis: especially with the traditional "Cagesoccer" and "Soap-soccer" tournaments which are supported enthusiastically any time they are organised during town festivals or the summer camps run by Caritas. However, the main event every year is the "bank4fun Geo-Challenge", a quiz in which pupils from different classes pit their knowledge of geography against each other. Over 230 classes from the entire catchment area of the Company took part in the game in the 2013/2014 school year, with 20 events held involving about 4,500 participants.
There was a further expansion of the youth section in 2014. New issues will be introduced in 2015 such as financial education.

Children

Banca Popolare · Volksbank has developed specific initiatives and offers for younger children.
The "Babypass" has been available since 2012. A free Polaroid camera is given to the hospitals in the catchment area of Banca Popolare · Volksbank. Children can also open savings books in their own names, with an initial contribution of 35 euros from the bank.
Children of between three and six receive a birthday card from Banca Popolare · Volksbank along with a nice present that they can collect from their local branch.
The "gioco Blue" initiative is available for children of between 6 and 11; this is a game aimed at helping these children become more aware of saving. The game accessories contain information on different matters relating to saving. The 2014 "gioco Blue" theme was "The human body". Each participant received a newspaper containing information suitable for children, relating to the human body and food, and every month they received a recipe book with instructions for interesting experiments. Every time a young customer made a deposit on their savings book, they received a small present.
The "newspapers" and "small recipe books" were also handed out at the primary schools. Classes will receive prizes based on their participation in competitions run by the Company.
Finally, Banca Popolare · Volksbank offers "Bank visits" to children. The visits help them understand what banks do and how they work. Both the children and the teachers always enjoy these visits, and are happy to take advantage of the opportunity.
The much-loved calendars and school timetables are also provided to the children and young people.

1.11. BANKING ACTIVITIES

1.11.1. BANK PRODUCTS

Product Management

The 2014 guiding principle was to operate more efficiently as consultants, assistants and implementers of the sales network. New measures to streamline, simplify and improve the current range of products were introduced to that effect, with improved preparation of the consultants for their meetings with customers to create a positive product experience for the end-consumers. At the same time, the updated products facilitate branch management and give more time and space to the consultants to offer the customers with "excellent consulting services".
The Product management service added new products in 2014, 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.

On-line banking

Numerous initiatives were taken in 2014 to strengthen the on-line banking services offered. The new Alto Adige Pass consultation and top-up function was introduced at the beginning of the year, an integrated transport card for the Bolzano Province.

A family budget ("Il tuo budget") function was also added to the direct b@nking service to provide customers with useful services relating to home economics and their own household financial management. This function allows customers to prepare accounts and reclassify, including automatically, all the movements on their current accounts, grouping them together by expense category or income category to get an overall vision of their cash flows and check these against their own budget forecasts.

The "on-the-move" private customers were also offered a new app to be used with tablets that have android operating systems. The new app has all the functions already available on the app for Apple iPads, which have been on the market since 2012. The Company can now reach potentially 90 percent of the tablet market in circulation with these two apps.

The availability of services using electronic channels was also expanded for corporate customers. Business people now have another instrument to manage their CoB@ web when they are on the move. They can use the new app for iPhones to consult balances, movements on the current accounts and POS payments in Italy or abroad, and authorise bank transfer details entered from the fixed workstations.

An ambitious project to strengthen the integrated multi-channel services was started in the second half of the year, which will introduce important innovations in 15-18 months to provide customers with increasingly complete online services, such as audio-video meetings with their consultants and numerous new functions to manage their banking relationships.

Basic products and loans

There has been a review made of the products aimed at private customers: the range was streamlined, and the individual products are more simple and transparent. Current accounts have been more accurately defined and differentiated, while basic accounts have been brought into line with prevailing law. Specific welcome packages have been prepared for the new branches in order to increase the loyalty of new customers and increase access to retail customers, especially in the new areas that the bank is expanding into.

An important, ambitious project has been initiated: the optimisation of contract creation procedures in order to streamline and reduce the sales process, simplifying contractual agreement by reducing the number of signatures needed for example, which would reduce the amount of paper to print, thereby also contributing towards protecting the environment. The update of the computer system will also facilitate the management of the product contracts for the back offices.

Within the scope of online loans, customers can access the services from the comfort of their own homes, easily and quickly. L'e-credit by Banca Popolare · Volksbank provides the ideal solution at a very good interest rate.

The Company has signed up to the ABI-ASSOFIN memorandum of understanding in order to ensure greater transparency and give greater awareness to the customers. This membership provides for publication of an APR that includes any optional policy premium protecting the remaining debt in addition to the standard APR on the pre-contractual information.

There is an interesting new product relating to condominium loans that has met with enormous success: if the new "condominium loan" product of Banca Popolare · Volksbank is used to fund energy savings measures, condominiums can make these investments without further charges since the loan costs are absorbed by the consequent energy savings. In addition, there are no unsecured guarantees or collateral required to obtain these loans.

The new association with Finanziaria Internazionale Investments SGR gives corporate customers the option to get loans through Minibonds. These bonds give even small and medium-sized companies the opportunity to access other financial markets besides the usual bank products. This represents a new an innovative lending instrument.

Banca Popolare · Volksbank has also introduced other initiatives to encourage access to credit for small and medium-sized enterprises (SMEs):

- it entered into an agreement with the Ministry of Economic Development to grant loans to SMEs, guaranteed by the SME Guarantee Fund, in accordance with Law 662/1996;
- accreditation with the “electronic request” portal of Veneto Sviluppo to simplify access to subsidised loans from the rotation fund;
- it forms part of the agreement between ABI, the Ministry of Economic Development (Mise) and Deposit and Loan banks (CDP) to grant subsidised loans with financing in the form of low-interest loans of 2.75% granted by the Ministry of Economic Development (Mise) in accordance with Law Decree 69/2013;
- it has an agreement with the Province of Trento to grant subsidised loans from the rotation fund in accordance withe article 34-ter 1 of L.P. 6/1999.

Insurance and pension funds

There was intensive work carried out in 2014 on the individual insurance requirements of Banca Popolare · Volksbank customers. All of these efforts resulted in a high number of insurance contracts signed.

The pension fund initiatives were successful and there was a considerable increase in people signing up to the open pension fund Arca Previdenza in 2014 compared to 2013 - which had also been successful - confirming the effectiveness of the project which began in 2012. Anyone who subscribes to the Arca Previdenza Pension Fund and stays for at least 8 years with a total contributory amount of at least Euro 15,000, will meet, among other things, the requirements needed to avail of the first house savings loan of the independent Province of Bolzano. Banca Popolare · Volksbank signed the house savings loan with the independent Province of Bolzano on 23 December 2014.

Between April and the beginning of June 2014, the Company was busy with its new temporary life insurance product available to customers which replaced the one currently in use. The new policy provides numerous advantages to customers, with the main ones being: a fixed premium for the entire duration of the contract, no differentiation between genders with respect to the premium, total sum of the premiums lower than the previous policy. This project will continue through 2015. Other policies promoted by the Company met with equal success.

There was a lot of interest shown in the new CPI Imprese policy. This insurance product was subscribed to by over 300 companies and/or individuals during 2014, with these persons representing key personnel such as the legal representative, the CEO, the general manager or the sales manager, the shareholders or partners, who were able to combine the loan given to the company with insurance cover for themselves.

Trends in the car liability insurance area continued to be positive, with new subscriptions. The new policy renewal agreement system adopted by the Company was much appreciated by customers. The customers can agree to renew their policies by simply answering a phone message sent by the Company, without having to go in person to the bank branch. The car insurance discount given to shareholders was also appreciated.

We should point out the significant training given to the consultants, who are in contact with customers on a day to day basis, and therefore need continuous updating and support in order to be able to respond effectively to the questions asked, and to be able to propose the most suitable products in accordance with specific customer requirements. The constant and continuous training provided in 2014 ensured that many workers obtained the obligatory IVASS certification to place insurance products.

Changes made to comply with regulatory requirements by Banca Popolare · Volksbank involved transparency with respect to customers. It mainly worked on insurance contracts linked to loans given by the Company with respect to this area: the Credit Protection Insurance policies. It was therefore decided to introduce a satisfaction questionnaire as provided by IVASS along with providing customers with more information such as the overall cost of the loan with and without the policy, in addition to implementing monitoring policies as provided under the ABI-ASSOFIN agreement signed by the Company in November 2014.

1.11.2. PROVISION OF INVESTMENT SERVICES

The work aimed at strengthening with instruments capable of providing investment services continued. Private customers were assisted by expert consultants in these matters. Maximum flexibility is provided with constant updates. In addition to the 134 branches, our experts can also be found in consultancy centres in Bolzano, Bressanone, Brunico, Merano, Trento, Belluno, Mestre and Conegliano.

The customer requirements were identified during the financial consultation in order to optimise the customers' portfolios. The fundamental values underlying the consultations included diversification and solid composition. The investment profile was established on the basis of the risk appetite of the customers, the scope of the investment, the amount of capital and the awareness of the financial instruments in order to optimise the portfolio. Great importance is given to providing a balanced relationship between risk potential and return. Our concept of consultancy is divided into four stages through which:

- The requirements are identified
- The investment profile is defined
- A personalised investment plan is drawn up
- Efficient control and reporting systems are put in place.

An clear, understandable report of the investment plan is then drawn up thanks to innovative analysis and consultancy instruments. The range of investment instruments offered to private customers is constantly expanded, also regarding both Italian and foreign asset management companies. Banca Popolare · Volksbank has also collaborated with the Istituto Centrale Banche Popolari Italiane (Central Institute of Italian people's banks) for the last three years. This partnership especially 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.

In addition to the financial, insurance and pension consultation services, a significant new wealth management product is the new service that our Private Centres offer their customers: inheritance planning

The transfer of assets from one generation to the next requires far-sightedness and careful planning. The right decisions have to be made in order to ensure that the assets are transferred safely with efficient optimisation. We have offered the following services since Autumn 2014:

- an analysis of the family and asset situation, the requirements expressed and the relative solutions, all together in an inheritance planning dossier, taking account of any tax benefits;
- drawing up of wills and testamentary contracts to govern the asset regime and any endowments;
- personalised solutions to divide up the property and assistance given through all stages.

The solutions and reports on tax optimisation of the inheritance are drawn up and developed by external professionals with whom the Banca Popolare · Volksbank has a cooperation agreement.

1.11.3. OWN PORTFOLIO MANAGEMENT

The own portfolio management goal is to provide significant support to the overall profitability of Banca Popolare · Volksbank.

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

The manager also has to:

- ensure the strategic asset allocation and tactics relating to the Company's own securities portfolio (for example fixed income securities, funds, separately managed investments and derivative products);
- to trade a number of different financial instruments within the limits established by the financial operating plan.

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 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 based on:

- 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 (investing in many asset classes, especially in fund form).

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.

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.

1.12. GOVERNANCE ACTIVITIES

1.12.1. LIQUIDITY MANAGEMENT AND FUNDING

The indications contained in the “Strategic Plan” and the “Liquidity management and funding plan”, 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, formed the basis on which liquidity was managed by the Company in 2014.

The increase in direct funding from customers has allowed 100 million of a loan with the ECB to be paid back early and repayment of a portion of the 75 million bond about to mature on the capital market. The subsequent sale of own securitisation securities with a cash flow of 245 million and issue of the “Schuldscheine” loans for 4.5 million were used mainly to increase the own portfolio with liquid securities, and, with 30 million from a portion of the EIB line of credit, to create reserves to pay the high tax amounts at year end that will fall due for payment. The EMTN programme was only considered as an operating “reserve” for 2014, but no bond issues were made.

The amount of “eligible securities” which had not yet been pledged to secure funding stayed the same, added to mostly be the acquisition of securities issued or guaranteed by the Italian State and the securities from a new securitisation of mortgage loans.

The Company operated in a difficult market also in 2014 with bank ratings tending downwards, but the system has been put to the test down through the years and is therefore capable of covering maturities and ensuring satisfactory key performance indicators, and was therefore able to meet the remaining liquidity requirements, drawing from the interbank market without any problems. The overall debt position on the interbank market increased to 546 million from the 527 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 2014 there were 1,041 workers, down slightly by 20 workers from 2013 (1,061).

Given the reduced working hours of workers with a part-time contract (182 - slightly up compared to 180 from 2013), absences due to maternity leave and unpaid leave, the average number of workers working in 2014 was 941 FTE (full-time equivalent), also down from 2013 (average of 958). The negative employment average of 17 workers (-1.8%)

compared to 31 December 2013 was due to the effect of the resizing the headcount in the sales network and internal services.

About 68.8% of workers pertained to the network, the remaining workers (about 31.2%) worked in internal services. Compared to previous years there was a decrease in internal service workers due to reorganisation schemes, despite the continuing centralisation of administration.

The table below shows the breakdown of internal service and branch workers by province compared to the previous financial year.

Figures by Province		31.12.2014		31.12.2013
	No. Units	%	No. Units	%
Bolzano - internal services and branches	715	68.7%	743	70.3%
Trento	90	8.6%	87	8.5%
Belluno	87	8.4%	87	8.3%
Venice	73	7.0%	70	6.4%
Treviso	65	6.2%	64	5.5%
Pordenone	11	1.1%	10	1.0%

Banca Popolare · Volksbank has a young workforce; the average age of its employees is just under 44.

It has always placed great importance on hiring and creating mixed work teams. Currently, 43.2% of the workforce is female. Of these, 22 women cover leadership positions in the Bank (six at headquarters and 16 in the branch 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 3.4% of the employees in 2014 had disabilities.

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 Company 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 2014.

The Company agreed new part-time contracts in 2014, 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 30 employees on maternity or paternity leave as at the end of 2014; another 18 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 21.5% while 69.0% 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 Company, and maintain it.

The percentage of workers over 50 amounted to 23.9% in 2014. The significant increase compared to 2013 (when it was 21.9%) is partly due to the change in the retirement age.
The Company 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. and therefore contributed to the local community, a total of 73.9 million in wages in 2014, which represents about 44% of the added value created during the year.
The Company 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 Company is in line with average figures on the market. However, its variable remuneration is particularly competitive, and is above the market average.
Banca Popolare · Volksbank uses set salary ranges for the different categories of employment which are applied equally to both men and women.

New Policy for managing human resources

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

Staff Training and Development

There were a number of staff training initiatives held in 2014. Overall, over 33,000 training hours were given to employees in 2014.
The training sessions were also optimised and made more efficient. There was a conceptual change in the professional development measures made, from the "catalogue" or "professional profile" training to training of the workers in accordance with their skills.
In general, the training provided complies with the numbers and real objectives of the Company, which applies to the specialised training events and management training. The aim is to deal with areas that the workers have indicated should be dealt with through a number of different indicators, surveys and interviews.
Self-learning has become increasingly important, in all its different forms. The opportunities available at a technical level in terms of time-efficiency and costs were taken through e-learning, Lync sessions, films and other forms of multi-media learning.
The Company continued to focus attention on professional development of management during 2014. The role of instructor of management was given great importance within the training plan. The process comprised: targeted interviews with the leaders and staff, 24-hour workshop in Spring, meetings with peer groups, monthly sessions using distance learning instruments ("Lync") and meetings with all management personnel in Autumn.
A campaign called "Autumn initiative, excellence in customer care" was also set up. The staff development department actively took part in the project, supporting the initiative through a series of training activities. Great importance was placed on the "Learning campaign" in particular and the role of instructor of management staff.

The Company will continue to process the basic skills of managers (feedback, coaching) and the role of leader who is acting as the instructor of his/her associates. The subject matter “Manage with vitality” will be examined in more detail and developed as an essential distinguishing factor in 2015.
The increased training hours were provided by internal teachers with respect to the development of technical-specialist skills also in 2014. A project to qualify internal trainers was concluded and the professional courses that they manage were revised to increase the efficiency of these encounters and minimise the time workers have to spend away from work to acquire the new know-how. After a careful analysis of training requirements, training was provided that gave participants the theoretical awareness of how learning works for adults, and what the most efficient training instruments are. The course was constructed by taking account of all of the above, therefore mixing blended learning with classroom sessions and individual coaching in order to construct a personalised professional course to follow. More than 20 internal trainers were involved who completed the training sessions in their respective areas of competence in 2014.

IVASS certification

680 staff members were given ISVAP/IVASS certification in 2014, i.e. 95% of sales staff, trained to work in insurance consultation and sales.
Almost 10,000 hours of e-learning was provided and about 17,000 hours in classrooms for IVASS training.

Relationship Manager

A training course for all the sales staff was completed, set out over 4 days, and alternating classroom work with individual coaching and application of the new knowledge in day-to-day business. The focus was on the creation and care of interpersonal relations between customer and consultant to create added value. The training involved over 150 consultants in 2014 and about 140 sales network managers. The training course started in 2012 and involved a total of about 670 staff; it was successfully concluded.

Yearly Worker Interview

Staff interviews are held on a yearly basis. The manager discusses the results and the goals reached by the employee the previous year in the first part of the interview. In the second part of the interview the goals and support measures for the upcoming year, along with the medium term position of the staff member are defined and set down in writing A new evaluation form will be introduced in 2015. The work performance and potential of the individual workers will be evaluated with greater objectivity using the new form. The dialogue between the leader and the staff member will continue to be of fundamental importance within the scope of the process. All the activities assigned will be discussed and commented on, including everything that could be improved. The annual interview with the staff member is an important instrument to define the reciprocal expectations, develop the strong points and counterbalance the weak points. It requires a personal commitment by both parties. It is also an instrument to decide on what training would be most suitable for the individual staff member. The staff members have regular, targeted interviews with their superiors which also clarify professional prospects. The Company can also provide transparent incentives to the best workers and efficiently plan career advancements on the basis of merit.

Flexible work times

An agreement was signed in September with the Company trade union representatives to introduce flexible times for staff members in the professional areas (from 1st to 3rd salary levels) at the Company branches. The workers were therefore given the chance to adjust their work hours to reflect their personal lives in accordance with the work requirements.
The agreement was tested between 1 October 2014 and 31 January 2015. If the test proves to be a success, and if there are no other changes to the agreed parameters, the flexible work time schedule will be applied in the new head office from the start.

1.12.3. LEGAL SERVICE

The legal service includes two separate organisations: the Service for Bad Debts and the Legal Consultation Office.
The Service for Bad Debts 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 42 million during the course of 2014, settling about 400 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 Company wishes to carry out, taking care of the legal aspects and setting boundary limits. It checks the contracts and agreements that the Company 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

Banca Popolare · Volksbank works 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 computer outsourcer, SEC, allows for high levels of service by the IT system and continuous development and innovation sponsored and promoted primarily by the Company. This was confirmed in a 2014 survey of all bank users of the SEC system, when Banca Popolare · Volksbank was the one with the highest level of satisfaction with users with respect to the quality of the system (90% satisfied or very satisfied with the systems) and the only Bank whose satisfaction rating by users has constantly increased for 3 consecutive years.
Banca Popolare · Volksbank is recognised as a Bank that is always up to date on technological developments to ensure that its customers receive the best level of service.

Stand e-post

Banca Popolare · Volksbank is the first bank in Italy to give its customers the option of eliminating postal charges for sending bank documents.
Customers have been able to consult and/or print all their bank documentation “online” through the Internet banking service for a number of years now. In addition to this, all customers - including those who do not use the Internet - have been able to consult and print all their documents at the stand in every branch of Banca Popolare · Volksbank since September 2014. The customer can thereby avoid the postage charges for sending the documentation and can view the documentation more quickly. The bank statements for example are already available 2 or 3 days after month-end at the stand. The customer can therefore view the communication very quickly in addition to saving on postage costs.
The only requirement is for the customer to have a debit card (Bancomat®) to access the stand at any of the branches. (Over 90% of customers have debit cards).

Instant communications for all staff

All staff members were given the option of internally communicating with each other, including in groups, via chat, audio or video from their work computers in a 2014 project which was a follow-on from a previous project. This creates enormous benefits for the staff, especially with respect to training sessions since they do not have to physically move and classrooms with training computers do not have to be set up. The extension of this instant communication from the previous 250 staff members to all staff members was done at zero cost.

Expansion of Next Generation ATMs

The installation of Next Generation ATMs continued throughout 2014, which accept banknote payments and cheques. In the meantime, a total of 36 Next Generation ATMs have been installed at 35 branches (one branch has two). Customers enthusiastically welcomed this service, and about half of all cash payments are now made through the ATMs instead of the bank counters in most of the branches. Banca Popolare · Volksbank will continue making these investments to improve the efficiency of the resources used and automate the banking services.
Even in 2014, most of the application developments involved amendments which had to be made in accordance with numerous new regulations. The regulations included repeated innovations and amendments on "anti money laundering" and "adequate checking", monitoring and communications on balances and movements of the customers, the USA-Italy FATCA agreement on giving notice of the accounts and movements of US citizens and the new circular 263 of the Bank of Italy which has significant impacts on operations and formal matters.
As a whole, in 2014, over half of the investments in application adjustments made by the SEC on behalf of the Company relate to new regulatory obligations or that have been changed/expanded.

1.12.5. PROCESS INNOVATION

Tablets

Banca Popolare · Volksbank 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 Company, in addition to helping protect the environment, the tablet improves operational quality since it reduces operating risks. 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 2014, already half of the customers that used to use the branch were signing for their transactions on their tablets.
The tablet project will continue through 2015 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.

Expansion of "cash recycler with touchscreen" - automation of the cashier's desk

Banca Popolare · Volksbank was the first bank in Italy to introduce an automatic cash device that allows all the staff 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 at the machine. This will help customers to become more used to using automated bank systems without forcing them to use the systems without any support.
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. After the great success of this new branch concept which was introduced in October 2013 in Treviso city, it was repeated in a further 17 branches in Veneto and Trentino and the Renon branch.
In addition to tablets, next generation ATMs and the new e-post service at the stands, the cash recycler with touchscreen forms the basis for the new concept of a paper free branch.

Payment Systems

There was a considerable increase in electronic payments in 2014 compared to the previous year. The Company recorded a significant increase in volumes on the POS systems for example, through various initiatives and specific support to the company customers. The total volume in this area increased on a two-figure basis (PagoBancomat +10 percent, Credit Cards +21 percent). Internet payments (e-commerce) volumes also increased significantly compared to the previous year, by a total of 18 percent. These growth levels are significantly higher than market levels which increased to a much lower extent.
Efforts continue to encourage electronic payments both at national level and by the European commission. This is both because society pays a high price for cash and also to fight money laundering. Law 51/2014 in Italy made it obligatory for companies of a certain size to accept payments of more than Euro 30 by debit card as of 1 July 2014 (Bancomat®). Further obligations to change the contract and the product were introduced into this regulatory framework with considerable impacts on banks and forcing them to incur considerable costs.
The migration to SEPA was finally concluded at European level. Banca Popolare · Volksbank successfully completed this operation much earlier than the deadline. The Operations Department worked intensively on the migration towards new payment instruments from when SEPA was introduced. The Company dealt with this by providing specific information and communication to the corporate customers who were also supported by the qualified consultants. The European commission is planning further developments to improve the integration of the European payment market (for example PSD2 - Payment Service Directive 2).
Many innovations on the international payment market are still at the introduction and development stage. Banca Popolare · Volksbank is currently monitoring all the new aspects of this area. Innovations in the payment systems may cause significant changes in the payment services market. The declared goal is to offer shareholders and customers the best solutions on the basis of individual requirements.

1.13. MUTUAL NATURE AND INITIATIVES FOR SHAREHOLDERS

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

On the basis of article 2545 of the Civil Code, this chapter will deal with the “criteria followed by management policies to achieve the mutual objectives”, which objectives are expressed and set out under article 2 of the articles of association of the company, where it is written “The corporate purpose of the Company is to gather savings and grant various types of loans to both shareholders and non-shareholders, taking inspiration from cooperative and people’s bank principles. To that end, the Company is especially attentive to the territory it operates in through its network, with special regard to small and medium sized companies and cooperative companies. In accordance with its corporate purpose, the Company can grant its shareholders concessions in order to use specific services. The Company can carry out all banking, financial and stockbroking transactions and services, including the activities recognised as mutually beneficial, and carry out any other transaction geared towards or in any case related to achieving the corporate purpose. The Company may belong to associations and consortiums and enter into agreements in Italy and abroad in order to achieve its corporate purpose”.
In accordance with the cooperative nature of the Company - proudly continued in its 128 years of activity - management is focused on its main objective of establishing long-lasting relations with shareholders and customers, favouring the family segment and small and medium-sized enterprises, with special attention to local economies.
The cooperative relationship is manifest both in the internal cooperative nature, i.e. its relations with shareholders who provide capital to the bank and receive services as customers, and in its external cooperative nature, i.e. its relations with the social and economic context of its territory which it actively helps to develop.

1.13.2. SHAREHOLDERS

As at 31 December 2014 the shareholding structure comprised 46,294 Shareholders and 989 Banca Popolare · Volksbank shareholders not listed on the shareholders’ register.
The total number of shares is the same, amounting to 38,127,110.
The 2014 shareholders’ meeting, which involved the participation of 1,700 shareholders, set the issue price of shares at Euro 19.95, which includes Euro 4.00 nominal value, and Euro 0.30 per share as the dividend paid in 2014 for 2013.
A total of 2,463,019 shares were traded in 2014 for a value of over Euro 45.6 million, corresponding to about 6.5% of the total outstanding shares.
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.
The Banca Popolare · Volksbank shares are traded on the secondary market through the Central Institute platform of Banche Popolari Italiane S.p.A. (ICBPI). Offers and requests intersect without the intervention of the Company. In accordance with the provisions of the supervisory body Consob, Banca Popolare · Volksbank therefore complies with investor protection regulations.
Numerous initiatives were undertaken in 2014 to promote the association between the Company and its shareholders.

Volksbank-Lounge: the virtual city by the shareholders - for the shareholders

With Volksbank-Lounge, Banca Popolare · Volksbank wishes to strengthen local economic cycles and the networks of relations and dialogue between our shareholders in our catchment area of Northeast Italy.
The online community was launched in November 2013 and further functions and services were added in 2014, which was a successful year for it. The shareholders of Banca Popolare · Volksbank get a number of different advantages every day on www.volksbank-lounge.it:

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

Exclusive information

The Shareholders are kept up to date with the latest news through the magazine NEWS4YOU especially for them. The magazine is published on a quarterly basis.
The shareholders are the first to receive the most important information when they are sent the newsletter by Internet or SMS.

Shareholder events

The company organises information and discussion evenings on various subjects and shareholders can always communicate with the Company, the members of the Board of Directors, the management council and the Area managers.

1.13.3. SPONSORSHIPS AND DONATIONS

Sponsorships

Banca Popolare · Volksbank sponsors events, activities and organisations in exchange for well-defined advertising and/or economic benefits.
Banca Popolare · Volksbank supports associations or initiatives that reflect its precise marketing plan in order to achieve specific image and/or commercial goals. The sponsorships promote the image and popularity of the Company, and also aim to consolidate links with the customer in addition to being a strategic way of facilitating the initiation of new relationships.
Banca Popolare · Volksbank invested a total of Euro 472,443 in sponsorships in 2014. The sectors that benefitted from sponsorships range from sport, culture to social initiatives and training. Its support of the youth sections of sporting associations is worthy of special mention.

Sponsorship contracts are normally long-term, and can be renewed. Banca Popolare · Volksbank sponsored about 140 associations in 2014. About 80% of the investment was related to sporting activities, while the remaining 20% benefitted cultural, social and environmental associations.
The amounts managed directly by the branches to support local initiatives of small/medium sized entities should also be added to this amount. This amount came to a total of Euro 350,000 in 2014.

Sponsorship activities 2014	**Amount**	**% of total**
(in Euro)		
Sport	458,807	79.61 %
Culture	94,924	16.42 %
Social	22,650	3.97 %
Total	**576,381**	**100.00 %**

Donations

Banca Popolare · Volksbank supports the area through donations also, supporting worth causes.
Generally, the donations are for public benefits, and can also be given to cultural institutions. Traditionally, the Company contacts local structures receiving such donations directly within their catchment area. There were about Euro 200 thousand as a whole given in 2014. 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 Company 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 Company, 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 2014. The first paperless branch was also opened in order to ensure brighter prospects for future generations

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 2014 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 2014 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 securitisation transactions 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, securities that are 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 the 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 0.9 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 2014 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 47.7 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). Euro 43.5 million were classified as available for sale ("AFS") while Euro 4.2 million were classified as held for trading ("HFT").
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 the Italian State.
The structured securities total Euro 14.8 million on the financial statements, with the available for sale (AFS) portfolio amounting to Euro 10.6, and the held for trading (HFT) portfolio amounting to 4.2 million 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 32.9 million as at 31 December 2014, and are entirely classified as available-for-sale. All these instruments have remaining maturity equal to or less than seven 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)							
	2015	**2016**	**2017**	**2018**	**2019**	**After 2019**	**Total**
HFT	–	1,505	–	–	–	–	1,505
AFS	153,313	142,222	62,571	140,465	15,585	97,580	611,735
HTM	–	–	25,342	15,852	–	10,573	51,767
LRO	–	–	–	–	–	–	–
Total	**153,313**	**143,727**	**87,913**	**156,317**	**15,585**	**108,153**	**665,007**

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

Exposure to sovereign debt - by issuing country					
(thousands of Euro)					
EU countries	**HFT**	**AFS**	**HTM**	**LRO**	**31.12.2014**
- Italy	–	587,425	51,767	–	639,192
- Austria	–	7,496	–	–	7,496
- Germany	1,505	5,265	–	–	6,770
- Belgium	–	2,798	–	–	2,798
- Finland	–	1,117	–	–	1,118
- Holland	–	3,593	–	–	3,593
- Portugal	–	4,041	–	–	4,041
Non-EU countries	**–**	**–**	**–**	**–**	**–**
Total portfolio	**1,505**	**611,735**	**51,767**	–	**665,007**

There are no other exposures to sovereign debt. 57.9% of the total exposure held has a residual maturity of less than 3 years.
As at 31 December 2014, the sensitivity to a change of 1 b.p. of the credit spread of the Republic of Italy government securities classified as “Financial assets available for sale” amounted to Euro 149,346.4, with an implicit duration of 2.37 years. There were no government securities classified as “Financial assets held for trading”.

1.14.4. ATYPICAL OR UNUSUAL TRANSACTIONS

With reference to Consob communication no. 6064293 of 28 July 2006, there were no atypical and/or unusual transactions carried out in 2014, in the sense of Consob communication no. DAC/98015375 of 27 February 1998 and no. DEM/1025564 of 6 April 2001, being transactions that do not form part of the normal day to day operations of the company, and which, due to their significance and/or relevance, nature of the counterparties, methods for calculating the transfer price or timing of the event, could give rise to doubts regarding the correctness or completeness of the information on the financial statements, conflicts of interest, safeguarding the company assets or protection of the shareholders.

1.15. BUSINESS OUTLOOK

The global economy is showing signs of recovery, but there are still signs of uncertainty. The United States showed signs of sustained growth in the final part of 2014, but growth is still weak in other areas (Russia, Japan and other emerging economies). Low crude oil costs reflect historically low levels of demand on the one hand and volumes available that benefit technological innovation on the other. A prolonged period of low prices could help support growth. The financial conditions are favourable, but market volatility is increasing.

Growth levels are still inadequate in the euro area due to high unemployment which is partly due to the unused production capacity. Investments are still at minimal levels; any recovery in expenditure in this sector is usually associated with a phase of recovery that is sustainable in the medium-term.
There are still no signs of real recovery in Italy. The gross domestic product is constantly falling due to the constant decline in investment levels.
However, certain recent indicators show a possible reversal of the tendency for the euro area and for Italy. The €-coin indicator established by the Bank of Italy which approximates the development of an economy in an area, increased in December and January after a lengthy period of decline. Unemployment rates also fell slightly in the EU area, standing at 11.4% (-0.1%) and 12.9% in Italy (-0.4% and +90,000 units employed).
There are also signs of improvement in household and company confidence that may continue if petrol prices stay low and the ECB maintains the pre-announced expansive monetary policies.
As noted above, growth consolidation will require a recovery in the levels of investment expenditure. The uncertain economic prospects has resulted in companies becoming more prudent. Recovery of investments could be supported by adequate support policies. Monetary policy actions should be accompanied by structural reforms that can support the changes taking place.
The government security purchase programme and the area institutions announced by the ECB on 22 January add to the programmes to purchase guaranteed bank bonds and securities issued against loans to companies and families which have already begun. The financial markets responded well to these announcements.
These actions are expected to continue until inflation rates change, with a target of about 2 per cent established. If these actions produce positive results, the macroeconomic risks of the area may be reduced with significant benefits to Italy.
These actions may allow interest rates to be kept low, encourage the availability of credit by the financial systems, reducing costs. Low exchange rates would also facilitate recovery.
With respect to risk, there may be an increase in financial asset prices, and if that continues, in tangible assets also. However, these types of risks are not reflected in the market indicators at the moment. The financial authorities have guaranteed that they will monitor these types of risk very carefully.

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 2014, 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 29 April 2014, the aforesaid reserve, unavailable for distribution, as at 31 December 2013, constituted in accordance with the abovementioned regulations, amounted to Euro 3,373,404.

The amount of the aforesaid reserve, calculated with reference to 31 December 2014, was Euro 1,737,187, mainly due to the fair value measurement of own liabilities resulting from the change of own creditworthiness.

Therefore it was unnecessary to allocate further provisions in the distribution of the profit for the year. In addition, Euro 1,636,217 allocated to reserves in previous years can now be distributed. The total distributable amount is therefore Euro 21,883,422.

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 2,200,000.

The total distributable amount is Euro 19,683,422, 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 profit for the year	**20,247,205**
Change (+/-) in the unavailable profit reserve under art. 6, paragraph 2, Italian Legislative Decree no. 38 of 28 February 2005	(1,636,217)
Net profit for the year including the change in the unavailable profit reserve under art. 6, paragraph 2, Italian Legislative Decree no. 38 of 28 February 2005	21,883,422
Provisions to the legal reserve	(2,200,000)
Distributable net income	**19,683,422**
Dividend of Euro 0.30 on 38,127,110 eligible shares	(11,438,133)
Remaining income allocated to extraordinary reserve	8,245,289

REPORT BY THE BOARD OF STATUTORY AUDITORS

REPORT BY THE BOARD OF STATUTORY AUDITORS

REPORT BY BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014 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 2014, the board of statutory auditors performed the audits required by the Italian Civil Code, Italian Legislative Decree no. 385/1993 (Consolidated Banking Act "T.U.B."), 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 2014, 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 2014 we took part in the shareholders' meeting of 29 April 2014 and all the meetings of the board of directors (24 meetings) and we can confirm validity of the management through periodic checks (21 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 pursuant to Italian Legislative Decree 231/2001 is now operational; the Supervisory Body does not form part of the Board of Statutory Auditors and the necessary information was exchanged;
– we monitored the adequacy and function of the organisational structure, the system of internal controls, 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 audit 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 non-performing and impaired positions.
- we received the opinion of the independent auditors, 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 independent 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 independent 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 responsible for the preparation of corporate accounting documents who confirmed the adequacy and actual application of the procedures pertaining to the financial reporting of the bank;
- the board of directors carried 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 2014, we report the following:

- pursuant to art. 2409-bis of the Italian Civil Code, legal audits of Banca Popolare dell'Alto Adige accounts were performed by independent auditors BDO S.p.A., Milan, as per their appointment by the general shareholders' meeting;
- on 11 February 2015 the independent auditing firm submitted its report on the financial statements at 31 December 2014 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 also with the support of the independent auditors - and the Income Statement, together with other information required to provide a true and fair representation of the Bank's equity, economic and financial position;
- the directors' report describes the company performance during the financial year and contains an analysis of the Bank's situation and of the performance and results of operations. There is nothing that needs reporting on this point;
- none of the directors had recourse to the exceptions provided by art. 2423(4) of the Italian Civil Code;
- the Chairman of the Board of Directors, Otmar Michaeler and the manager responsible, Mr Alberto Caltroni, issued the certificate under art. 154-bis, par. 5, of Italian Legislative Decree 58/98 on the Financial Statements for the Year on 06 February 2015;
- with reference to the proposed dividend distribution, taking account of the Supervisory Bodies' recommendations and the Bank's capitalisation of the Bank, the Board hereby approves the proposal made by the Board of Directors.

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 independent 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, 15 February 2015

THE BOARD OF STATUTORY AUDITORS
Signed by:

Mr Heinz Peter Hager - Chairman
Mr Georg Hesse - Standing Auditor
Mr Joachim Knoll - Standing Auditor

CERTIFICATION ON THE FINANCIAL STATEMENTS

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 2014.

2. It is further certified that:

   2.1. the financial statements as at 31 December 2014:

   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, 6 February 2015

The Chairman of the Board of Directors

Signed by:
Otmar Michaeler

The Manager responsible for the preparation of corporate accounting documents

Signed by:
Alberto Caltroni

INDEPENDENT AUDITORS' REPORT

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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, 2014, 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 26, 2014.

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, 2014 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, 2014.

Verona, February 11, 2015

BDO S.p.A.

Signed by:
Alfonso Iorio
(Partner)

FINANCIAL STATEMENT SCHEDULES

Balance Sheet

Assets		31.12.2014	31.12.2013
(in Euro)			
10.	Cash and cash equivalents	51,172,669	54,320,430
20.	Financial assets held for trading	46,982,315	57,806,611
40.	Financial assets available-for-sale	919,419,468	605,539,715
50.	Investments held to maturity	54,757,201	55,125,535
60.	Due from banks	39,420,360	119,224,875
70.	Loans to customers	5,124,169,380	4,922,442,920
100.	Investments	4,625,766	5,157,239
110.	Property and equipment	118,497,064	104,396,565
120.	Intangible assets	41,841,841	42,580,700
	of which:		
	- goodwill	*40,392,116*	*40,392,116*
130.	Tax assets	61,635,277	66,936,699
	a) current	*33,865,805*	*41,849,356*
	b) prepaid	*27,769,472*	*25,087,343*
140.	Non-current assets and groups of assets held for sale	–	833,714
150.	Other assets	63,602,440	68,643,936
	Total assets	**6,526,123,781**	**6,103,008,939**

Liabilities and shareholders' equity		31.12.2014	31.12.2013
(in Euro)			
10.	Due to banks	585,675,436	645,875,022
20.	Due to customers	3,507,308,773	3,025,035,687
30.	Debt securities issued	1,435,639,039	1,295,118,833
40.	Financial liabilities held for trading	3,402,446	7,275,879
50.	Financial liabilities designated at fair value through profit or loss	158,578,508	297,624,069
80.	Tax liabilities	45,798,167	46,924,163
	a) current	*19,696,983*	*21,237,188*
	b) deferred	*26,101,184*	*25,686,975*
100.	Other liabilities	126,901,880	135,069,495
110.	Employee termination indemnities	20,188,914	18,830,697
120.	Provisions for risks and charges:	2,809,104	2,468,937
	a) pensions and similar commitments	–	–
	b) other provisions	*2,809,104*	*2,468,937*
130.	Valuation reserves	1,750,639	(475,646)
160.	*Reserves*	*262,856,546*	*255,527,992*
170.	Share premium reserve	202,458,684	202,458,684
180.	Share capital	152,508,440	152,508,440
200.	Profit (Loss) for the year (+/–)	20,247,205	18,766,687
	Total liabilities and shareholders' equity	**6,526,123,781**	**6,103,008,939**

Income Statement

Income Statement		31.12.2014	31.12.2013
(in Euro)			
10.	Interest and similar income	176,732,399	175,320,789
20.	Interest and similar expense	(65,374,324)	(70,395,045)
30.	**Interest margin**	**111,358,075**	**104,925,744**
40.	Fee and commission income	69,278,072	68,932,921
50.	Fee and commission expense	(8,240,210)	(8,837,246)
60.	**Net commissions**	**61,037,862**	**60,095,675**
70.	Dividends and similar income	1,803,942	1,504,174
80.	Profits (losses) on trading	(1,836,509)	1,487,201
100.	Profits (losses) on disposal or repurchase of:	11,203,516	5,659,741
	a) receivables	*(1,236,059)*	*187,596*
	b) financial assets available for sale	*12,169,807*	*4,902,819*
	c) financial assets held to maturity	*2,465*	*3,399*
	d) financial liabilities	*267,303*	*565,927*
110.	Profits (losses) on financial assets and liabilities designated at fair value through profit or loss	18,173	206,273
120.	**Net interest and other banking income**	**183,585,059**	**173,878,808**
130.	Net losses/recoveries on impairment of:	(28,938,894)	(19,068,463)
	a) receivables	*(27,047,993)*	*(19,325,564)*
	b) financial assets available for sale	*(1,838,500)*	*(352,271)*
	c) financial assets held to maturity	–	–
	d) other financial transactions	*(52,401)*	*609,372*
140.	**Net income from banking activities**	**154,646,165**	**154,810,345**
150.	Administrative expenses:	(128,345,932)	(126,594,566)
	a) personnel costs	*(73,898,465)*	*(73,601,096)*
	b) other administrative expenses	*(54,447,467)*	*(52,993,470)*
160.	Net provisions for risks and charges	(1,794,861)	(310,723)
170.	Net adjustments to /recoveries on property and equipment	(5,395,955)	(5,644,856)
180.	Net adjustments to /recoveries on intangible assets	(1,104,875)	(1,304,535)
190.	Other operating income/expenses	17,032,407	16,547,867
200.	**Operating costs**	**(119,609,216)**	**(117,306,813)**
210.	Profits (losses) on investments in associates and companies subject to joint control	(661,474)	(1,966,525)
240.	Profits (losses) on disposal of investments	17,664	29,078
250.	Income (loss) before tax from continuing operations	34,393,139	35,566,085
260.	Taxes on income from continuing operations	(14,145,934)	(16,799,398)
270.	**Net current operating profit (loss) after tax**	**20,247,205**	**18,766,687**
290.	**Net Income (loss)**	**20,247,205**	**18,766,687**

Statement of Comprehensive Income

Items		31.12.2014	31.12.2013
(in euro)			
10.	**Net Income (loss)**	**20,247,205**	**18,766,687**
	Other net of tax income items without reallocation to the income statement		
40.	Actuarial gains (losses) on defined benefit plans	(1,216,402)	960,797
	Other net of tax income items with reallocation to the income statement		
100.	Financial assets available-for-sale	3,442,687	1,626,610
130.	**Total other net of tax income items**	**2,226,285**	**2,587,407**
140.	**Comprehensive income (Item 10+130)**	**22,473,490**	**21,354,094**

Statement of Changes in Shareholders' Equity

Statement of Changes in Shareholders' Equity from 1 January to 31 December 2014

(in euro)	Balance at 31.12.2013	Adjustment to opening balances	Balance at 01.01.2014	Allocation of result from previous year		Changes during the year								Shareholders' equity at 31.12.2014
						Changes in reserves	Equity Transactions						Comprehensive income for 2014	
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock Options		
Share capital	**152,508,440**	**–**	**152,508,440**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**152,508,440**
a) ordinary shares	152,508,440	–	152,508,440	–	–	–	–	–	–	–	–	–	–	152,508,440
b) other shares	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Share premium reserve	**202,458,684**	**–**	**202,458,684**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**202,458,684**
Reserves	**255,527,992**	**–**	**255,527,992**	**7,328,554**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**262,856,546**
a) retained earnings	255,527,992	–	255,527,992	7,328,554	–	–	–	–	–	–	–	–	–	262,856,546
b) other	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Valuation reserves	**(475,646)**	**–**	**(475,646)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,226,285**	**1,750,639**
Equity instruments	**–**	**–**	**–**	**–**	**–**		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit/(Loss) for the year	**18,766,687**	**–**	**18,766,687**	**(7,328,554)**	**(11,438,133)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**20,247,205**	**20,247,205**
Shareholders' equity	**628,786,157**	**–**	**628,786,157**	**–**	**(11,438,133)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**22,473,490**	**639,821,514**

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

(in euro)	Balance at 31.12.2012	Adjustment to opening balances	Balance at 01.01.2013	Allocation of result from previous year		Changes during the year								Shareholders' equity at 31.12.2013
						Changes to reserves	Equity Transactions						Comprehensive income for 2013	
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change 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	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit/(Loss) for the year	**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**

Cash Flow Statement

A. OPERATING ACTIVITIES	31.12.2014	31.12.2013
(in euro)		
1. Operations	**48,740,420**	**39,679,496**
- interest received (+)	176,732,399	175,320,789
- interest paid (-)	(65,374,324)	(70,395,045)
- dividends and similar income (+)	1,803,942	1,504,174
- net commissions (+/-)	61,037,862	60,095,675
- personnel expenses (-)	(73,898,465)	(73,601,096)
- other costs (-)	(56,865,570)	(55,028,900)
- other revenues (+)	19,450,510	18,583,297
- taxes and duties (-)	(14,145,934)	(16,799,398)
- costs/revenues after tax from discontinued operations (+/-)	–	–
2. Cash flows generated by/absorbed by financial assets	**(415,187,170)**	**(87,080,135)**
- financial assets held for trading	30,019,216	69,606,200
- financial assets carried at fair value	–	–
- available-for-sale financial assets	(303,548,446)	(230,742,517)
- loans to customers	(231,805,373)	74,595,944
- due from banks: on demand	1,378,789	5,312,055
- due from banks: other receivables	78,425,726	31,975,440
- other assets	10,342,918	(37,827,257)
3. Cash flows generated/absorbed by financial liabilities	**390,940,964**	**125,592,240**
- due to banks: on demand	(40,729,351)	31,753,795
- due to banks: other amounts due	(19,470,235)	(157,734,069)
- due to customers	482,273,086	322,599,251
- outstanding securities	140,735,108	93,862,611
- financial liabilities held for trading	(24,904,862)	(26,941,845)
- financial liabilities designated at fair value	(139,027,388)	(151,938,946)
- other liabilities	(7,935,394)	13,991,443
Net cash flow generated/absorbed by operating activities	**24,494,214**	**78,191,601**

B. INVESTMENT ACTIVITIES		
1. Cash flows generated by	**1,753,650**	**78,127**
- sales of investments in associates and companies subject to joint control	531,473	37,469
- dividends from investments in associates and companies subject to joint control	–	–
- sale/redemption of financial assets held to maturity	370,799	3,399
- sale of property and equipment	17,664	37,259
- sale of intangible assets	–	–
- sale of business branches	833,714	–
2. Cash flows absorbed by	**(20,523,944)**	**(64,429,679)**
- purchase of investments in associates and companies subject to joint control	(661,474)	(3,197,304)
- purchase of investments held to maturity	–	(54,045,352)
- purchase of property and equipment	(19,496,454)	(6,959,691)
- purchase of intangible assets	(366,016)	(227,332)
- purchase of business branches	–	–
Net cash flow generated/absorbed by investment activities	**(18,770,294)**	**(64,351,552)**

C. FINANCING ACTIVITIES		
- issue/Purchase of treasury shares	–	76,233,740
- issue/Purchase of equity instruments	2,566,452	(73,919,194)
- dividend distribution and other allocations	(11,438,133)	(11,441,205)
Net cash flow generated/absorbed by funding activities	**(8,871,681)**	**(9,126,659)**
NET CASH FLOW FROM/ABSORBED BY ACTIVITIES DURING THE YEAR	**(3,147,761)**	**4,713,390**

RECONCILIATION	31.12.2014	31.12.2013
Cash and cash equivalents at the beginning of the year	54,320,430	49,607,040
Net cash flow from/used in activities during the year	(3,147,761)	4,713,390
Cash and cash equivalents: impact of exchange differences	–	–
Cash and cash equivalents at year end	**51,172,669**	**54,320,430**

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 2014 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 2014 or those approved in previous financial years, whose application is prescribed or permitted for 2014, 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 2014 were drafted on the basis of "Instructions for drafting company financial statements and the consolidated financial statements of banks and financial parent companies of banking groups" issued by the Bank of Italy, by means of Ruling dated 22 December 2005, which provides, among other things, for the obligation to prepare the financial statements in accordance with the instructions contained in Circular No. 262 of 22 December 2005 "Bank financial statements: formats and compilation regulations", and subsequent updates. These Instructions impose requirements on what schedules to use for the financial statements and how to 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, irrespective of the date of settlement;
- *Consistency of presentation:* the presentation and classification of the items in the financial statements is constant from one financial year to the next, except when a principle or an interpretation requires a change in the presentation or in which another presentation or classification is deemed more appropriate making allowance for the provisions of IAS 8. In the latter case, the disclosure regarding the changes made with respect to the previous year is provided in the notes to the accounts;
- *Materiality and aggregation:* the balance sheet and income statement formats consist of items (marked by Arabic numerals), of sub-items (marked by letters), and of further 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 is allowed or required by an international accounting standard or by an interpretation thereof or prescribed by the afore-mentioned Bank of Italy's Circular;
- *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.

In relation to the indications in Document No. 2 dated 6 February 2009 issued jointly by the Bank of Italy, Consob and Isvap and subsequent amendments, the Company has the reasonable expectation of continuing future foreseeable operating activities and has therefore drawn up the financial statements with a view to the same as a going concern, also taking into account the uncertainties consequent to the current economic context.

Uncertainties associated with the use of estimates

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

For the purpose of formulating reasonable estimates and assumptions for recognising 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 the 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

Authorisations associated with the project for the merger of Banca Popolare di Marostica Soc. Coop within Banca Popolare dell’Alto Adige Soc. Coop.

On 13 January 2015, the Bank of Italy - having taken into account the results of the preliminary procedures, with regard to the matters laid down by the current Supervisory Instructions for banks (Circular 229, section III, chapters 1 and 4) - authorised as per Article 57 of Italian Legislative Decree No. 385/93, the merger via incorporation of Banca Popolare di Marostica in Banca Popolare dell’Alto Adige.

By means of communication dated 27 January 2015, the Anti-trust Authority announced that it would not go ahead with launching the preliminary investigation on the merger transaction, since the same does not give rise to the establishment or strengthening of a dominant position, such that it would substantially and permanently eliminate or reduce the competition.

Calling of the shareholders' meeting for the approval of the merger project with Banca Popolare di Marostica Soc. Coop.

The extraordinary shareholders' meeting of Banca Popolare dell'Alto Adige Soc. Coop. p.a. is called in first calling for 22 February 2015 at 9.00 a.m. care of the Company's registered offices and in second calling on Monday 23 February 2015 at 6.00 p.m. care of the Merano Kurhaus in Corso Libertà 31, with the following agenda:

1) Examination and approval of the Merger project for the incorporation of Banca Popolare di Marostica Soc. Coop. p.a.r.l. and Banca Popolare dell'Alto Adige Soc. Coop. p.a. pursuant to Articles 2501 et seq. of the Italian Civil Code and consequent amendments to the Articles of Association of the absorbing company. Inherent and consequent resolutions; delegation of powers;
2) Revocation of the authorisation to increase the share capital as well as issue a convertible bond, granted to the Board of Directors in 19 April 2013 and not exercised. Conferral of new authorisation to the Board of Directors so that it may, by 31 December 2019, see to a divisible share capital increase of up to a nominal maximum of Euro 20,000,000 and the issue, on one or more occasions, of a convertible bond up to a nominal maximum of Euro 100,000,000 with consequent amendment of Article 6.2 of the Articles of Association.

The proceedings of the meeting are disciplined by the Regulations approved by the general shareholders' meeting held on 19 April 2013, which can be obtained on the following websites www.bancapopolare.it and www.volksbank.it.

Banca Popolare di Marostica's Board of Directors called the ordinary and extraordinary shareholders' meeting on 21 February 2015 at 9.00 a.m. in Marostica and, in second calling, care of the Bassano Fiere Expo complex in Via Valsugana 22, Cassola ("Il Grifone" shopping centre), with the following agenda:

ORDINARY SESSION

1) Proposal for the distribution of an extraordinary dividend to be withdrawn from the unrestricted reserves. Inherent and consequent resolutions.

EXTRAORDINARY SESSION

1) Examination and approval of the merger project for the incorporation of Banca Popolare di Marostica Soc. Coop. p.a. within Banca Popolare dell'Alto Adige Soc. Coop. p.a. pursuant to Articles 2501 et seq. of the Italian Civil Code, by means of cancellation and swap of the shares of the absorbing company with the shares of the absorbed company. Inherent and consequent resolutions, delegation of powers.

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 on 6 February 2015. As at that date, the day on which the same will be submitted for the approval of the general shareholders' meeting had not yet been called.

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 by means of shareholder's resolution dated 20 April 2010. The full audit report is published together with the annual financial report, in pursuance of Article 135-septies of Italian Legislative Decree 58/98.

Amendments to the accounting standards approved by the European Commission

The table below lists the new international accounting standards or the amendments to accounting standards already in force, with the relevant approval regulations by the European Commission, with obligatory application starting - for financial statements drawn up in accordance with the calendar year - from 1 January 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: the power over the entity, it is exposed or benefits from variable returns from its involvement with the entity and has 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 February 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 2013	IAS 39 - The amendment introduced by this regulation provides that the novation of a derivative, 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.

In relation to the above, no significant impacts have been noted for the purpose of drafting this Financial Report.

Domestic tax consolidation option

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

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

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.

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

The financial statements as at 31 December 2014 were prepared applying the same accounting standards used for drafting the previous year's financial statements, supplemented with the amendments approved and in force starting from the 2013 financial year, indicated in "Section 4 - Other aspects - A. 1 - General Part".
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 losses of the trading portfolio are recorded in the income statement under the 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/ liabilities designated at fair value through profit or 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 or 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 Company has the intent and capacity to hold the same until maturity.
If, during a financial year, prior to maturity, a non-insignificant amount of the instruments classified in this category is sold or reclassified, the remaining financial assets classified as held to maturity are reclassified as financial assets available-for-sale and the portfolio in question may not be used for the following two financial periods (known as the “tainting rule”) unless the sales or reclassifications:

- are so close to maturity or to the instrument option exercise date that the fluctuations of market interest rates would not have a significant effect on the fair value of the financial asset;
- occurred after payment of substantially all the original capital of the financial asset through ordinary programmed or prepaid payments; or
- can be attributed to an 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 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 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 Company has no ongoing hedging transactions.

7. Investments

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 pertaining to the Company 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 Company and those originating from VOBA Invest S.r.l. in liquidation are managed separately in administrative terms.

Current tax assets and liabilities

Current tax assets and liabilities contain the net balance of the Company's tax position in relation to 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 Company has requested offsetting with the taxes of later financial years. The current tax assets also include the tax credits for which the Company has requested rebate 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 and prepaid 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 and prepaid taxes 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 revocation action, 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”.

15. Financial liabilities designated at fair value

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; or rather
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 book value of the liability and the amount paid to buy it is 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 Company. 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 Company subscribes the tranche of Junior securities or similar exposures, since it bears the risk of the first losses and, likewise, benefits from the transaction earnings.
Consequentially, the loans appear in the financial statements as "Assets sold and not derecognised" with respect to the loan received from the special-purpose vehicle, net of securities thereby issued and subscribed by the transferor Company. Similar representation criteria, based on substance over form, are applied for the recognition of the accrual periods.

b) 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 accruals basis according to the contractual interest rate or actual interest rate if the amortised cost method 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;

- 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;
- 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 or 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 Company, i.e. on the assumption that the Company 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 adoption of an evaluation model (mark-to-model) is therefore required. 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 adoption of an evaluation model (mark-to-model) is therefore required. For classification in Level 3, it is necessary that at least one of the model input data having a substantial effect on the overall valuation of the instrument cannot be obtained or deduced from the market, but is subject to estimation by the valuator (e.g. application of future cash flow estimation methods, 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 or loss, Financial assets available-for-sale

For these financial instruments, fair value is determined:

- through the use of prices acquired from the financial markets, in 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 Company 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 or loss" include the liabilities issued by the Company, 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 fair value changes, regardless of the risk factor that generated them, including the issuer's credit risk.

The factors considered to be significant when setting the trading price for a hypothetical transaction on the secondary market must be considered for 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 or loss, are subject to an impairment test to verify the existence of objective evidence of impairment that can imply that the carrying value of 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 beneficiary, of a facility that the Company 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 in 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 Company 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 the 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 under 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 2014 no further reclassifications were carried out.

An illustration of the residual carrying amount as at 31 December 2014 is shown below.

(thousands of Euro)

Type of financial instrument	Source Portfolio	Destination Portfolio	Carrying amount as at 31.12.2014	Fair value as at 31.12.2014	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	3,964	3,964	450	48	381	116
UCITS units	HFT	AFS	27,649	27,649	376	9	376	9
Debt securities	HFT	HTM	888	759	93	36	–	33
Debt securities	HFT	LRO	–	–	–	–	–	–

The carrying amount of the debt securities as at 31 December 2014 amounts to 4.8 million (5.5 million as at 31 December 2013) and their fair value amounts to 4.7 million (5.3 million as at 31 December 2013).

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

No further reclassifications of financial assets were made in 2014.

A.3.3. The transfer of financial assets held for trading

The 2008 crisis was expressly identified by the IASB as an unusual event. Banca Popolare · Volksbank therefore reclassified certain securities for this year, that were mostly bonds not listed on active markets that had originally been classified as trading assets but that had lost the required marketability conditions to maintain them in the “held for trading” category. As noted above, these assets were classified under the receivable categories, as financial assets available-for-sale. Certain financial assets that had been classified as “held for trading” were reclassified under the “Loans” category in 2001.
No further reclassifications of financial assets were made in 2014.

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

No further reclassifications of financial assets were made in 2014.

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 2014, the only three securities of that nature were close to maturity and therefore the coupon had basically already been established. For the inflation-linked 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.
With reference to the calculation of the Credit Value Adjustment ("CVA"), note that this calculation determines the future credit exposure, taking into account the probability that in the future the current value of the contract, if positive, may increase or, if negative, may turn into a credit position. This probability is linked to the volatility of the underlying market factors as well as the residual duration of the contract. The future credit exposure is determined

with reference to all the contracts, irrespective of the portfolio to which they are allocated - with fair value both positive and negative - multiplying the nominal value of each contract by a percentage established on the basis of the contract type and the residual duration of the transactions.
As at 31 December 2014, the exposure at default ("EAD") came to Euro 8.8 million. It refers to derivative trading contracts vis-à-vis 63 counterparties, mainly institutional. The notional value of the afore-mentioned contracts is equal to Euro 282.7 million. The contracts are mainly outright on currencies and caps on interest rates.

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, A. 4.5.3 below, with respect to securities in place as at 31 December 2014, and which have a different level of fair value compared to that in place as at 31 December 2013, 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 2014, 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 Company.

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)		**31.12.2014**			**31.12.2013**	
Financial Assets/Liabilities measured at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets held for trading	1,483	45,401	98	530	53,414	3,863
2. Financial assets designated at fair value through profit or loss	–	–	–	–	–	–
3. Financial assets available-for-sale	611,745	293,237	1,666	363,322	226,330	2,355
4. Hedges	–	–	–	–	–	–
5. Property and equipment	–	–	–	–	–	–
6. Intangible assets	–	–	–	–	–	–
Total	**613,228**	**338,638**	**1,764**	**363,852**	**279,744**	**6,218**
1. Financial liabilities held for trading	154	3,248	–	55	7,221	–
2. Financial liabilities designated at fair value through profit or loss	–	158,579	–	–	297,624	–
3. Hedges	–	–	–	–	–	–
Total	**154**	**161,827**	**–**	**55**	**304,845**	**–**

Key: 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 on the market (Level 2) represent 99.8% of the carrying amount of financial assets carried at fair value on a recurring basis.

Instruments measured with significant use of parameters not observable on the market (Level 3) comprise a marginal portion, equal to 0.2%, 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 on the basis of internal models (income, equity, or mixed methods) classified under financial assets available-for sale. The fair value thus obtained for these instruments has been conservatively classified at level 3.

7.6 million of the financial assets held for trading consist of derivative instruments held for trading; 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 2014, or transfers of financial assets or liabilities designated at fair value from level 1 to level 2.

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

	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Financial assets available-for-sale	Hedges	Property and equipment	Intangible assets
1. Opening balance	**3,863**	**–**	**2,355**	**–**	**–**	**–**
2. Increases	**9**	**–**	**774**	**–**	**–**	**–**
2.1 Purchases	2	–	409	–	–	–
2.2 Profits allocated to:	2	–	358	–	–	–
2.2.1 Income Statement	2	–	14	–	–	–
- of which capital gains	2	–	–	–	–	–
2.2.2 Shareholders' Equity	X	X	344	–	–	–
2.3 Transfers from other levels	–	–	–	–	–	–
2.4 Other increases	5	–	7	–	–	–
3. Decreases	**3,774**	**–**	**1,463**	**–**	**–**	**–**
3.1 Sales	–	–	–	–	–	–
3.2 Reimbursements	3,736	–	1,098	–	–	–
3.3 Losses allocated to:	2	–	71	–	–	–
3.3.1 Income Statement	2	–	–	–	–	–
- of which capital losses	–	–	–	–	–	–
3.3.2 Shareholders' Equity	X	X	71	–	–	–
3.4 Transfers to other levels	–	–	–	–	–	–
3.5 Other decreases	36	–	294	–	–	–
4. Closing balance	**98**	**–**	**1,666**	**–**	**–**	**–**

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.4.5.5. Assets and liabilities not designated at fair value or designated at fair value on a non-recurring basis: breakdown by fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis *(thousands of Euro)*	**31.12.2014**				**31.12.2013**			
	BV	**L1**	**L2**	**L3**	**BV**	**L1**	**L2**	**L3**
1. Investments held to maturity	54,757	–	58,892	–	55,126	–	55,944	–
2. Due from banks	39,420	–	39,420	–	119,225	–	119,225	–
3. Loans to Customers	5,124,169	–	5,419,431	–	4,922,443	–	5,196,346	–
4. Property and equipment held for investment	–	–	–	–	–	–	–	–
5. Non-current assets and groups of assets held for sale	–	–	–	–	834	–	–	834
Total	**5,218,346**	**–**	**5,517,743**	**–**	**5,097,628**	**–**	**5,371,515**	**834**
1. Due to banks	585,675	–	534,252	–	645,875	–	595,511	–
2. Due to customers	3,507,309	–	3,102,079	–	3,025,036	–	2,865,203	–
3. Debt securities issued	1,435,639	–	1,447,074	–	1,295,119	–	1,295,058	–
4. Liabilities associated with assets held for sale	–	–	–	–	–	–	–	61
Total	**5,528,623**	**–**	**5,083,405**	**–**	**4,966,030**	**–**	**4,755,772**	**61**

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 2014.

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 2014, 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)	31.12.2014	31.12.2013
a) Cash on hand	51,173	54,320
b) Demand deposits at Central Banks	–	–
Total	**51,173**	**54,320**

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)	31.12.2014			31.12.2013		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
A. Cash assets						
1. Debt securities	–	39,277	90	501	39,362	3,855
1.1 Structured securities	–	4,202	–	–	–	3,765
1.2 Other debt securities	–	35,075	90	501	39,362	90
2. Equity securities	–	–	–	–	–	–
3. UCITS units	–	27	8	–	27	8
4. Loans	–	–	–	–	–	–
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A		**39,304**	**98**	**501**	**39,389**	**3,863**
B. Derivatives						
1. Financial derivatives	1,483	6,097	–	29	14,025	–
1.1 held for trading	1,483	129	–	29	4,759	–
1.2 related to the fair value option	–	5,968	–	–	9,266	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–
2.1 held for trading	–	–	–	–	–	–
2.2 related to the fair value option	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–
Total B	**1,483**	**6,097**	**–**	**29**	**14,025**	**–**
Total (A+B)	**1,483**	**45,401**	**98**	**530**	**53,414**	**3,863**

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.

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

(thousands of Euro)	31.12.2014	31.12.2013
A. CASH ASSETS		
1. Debt securities	**39,367**	**43,718**
a) Governments and central banks	1,505	7,022
b) Other public entities	–	–
c) Banks	5,344	6,086
d) Other issuers	32,518	30,610
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	**39,402**	**43,753**
B. DERIVATIVES		
a) Banks	7,275	9,693
b) Customers	305	4,361
Total B	**7,580**	**14,054**
Total (A+B)	**46,982**	**57,807**

2.3 Financial cash assets held for trading: annual changes

(thousands of Euro)	Debt securities	Equity securities	UCITS units	Loans	Total
A. Opening balance	**43,718**	**–**	**35**	**–**	**43,753**
B. Increases	**53,261**	**–**	**–**	**–**	**53,261**
B1. Purchases	49,799	–	–	–	49,799
B2. Positive changes in fair value	961	–	–	–	961
B3. Other changes	2,501	–	–	–	2,501
C. Decreases	**57,612**	**–**	**–**	**–**	**57,612**
C1. Sales	24,579	–	–	–	24,579
C2. Reimbursements	27,844	–	–	–	27,844
C3. Negative changes in fair value	11	–	–	–	11
C4. Transfers to other portfolios	–	–	–	–	–
C5. Other changes	5,178	–	–	–	5,178
D. Closing balance	**39,367**	**–**	**35**	**–**	**39,402**

Section 3 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 30

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

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

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

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

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

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

Section 4 FINANCIAL ASSETS AVAILABLE-FOR-SALE - ITEM 40

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

(thousands of Euro)	31.12.2014			31.12.2013		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Debt securities	611,735	202,027	1,666	363,315	155,214	2,355
1.1 Structured securities	–	10,561	–	–	2,524	1,018
1.2 Other debt securities	611,735	191,466	1,666	363,315	152,690	1,337
2. Equity securities	10	6,711	12,771	7	6,178	13,533
2.1 Designated at fair value	10	6,711	–	7	6,178	–
2.2 Carried at cost	–	–	12,771	–	–	13,533
3. UCITS units	–	84,499	–	–	64,938	–
4. Loans	–	–	–	–	–	–
Total	**611,745**	**293,237**	**14,437**	**363,322**	**226,330**	**15,888**

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, Long-term 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 interests, associated or joint control, and which do not represent a strategic investment for the Company.

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

(thousands of Euro)	31.12.2014	31.12.2013
1. Debt securities	**815,428**	**520,884**
a) Governments and central banks	611,735	363,314
b) Other public entities	–	–
c) Banks	187,900	146,142
d) Other issuers	15,793	11,428
2. Equity securities	**19,492**	**19,718**
a) Banks	9,392	8,856
b) Other issuers:	10,100	10,862
– Insurance companies	–	–
– Financial companies	40	40
– Non-financial companies	10,060	10,822
– Other	–	–
3. UCITS units	**84,499**	**64,938**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other entities	–	–
Total	**919,419**	**605,540**

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	**520,884**	**19,718**	**64,938**	**–**	**605,540**
B. Increases	**936,144**	**1,614**	**53,701**	**–**	**991,459**
B1. Purchases	915,317	1,081	48,467	–	964,865
B2. Positive changes in fair value	4,160	533	2,673	–	7,366
B3. Recoveries	–	–	–	–	–
– Allocated to the income statement	–	X	–	–	–
– Allocated to shareholders’ equity	–	–	–	–	–
B4. Transfers from other portfolios	–	–	–	–	–
B5. Other changes	16,667	–	2,561	–	19,228
C. Decreases	**641,600**	**1,840**	**34,140**	**–**	**677,580**
C1. Sales	481,595	–	13,222	–	494,817
C2. Reimbursements	149,297	–	18,852	–	168,149
C3. Negative changes in fair value	2,196	1	322	–	2,519
C4. Losses on impairment	–	1,839	–	–	1,839
– Allocated to the income statement	–	1,839	–	–	1,839
– Allocated to shareholders’ equity	–	–	–	–	–
C5. Transfers to other portfolios	–	–	–	–	–
C6. Other changes	8,512	–	1,744	–	10,256
D. Closing balance	**815,428**	**19,492**	**84,499**	**–**	**919,419**

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

With reference to the values as at 31 December 2014, an impairment test was performed to recognise any impairment losses in the income statement, in conformity with IAS 36 and with the criteria described in “Part A - Accounting policies” of these notes to the accounts.

The test 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 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 2014 amounted to 815.4 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 2014 amounted to 84.5 million.

Equity securities are mainly made up of unlisted equity investments for which no recent transactions are available. Considering the objective complexity of valuing them - apart from listed equity investments where it is possible to identify the fair value - the best indication of fair value of these investments is usually the purchase cost. In this context where 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 2014 amounted to 19.5 million.

The company also holds a minority interest in C.I.S. S.p.A. (Compagnia Investimenti e Sviluppo) with headquarters in Villafranca (VR), a holding company which operates in the real estate, infrastructures and investment holding and financial sectors.

The afore-mentioned equity investment, corresponding to 4.10% of the share capital, was recognised in the financial statements as at 31 December 2013 for a value of Euro 1,838,500.

Having ascertained the difficulties in the process for the divestment of the assets and the persistent problems regarding the various real estate projects, C.I.S. S.p.A.'s management took steps to review the valorisation hypotheses for the individual group assets, including those of the subsidiaries, which disclosed a significant reduction in value. As part of the impairment tests, having considered the ongoing negative development of the company for the fourth consecutive accounting period, the forecasts contained in the last equity and financial plan, the difficulties encountered with regard to the disposal of the assets as envisaged by the plan pursuant to 182 bis and the consequent and progressive drop in value of the assets being disposed of, the decision was made to go ahead with a complete write-down of the residual value of the investment.

There was no evidence of impairment on other equity securities as at 31 December 2014.

Section 5 INVESTMENTS HELD TO MATURITY - ITEM 50

5.1 Investments held to maturity: breakdown by type

(thousands of Euro)	31.12.2014				31.12.2013			
	BV	**Fair value**			**BV**	**Fair value**		
		L1	L2	L3		L1	L2	L3
1. Debt securities	54,757	–	58,892	–	55,126	–	55,944	–
- Structured	–	–	–	–	–	–	–	–
- other	54,757	–	58,892		55,126	–	55,944	–
2. Loans	–	–	–	–	–	–	–	–
Total	**54,757**	**–**	**58,892**	**–**	**55,126**	**–**	**55,944**	**–**

Key: BV = Book value; L1 = Level 1; L2 = Level 2; L3 = Level 3

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)	31.12.2014	31.12.2013
1. Debt securities	**54,757**	**55,126**
a) Governments and central banks	51,767	52,079
b) Other public entities	–	–
c) Banks	–	–
d) Other issuers	2,990	3,047
2. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other entities	–	–
Total	**54,757**	**55,126**
Total fair value	**58,892**	**55,944**

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**	**55,126**	**–**	**55,126**
B.	**Increases**	**411**	**–**	**411**
	B1. Purchases	–	–	–
	B2. Recoveries	–	–	–
	B3. Transfers from other portfolios	–	–	–
	B4. Other changes	411	–	411
C.	**Decreases**	**780**	**–**	**780**
	C1. Sales	–	–	–
	C2. Reimbursements	129	–	129
	C3. Adjustments	–	–	–
	C4. Transfers to other portfolios	–	–	–
	C5. Other changes	651	–	651
D.	**Closing balance**	**54,757**	**–**	**54,757**

Results of impairment tests for investments held to maturity

With reference to the values as at 31 December 2014, 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 888 thousand as at 31 December 2014. 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. The issuer rating for the purpose of checking the impairment was calculated using the median value of the ratings assigned by the reference agencies (Moody’s, Standard & Poor’s, Fitch). The values of the issuer default probability (PD) by contrast emerge from the application of an internal hybrid model and Bloomberg. The issue has a weighted average life of 5.2 years at the reference date. No elements were recognised which suggested impairment, 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 and debit securities issued by Cassa Depositi e Prestiti in relation to which no evidence of impairment was recognised.

Section 6 DUE FROM BANKS - ITEM 60

6.1 Due from banks: breakdown by type

(thousands of Euro)	31.12.2014				31.12.2013			
	BV	FV (*)			BV	FV (*)		
		L1	L2	L3		L1	L2	L3
A. Due from Central Banks	**25,267**	–	**25,267**	–	**30,353**	–	**30,353**	–
1. Fixed-term deposits	–	X	X	X	–	X	X	X
2. Compulsory reserve	25,267	X	X	X	30,353	X	X	X
3. Repurchase agreements	–	X	X	X	–	X	X	X
4. Other	–	X	X	X	–	X	X	X
B. Due from banks	**14,153**	–	**14,153**	–	**88,872**	–	**88,872**	–
1. Loans	14,153	X	14,153	–	13,656	–	13,656	–
1.1 Current accounts and demand deposits	6,066	X	X	X	7,446	X	X	X
1.2 Fixed-term deposits	3,377	X	X	X	–	X	X	X
1.3 Other loans	4,710	X	X	X	6,210	X	X	X
- Repurchase agreements	–	X	X	X	–	X	X	X
- Financial leasing	–	X	X	X	–	X	X	X
- Other	4,710	X	X	X	6,210	X	X	X
2. Debt securities	–	–	–	–	75,216	–	75,216	–
2.1 Structured securities	–	X	X	X	–	X	X	X
2.2 Other debt securities	–	X	X	X	75,216	X	X	X
Total	**39,420**	**–**	**39,420**	**–**	**119,225**	**–**	**119,225**	**–**

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.

7.1 *Loans to customers: breakdown by type*

(thousands of Euro)	31.12.2014						31.12.2013					
	Book value			Fair value			Book value			Fair value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**4,634,209**	**–**	**343,871**	**–**	**5,419,431**	**–**	**4,556,279**	**–**	**366,164**	**–**	**5,196,346**	**–**
1. Current accounts	1,144,453	–	168,103	X	X	X	1,161,874	–	196,046	X	X	X
2. Repurchase agreements	–	–	–	X	X	X	19,635	–	–	X	X	X
3. Mortgages	2,935,598	–	155,959	X	X	X	2,838,925	–	148,531	X	X	X
4. Credit cards, personal loans, and loans on salary	85,992	–	1,073	X	X	X	77,782	–	731	X	X	X
5. Financial leasing	–	–	–	X	X	X	–	–	–	X	X	X
6. Factoring	–	–	–	X	X	X	–	–	–	X	X	X
7. Other loans	468,166	–	18,736	X	X	X	458,063	–	20,856	X	X	X
Debt securities	**146,089**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
8. Structured securities	–	–	–	–	–	–	–	–	–	–	–	–
9 Other debt securities	146,089	–	–	X	X	X	–	–	–	X	X	X
Total	**4,780,298**	**–**	**343,871**	**–**	**5,419,431**	**–**	**4,556,279**	**–**	**366,164**	**–**	**5,196,346**	**–**

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 Company amount to Euro 103.4 million, 58.7 million of which by public entities.

7.2 Loans to customers: breakdown by debtor/issuer

(thousands of Euro)	31.12.2014			31.12.2013		
	Performing	Impaired		Performing	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities:	**146,089**	**–**	**–**	**–**	**–**	**–**
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	146,089	–	–	–	–	–
– non-financial companies	–	–	–	–	–	–
– financial companies	–	–	–	–	–	–
– Insurance	146,089	–	–	–	–	–
– other	–	–	–	–	–	–
2. Loans to:	**4,634,209**	**–**	**343,871**	**4,556,279**	**–**	**366,164**
a) Governments	–	–	–	–	–	–
b) Other public entities	11,891	–	–	11,045	–	–
c) Other entities	4,622,318	–	343,871	4,545,234	–	366,164
– non-financial companies	2,759,280	–	297,116	2,747,742	–	318,786
– financial companies	97,336	–	4,889	78,818	–	5,414
– Insurance	–	–	–	50	–	–
– other	1,765,702	–	41,866	1,718,624	–	41,964
Total	**4,780,298**	**–**	**343,871**	**4,556,279**	**–**	**366,164**

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 associates and companies subject to joint control: information on investment relationships

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

It is hereby disclosed that Società Orizzonti del Lago S.r.l., which was controlled as a result of the availability of 100% of the voting rights, despite the absence of a holding, is no longer considered to be a subsidiary since the Company waived this right in 2014.

10.2 Significant investments: book value, fair value and dividends paid

The Company did not hold any significant investments as at the date of the financial statements.

10.3 Significant investments: accounting information

The Company did not hold any significant investments as at the date of the financial statements.

10.4 Minor investments: accounting information

Company Name	Book value of invest-ments	Total assets	Total liabili-ties	Total reve-nues	Income *(loss)* after tax from continuing opera-tions	Income *(loss)* after tax from discontin-ued operations	Net income (loss) for the year (1)	Other compre-hensive income after tax (2)	Compre-hensive income (3) = (1)+(2)
A. Wholly-owned subsidiaries									
1. Voba Invest S.r.l. in liquidation	–	466	482	13	(33)	–	(33)	–	(33)
2. Valpolicella Alta Società Agricola S.r.l.	3,125	5,050	5,270	144	(234)	–	(234)	–	(234)
B. Companies subject to joint control									
C. Companies subject to significant influence									
1. Casa di Cura Villa S. Anna (*)	486	8,097	6,452	5,049	(279)	–	(279)	–	(279)
2. Quartiere Brizzi S.r.l. (*)	850	7,649	7,629	521	(31)	–	(31)	–	(31)
3. Tre S.r.l. (*)	165	366	283	–	(6)	–	(6)	–	(6)

(*) The figures for the investee companies refer to the most recent financial statements available.

10.5 Investments: annual changes

(thousands of Euro)	31.12.2014	31.12.2013
A. Opening balance	**5,157**	**3,964**
B. Increases	**130**	**4,031**
B.1 Purchases	130	4,002
B.2 Recoveries	–	17
B.3 Revaluations	–	12
B.4 Other changes	–	–
C. Decreases	661	2,838
C.1 Sales	–	30
C.2 Adjustments	661	1,974
C.3 Other changes	–	834
D. Closing balance	**4,626**	**5,157**
E. Total revaluations	**67**	**67**
F. Total adjustments	**2,376**	**1,715**

The item B.1 “Acquisitions” is attributable to the taking out of a shareholders’ loan in Quartiere Brizzi S.r.l. for Euro 130 thousand.
The item C.2 “Write-downs” refers to the write-down on the investments due to the recognition of impairment losses reported by the investee companies, recognised at equity.

Results of impairment tests on the investments

As described in the “Part A - Accounting Policies”, the investments were subject to impairment testing to evaluate the recoverability of the carrying amount.
In identifying potential signs of impairment, particular attention was given to the analysis of 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 2014 did not result in the need to make adjustments.

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

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

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

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

10.8 Significant restrictions

As at the balance sheet date, there are no significant restrictions in reference to investments.

10.9 Other information

As at the balance sheet date, there is no other information.

Section 11 PROPERTY AND EQUIPMENT - ITEM 110

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

(thousands of Euro)	31.12.2014	31.12.2013
1 Assets owned	**118,497**	**104,397**
a) Land	35,272	35,272
b) Buildings	79,756	65,628
c) Movable assets	1,541	1,920
d) Electronic systems	1,928	1,573
e) Other	–	4
2 Assets acquired under finance lease	**–**	**–**
a) Land	–	–
b) Buildings	–	–
c) Movable assets	–	–
d) Electronic systems	–	–
e) Other	–	–
Total	**118,497**	**104,397**

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**	**100,389**	**54,293**	**23,867**	**103**	**213,924**
A.1 Net total impairment	–	34,761	52,373	22,294	99	109,527
A.2 Net opening balance	**35,272**	**65,628**	**1,920**	**1,573**	**4**	**104,397**
B. Increases:	**–**	**16,990**	**816**	**1,690**	**–**	**19,496**
B.1 Purchases	–	–	816	1,690	–	2,506
B.2 Expenditure for capitalised improvements	–	16,990	–	–	–	16,990
B.3 Recoveries	–	–	–	–	–	–
B.4 Positive changes in fair value charged to:						
a) Shareholders' Equity	–	–	–	–	–	–
b) Income statement	–	–	–	–	–	–
B.5 Positive exchange differences	–	–	–	–	–	–
B.6 Transfers from properties held for investment purposes						
B.7 Other changes	–	–	–	–	–	–
C. Decreases	**–**	**2,862**	**1,195**	**1,335**	**4**	**5,396**
C.1 Sales	–	–		–	–	
C.2 Depreciation	–	2,862	1,195	1,335	4	5,396
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**	**79,756**	**1,541**	**1,928**	**–**	**118,497**
D.1 Net total impairment	–	37,623	53,390	23,629	103	114,745
D.2 Gross closing balance	**35,272**	**117,379**	**54,931**	**25,557**	**103**	**233,242**
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 purchase 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)	31.12.2014		31.12.2013	
	Definite life	**Indefinite life**	**Definite life**	**Indefinite life**
A.1 Goodwill	X	40,392	X	40,392
A.2 Other intangible assets	1,450	–	2,189	–
A.2.1 Assets carried at cost:	1,450	–	2,189	–
a) Internally generated intangible assets	–	–	–	–
b) Other assets	1,450	–	2,189	–
A.2.2 Assets measured at fair value:	–	–	–	–
a) Internally generated intangible assets	–	–	–	–
b) Other assets	–	–	–	–
Total	**1,450**	**40,392**	**2,189**	**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 2015-2019 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 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 1.5% permanent growth rate was considered;
- the discount rate, equal to 8.28%, is the cost of capital (k_e), calculated by taking the risk-free (Rf) rate - equal to the rate of return as at 31 December 2014 for ten-year BTPs increased by a risk premium;
- The market risk premium (Rm - Rf) is therefore assumed to be 5.5%, 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 2012 and 31 December 2014. The β also takes account of country risk by using a higher β taken from the greater fluctuations of the Italian banks compared to the European share market. The β was equal to 1.16083.

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) from 6.00% up to 11.00%;
- a variation in the long-term growth rate (g) of between 0.00% and 3.00%;
- a variation in the expected cash flows in normal, non stressed conditions, down by 10% and 20%.

Based on the aforementioned comparison as at 31 December 2014, 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: internally generated		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Gross opening balance	**40,392**	**–**	**–**	**6,809**	**–**	**47,201**
A.1 Net total impairment	–	–	–	4,620	–	4,620
A.2 Net opening balance	**40,392**	**–**	**–**	**2,189**	**–**	**42,581**
B. Increases	**–**	**–**	**–**	**366**	**–**	**366**
B.1 Purchases	–	–	–	366	–	366
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	**–**	**–**	**–**	**1,105**	**–**	**1,105**
C.1 Sales	–	–	–	–	–	–
C.2 Adjustments		–	–	1,105	–	1,105
– Amortisation	X	–	–	1,105	–	1,105
– 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**	**–**	**–**	**1,450**	**–**	**41,842**
D.1 Total net value adjustments	–	–	–	5,108	–	5,108
E. Gross closing balance	**40,392**	**–**	**–**	**6,558**	**–**	**46,950**
F. Valuation at cost	**–**	**–**	**–**	**–**	**–**	**–**

Key: DEF. = definite duration; INDEF. = indefinite duration

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 Prepaid tax assets: breakdown

IRES (CORPORATE INCOME TAX) *(thousands of Euro)*	**31.12.2014**		**31.12.2013**	
	amount of timing differences	**tax effect**	**amount of timing differences**	**tax effect**
Losses on impairment of loans	85,568	23,531	76,453	21,024
Provisions for risks and charges	2,616	719	2,469	679
Administrative expenses	–	–	–	–
Revaluation of fixtures and fittings (Italian Law 266, 23/12/05)	–	–	68	19
Valuation of AFS securities	619	170	2,565	705
Components directly recorded in the OCI statement	2,110	581	2,282	628
Amortisation of prepaid tax on post-2008 purchases	2,931	806	2,818	775
Write-down of buildings (non-deemed cost)	–	–	–	–
Other	1,093	300	1,257	346
Total	**94,937**	**26,107**	**87,912**	**24,176**

IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES) *(thousands of Euro)*	**31.12.2014**		**31.12.2013**	
	amount of timing differences	**tax effect**	**amount of timing differences**	**tax effect**
Administrative expenses	33,234	1,615	15,883	767
Revaluation of fixtures and fittings (Italian Law 266, 23/12/05)	–	–	62	3
Valuation of AFS securities	619	30	2,565	124
Write-down of buildings (non-deemed cost)	–	–	–	–
Other	352	17	352	17
Total	**34,205**	**1,662**	**18,862**	**911**

13.2 Deferred tax liabilities: breakdown

IRES (CORPORATE INCOME TAX) *(thousands of Euro)*	**31.12.2014**		**31.12.2013**	
	amount of timing differences	**tax effect**	**amount of timing differences**	**tax effect**
Land depreciation	2,106	579	2,106	579
Revaluation of property at deemed cost	55,944	15,385	57,349	15,771
Valuation of AFS securities	6,031	1,659	3,662	1,007
Components directly recorded in the OCI statement	–	–	2,282	628
Revaluation of investments AfS PEX	49	13	23	6
Goodwill amortisation	16,558	4,553	14,391	3,957
Other	–	–	–	–
Total	**80,688**	**22,189**	**79,813**	**21,948**

IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES) *(thousands of Euro)*	31.12.2014		31.12.2013	
	amount of timing differences	tax effect	amount of timing differences	tax effect
Land depreciation	2,106	102	2,106	102
Revaluation of property at deemed cost	55,944	2,718	57,349	2,771
Valuation of AFS securities	6,031	293	3,662	177
Revaluation of investments AfS PEX	–	–	–	–
Goodwill amortisation	16,432	799	14,265	689
Other	–	–	–	–
Total	**80,513**	**3,912**	**77,382**	**3,739**

The portion of prepaid tax assets for IRES (Corporate Income Tax) referring to deductible temporary differences in the financial years after 2014 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 prepaid tax assets for IRAP (Regional tax on productive activities).

13.3 Changes in prepaid taxes (with corresponding entry in the income statement)

(thousands of Euro)	IRES (CORPORATE INCOME TAX)	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2014	31.12.2013
1. Initial amount			**23,630**	**19,379**
2. Increases	**8,549**	**1,055**	**9,604**	**7,392**
2.1 Deferred tax assets recognised during the year	8,549	1,055	9,604	7,392
a) relating to previous years	–	–	–	–
b) due to change in accounting standards	–	–	–	–
c) recoveries	–	–	–	–
d) Other	8,549	1,055	9,604	7,392
2.2 New taxes or increases in tax rates	–	–	–	–
2.3 Other increases	–	–	–	–
3. Decreases	**6,036**	**210**	**6,246**	**3,141**
3.1 Deferred tax assets cancelled during the year	6,036	210	6,246	3,141
a) reversals	4,505	190	4,695	3,141
b) write-downs for uncollectible amounts	–	–	–	–
c) change of accounting standards	–	–	–	–
d) Other	1,531	20	1,551	–
3.2 Decreases in tax rates	–	–	–	–
3.3 Other decreases	–	–	–	–
a) conversion into tax credits under Italian Law 214/2011	–	–	–	–
b) Other	–	–	–	–
4. Final amount			**26,988**	**23,630**

As at 31 December 2014, sub-item 2. “Increases: - d) other” mainly includes the prepaid taxes related to losses on impairment of loans by 7.7 million for IRES and by 1.1 million for IRAP.

Sub-item 3.1 “Prepaid taxes cancelled during the year - a) reversals” includes 3.7 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 prepaid taxes pursuant to Italian 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 prepaid taxes pursuant to Italian Law 214/2011.

13.4 Changes in deferred taxes (with corresponding entry in the income statement)

(thousands of Euro)	IRES (CORPORATE INCOME TAX)	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2014	31.12.2013
1. Initial amount			**23,869**	**24,003**
2. Increases	**596**	**125**	**721**	**981**
2.1 Deferred tax liabilities recognised during the year	596	125	721	712
a) relating to previous years	–	–	–	–
b) due to change in accounting standards	–	–	–	–
c) Other	596	125	721	712
2.2 New taxes or increases in tax rates	–	–	–	–
2.3 Other increases	–	–	–	269
3. Decreases	**386**	**68**	**454**	**1,115**
3.1 Deferred tax liabilities cancelled during the year	386	68	454	1,115
a) reversals	386	68	454	460
b) due to change in accounting standards	–	–	–	–
c) Other	–	–	–	655
3.2 Decreases in tax rates	–	–	–	–
3.3 Other decreases	–	–	–	–
4. Final amount			**24,136**	**23,869**

13.5 Changes to prepaid taxes (with corresponding entry under shareholders' equity)

(thousands of Euro)	IRES (CORPORATE INCOME TAX)	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2014	31.12.2013
1. Initial amount			**1,457**	**932**
2. Increases	**456**	**–**	**456**	**628**
2.1 Deferred tax assets recognised during the year	456	–	456	628
a) relating to previous years	–	–	–	–
b) due to change in accounting standards	–	–	–	–
c) Other	456	–	456	628
2.2 New taxes or increases in tax rates	–	–	–	–
2.3 Other increases	–	–	–	–
3. Decreases	**1,038**	**94**	**1,132**	**103**
3.1 Deferred tax assets cancelled during the year	1,038	94	1,132	103
a) reversals	535	94	629	103
b) write-downs for uncollectible amounts	–	–	–	–
c) due to change in accounting standards	–	–	–	–
d) Other	503	–	503	–
3.2 Decreases in tax rates	–	–	–	–
3.3 Other decreases	–	–	–	–
4. Final amount			**781**	**1,457**

The change in prepaid taxes against shareholders' equity refers entirely to the change recognised in the financial year of the valuation reserves of assets available-for-sale.

13.6 Changes to deferred taxes (with corresponding entry under shareholders' equity)

(thousands of Euro)	IRES (CORPORATE INCOME TAX)	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2014	31.12.2013
1. Initial amount			**1,818**	**724**
2. Increases	**659**	**116**	**775**	**1,094**
2.1 Deferred tax liabilities recognised during the year	659	116	775	466
a) relating to previous years	–	–	–	–
b) due to change in accounting standards	–	–	–	–
c) Other	659	116	775	466
2.2 New taxes or increases in tax rates	–	–	–	–
2.3 Other increases	–	–	–	628
3. Decreases	**628**	**–**	**628**	**–**
3.1 Deferred tax liabilities cancelled during the year	628	–	628	–
a) reversals	–	–	–	–
b) due to change in accounting standards	–	–	–	–
c) Other	628	–	628	–
3.2 Decreases in tax rates	–	–	–	–
3.3 Other decreases	–	–	–	–
4. Final amount			**1,965**	**1,818**

13.7 Other information

Breakdown of current tax assets

(thousands of Euro)	31.12.2014	31.12.2013
1. Advance payment of IRES - IRAP - VAT taxes	16,351	26,764
2. Advance payment of stamp duty, withholding tax on interest	11,804	9,997
3. Withholding tax paid	428	410
4. Other current tax assets	5,283	4,678
Total	**33,866**	**41,849**

Breakdown of current tax liabilities

(thousands of Euro)	31.12.2014	31.12.2013
1. Liabilities for direct taxes	19,376	20,938
2. Indirect taxes	46	41
3. Withholding tax at source to be paid	–	–
4. Other current tax liabilities	275	258
Total	**19,697**	**21,237**

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)*		31.12.2014	31.12.2013
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 through profit or loss	–	–
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	–	–
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 through profit or loss	–	–
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 referring to 2013 entirely concerns 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, as at 31 December 2013 this investment was 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.

Section 15 OTHER ASSETS - ITEM 150

15.1 Other assets: breakdown

(thousands of Euro)	31.12.2014	31.12.2013
1. Unprocessed transactions with branches	–	–
2. Deposits	146	145
3. Work in progress	45,244	39,124
4. Various outstanding items (items waiting final allocation)	1,071	15,781
5. Income accrued and due to be received	14,419	9,470
6. Cash items in hand	65	66
7. Accruals and deferrals not reported	407	424
8. Expenditure on third party assets	2,250	3,634
Total	**63,602**	**68,644**

LIABILITIES

Section 1 DUE TO BANKS - ITEM 10

1.1 Due to banks: breakdown by type

(thousands of Euro)	31.12.2014	31.12.2013
1. Due to central banks	**402,605**	**506,826**
2. Due to banks	**183,070**	**139,049**
2.1 Current accounts and demand deposits	27,160	68,388
2.2 Fixed-term deposits	65,651	17,540
2.3 Loans	89,696	53,057
2.3.1 Reverse repurchase agreements	–	–
2.3.2 Other	89,696	53,057
2.4 Liabilities for commitments to repurchase own equity investments	–	–
2.5 Other payables	563	64
Total	**585,675**	**645,875**
Fair Value - level 1	**–**	**–**
Fair Value - level 2	**534,252**	**595,511**
Fair Value - level 3	**–**	**–**
Total fair value	**534,252**	**595,511**

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)	31.12.2014	31.12.2013
1. Current accounts and demand deposits	2,546,292	2,276,715
2. Fixed-term deposits	445,937	553,730
3. Loans	109,888	34,945
3.1 Reverse repurchase agreements	109,888	34,945
3.2 Other	–	–
4. Liabilities for commitments to repurchase own equity investments	–	–
5. Other payables	405,192	159,646
Total	**3,507,309**	**3,025,036**
Fair Value - level 1	**–**	**–**
Fair Value - level 2	**3,102,079**	**2,865,203**
Fair Value - level 3	**–**	**–**
Total fair value	**3,102,079**	**2,865,203**

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)	31.12.2014				31.12.2013			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,435,639	–	1,447,074	–	1,295,058	–	1,295,058	–
1.1 Structured	–	–	–	–	–	–	–	–
1.2 Other	1,435,639	–	1,447,074	–	1,295,058	–	1,295,058	–
2. Other securities		–	–		61	–	–	61
2.1 Structured	–	–	–	–	–	–	–	–
2.2 Other		–	–		61	–	–	61
Total	**1,435,639**	**–**	**1,447,074**		**1,295,119**	**–**	**1,295,058**	**61**

The Euro 6.8 million of the sub-item "1.2 Bonds - Other" (80.0 million as at 31 December 2013) refers to the issues listed on the Luxembourg stock market within the scope of the Euro Medium-Term Notes (EMTN) programme.
No further placements were made in 2014 within the sphere of the EMTN.

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)	31.12.2014					31.12.2013				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	–	–	–	–	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
3. Debt securities	–	–	–	–	–	–	–	–	–	–
3.1 Bonds	–	–	–	–	–	–	–	–	–	–
3.1.1 Structured	–	–	–	–	X	–	–	–	–	X
3.1.2 Other bonds	–	–	–	–	X	–	–	–	–	X
3.2 Other securities	–	–	–	–	–	–	–	–	–	–
3.2.1 Structured	–	–	–	–	X	–	–	–	–	X
3.2.2 Other	–	–	–	–	X	–	–	–	–	X
Total A	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B. Derivatives										
1. Financial derivatives	–	154	3,248	–	–	–	55	7,221	–	–
1.1 Held for trading	X	154	3,149	–	X	X	55	6,937	–	X
1.2 Related to the fair value option	X	–	99	–	X	X	–	284	–	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**	**154**	**3,248**	**–**	**X**	**X**	**55**	**7,221**	**–**	**X**
Total (A+B)	**X**	**154**	**3,248**	**–**	**X**	**X**	**55**	**7,221**	**–**	**X**

Key

FV fair value
FV* fair value calculated excluding value adjustments due to changed issuer credit rating since the date of issue
VN 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 OR LOSS - ITEM 50

5.1 Financial liabilities designated at fair value through profit or loss: breakdown by type

(thousands of Euro)	31.12.2014					31.12.2013				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	2,000	–	2,220	–	2,220	4,000	–	4,334	–	4,334
1.1 Structured	–	–	–	–	X	–	–	–	–	X
1.2 Other	2,000	–	2,220	–	X	4,000	–	4,334	–	X
2. Due to customers	–	–	–	–	–	–	–	–	–	–
2.1 Structured	–	–	–	–	X	–	–	–	–	X
2.2 Other	–	–	–	–	X	–	–	–	–	X
3. Debt securities	154,560	–	156,359	–	156,359	286,281	–	293,290	–	293,290
3.1 Structured	14,708	–	15,120	–	X	24,935	–	25,799	–	X
3.2 Other	139,852	–	141,239	–	X	261,346	–	267,491	–	X
Total	**156,560**	**–**	**158,579**	**–**	**158,579**	**290,281**	**–**	**297,624**	**–**	**297,624**

Key
FV fair value
FV* fair value calculated excluding value adjustments due to changed issuer credit rating since the date of issue
VN face value or notional value
L1 Level 1
L2 Level 2
L3 Level 3

The financial liabilities designated at fair value through profit or 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 or loss": subordinated liabilities

As at the balance sheet date, there are no subordinated financial liabilities designated at fair value through profit or loss.

5.3 Financial liabilities designated at fair value through profit or loss: annual changes

(thousands of Euro)	Due to banks	Due to customers	Debt securities issued	Total
A. Opening balance	**4,334**	**–**	**293,290**	**297,624**
B. Increases	**220**	**–**	**12,574**	**12,794**
B1. Issues	–	–	–	–
B2. Sales	–	–	8,634	8,634
B3. Positive changes in fair value	220	–	418	638
B4. Other changes	–	–	3,522	3,522
C. Decreases	**2,334**	**–**	**149,505**	**151,839**
C1. Purchases	–	–	9,563	9,563
C2. Reimbursements	2,000	–	132,608	134,608
C3. Negative changes in fair value	334	–	2,517	2,851
C4. Other changes	–	–	4,817	4,817
D. Closing balance	**2,220**	**–**	**156,359**	**158,579**

Section 6 HEDGES - ITEM 60

6.1 Hedges: breakdown by type and hierarchy 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)	31.12.2014	31.12.2013
1. Adjustments of non-liquid items related to securities portfolios	41,692	51,367
2. Unprocessed transactions with branches	–	–
3. Amounts available to third parties (banks, suppliers etc.)	34,724	47,485
4. Amounts available to customers	14,168	13,779
5. Work in progress (money orders etc.)	5,594	6,267
6. Other items due to various creditors	23,538	9,085
7. Provisions for risks and charges for guarantees and commitments	330	278
8. Accruals and deferrals not reported	–	–
9. Withholding tax and taxes due	6,856	6,808
Total	**126,902**	**135,069**

Section 11 EMPLOYEE TERMINATION INDEMNITIES - ITEM 110

11.1 *Employee termination indemnities: annual changes*

(thousands of Euro)	31.12.2014	31.12.2013
A. Opening balance	**18,831**	**19,548**
B. Increases	**2,102**	**490**
B1. Provisions during the year	424	490
B2. Other increases	1,678	–
C. Decreases	**744**	**1,207**
C1. Amounts paid	714	835
C2. Other decreases	30	372
D. Closing balance	**20,189**	**18,831**

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 Company's employees, equal to 0.91% as at 31 December 2014
Annual inflation rate	0.60% for 2015; 1.20% for 2016; 1.50% for 2017 and 2018; 2.0% from 2019 onwards
Annual rate of increase of the employee termination indemnities	1.950% for 2015; 2.400% for 2016; 2.625% for 2017 and 2018; 3.000% from 2019 onwards

Other information	31.12.2014
Service cost for 2014	**0.00**
Plan duration	**8.4**

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.
Given the content of IAS 19 and lack of specific requirements by Regulatory Bodies, the identification and selection of the discount rate 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 2014, 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 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.

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 31.12.2014 (values represent the change in the IAS value of the plan)	Valuation parameters	DBO
(thousands of Euro)		
Inflation rate	*+0.25%*	**20,432.7**
Inflation rate	*–0.25%*	**19,949.7**
Discount rate	*+0.25%*	**19,803.4**
Discount rate	*–0.25%*	**20,588.4**
Turnover rate	*+1%*	**20,040.2**
Turnover rate	*–1%*	**20,354.9**

Section 12 PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 Provisions for risks and charges: breakdown

(thousands of Euro)	31.12.2014	31.12.2013
1. Retirement benefits	–	–
2. Other provisions for risks and charges	2,809	2,469
2.1 Legal disputes	2,809	2,469
2.2 Personnel charges	–	–
2.3 Other	–	–
Total	**2,809**	**2,469**

12.2 Provisions for risks and charges: annual changes

(thousands of Euro)	Retirement benefits	Other provisions	Total
A. Opening balance	**–**	**2,469**	**2,469**
B. Increases	**–**	**1,972**	**1,972**
B1. Provisions during the year	–	1,972	1,972
B2. Changes due to the elapsing of time	–	–	–
B3. Changes due to discount rate adjustments	–	–	–
B4. Other changes	–	–	–
C. Decreases	**–**	**1,632**	**1,632**
C1. Use during the year	–	1,455	1,455
C2. Changes due to discount rate adjustments	–	–	–
C3. Other changes	–	177	177
D. Closing balance	**–**	**2,809**	**2,809**

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 2.8 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

(thousands of Euro)	31.12.2014	31.12.2013
Number of treasury stocks and shares	38,127,110	38,127,110
Face value	Euro 4.00	Euro 4.00

As at 31 December 2014, 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**	**38,127,110**	**–**
	– fully paid-up	38,127,110	–
	– not fully paid-up	–	–
A.1	Treasury shares (-)	–	–
A.2	**Shares outstanding: opening balance**	**38,127,110**	**–**
B.	**Increases**	**–**	**–**
B.1	New issues	–	–
	· for consideration:	–	–
	– business combinations	–	–
	– bond conversions	–	–
	– warrant exercise	–	–
	– 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**	**–**	**–**
C.1	Cancellation	–	–
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	–	–

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)	**31.12.2014**	**31.12.2013**
1. Legal reserve	110,800	108,900
2. Extraordinary reserve	105,774	101,923
3. Reserve to purchase treasury shares	4,183	4,183
4. Concentration reserve (Italian Law 218 of 30.07.1990)	8,584	8,584
5. Other reserves	33,516	31,938
Total	**262,857**	**255,528**

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 distributable nature 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	110,800	B (2)	–		
	- Extraordinary reserve	105,774	A, B, C	105,774		
	- Unavailable reserve pursuant to art. 6, Italian Legislative Decree 38/2005	3,373	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	(431)		–		
	d) Positive AFS valuation reserve	5,053	(*)	–		
	e) Negative actuarial reserve for employee termination indemnities	(2,871)		–		
	Equity instruments	–		–		
	Retained earnings	20,247		–		
Total		**639,822**				

A = for bonus share capital increase
B = as loss cover
C = for distribution to shareholders
(*) this reserve is unavailable for distribution pursuant to art. 6 of Italian Legislative Decree 38/2005
(1) The reserve may be distributed only for the part in excess of the amount necessary for the statutory reserve to attain one-fifth of the share capital (Art. 2431 of the Italian Civil Code).
(2) The reserve may be distributed or used to increase share capital only for the part that exceeds one-fifth of share capital (Art. 2430, paragraph 1 of the Italian Civil Code).
(3) If it is not charged to share capital, the reserve may be reduced only in compliance with the provisions of the second and third paragraphs of Art. 2445 of the Italian Civil Code. If the reserve to cover losses is used, earnings cannot be distributed until the reserve has been replenished or reduced by a corresponding amount. The reserve may be reduced only with a resolution by the Extraordinary Shareholders' Meeting without observance of the second and third paragraphs of Art. 2445 of the Italian Civil Code. Whensoever distributed to the shareholders, it contributes to form the taxable income of the company.

14.5 Equity instruments: breakdown and annual changes

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)	**31.12.2014**	**31.12.2013**
1) Financial guarantees issued	33,147	31,365
a) Banks	6,425	6,244
b) Customers	26,722	25,121
2) Commercial guarantees issued	332,230	329,042
a) Banks	507	222
b) Customers	331,723	328,820
3) Irrevocable commitments to disburse funds	184,605	179,495
a) Banks	80	2,613
i) certain to be used	80	2,613
ii) not certain to be used	–	–
b) Customers	184,525	176,882
i) certain to be used	179	714
ii) not certain to be used	184,346	176,168
4) Commitments underlying credit derivatives protection sales	–	–
5) Assets lodged to guarantee minority interest	–	–
6) Other commitments	–	–
Total	**549,982**	**539,902**

The irrevocable commitments to disburse funds to customers, certain to be used, refer mainly to corporate customers.

2. Assets lodged to guarantee own liabilities and commitments

(thousands of Euro)	**31.12.2014**	**31.12.2013**
1. Financial assets held for trading	300,917	428,677
2. Financial assets designated at fair value through profit or loss	–	–
3. Financial assets available-for-sale	–	–
4. Investments held to maturity	–	–
5. Due from banks	–	–
6. Loans to customers	–	–
7. Property and equipment	–	–

Assets established as security of own liabilities and commitments for reverse repurchase agreements deposits total 109.0 million, whereas the securities uses as deposit and guarantees for other transactions are recorded for 191.9 million.

Furthermore, it is noted that as at the balance sheet date, there are 615.7 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. The above-mentioned securities are afforded in full to guarantee the transactions with the Central Bank in order to support any liquidity needs.

3. *Disclosure on 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 services *(thousands of Euro)*	**Amount**
1. Order execution on behalf of customers	**–**
a) Purchases	–
1. Settled	–
2. Not settled	–
b) Sales	–
1. Settled	–
2. Not settled	–
2. Portfolio management	**–**
a) Individual	–
b) Collective	–
3. Custody and administration of securities	**6,990,311**
a) Third party securities held on deposit: related to depositary bank services (excluding assets under management)	2,167,209
1. securities issued by the Bank preparing the financial statements	1,682,988
2. other securities	484,221
b) Third party securities held on deposit (excluding assets under management): other	44,361
1. securities issued by the Bank preparing the financial statements	37,303
2. other securities	7,058
c) Third party securities deposited with third parties	2,208,286
d) Own securities deposited with third parties	2,570,455
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.

7. *Securities lending transactions*

As at the balance sheet date, there were no securities lending transactions.

8. *Disclosure on joint-control activities*

As at the balance sheet date, there were no joint-control activities.

PART C INFORMATION ON THE INCOME STATEMENT

Section 1 INTEREST - ITEMS 10 AND 20

1.1 *Interest and similar income: breakdown*

Items/Technical forms *(thousands of Euro)*	**Debt securities**	**Loans**	**Other transactions**	**31.12.2014**	**31.12.2013**
1. Financial assets held for trading	609	–	3,629	4,238	7,706
2. Financial assets available-for-sale	9,988	–	–	9,988	9,097
3. Investments held to maturity	1,733	–	–	1,733	1,262
4. Due from banks	670	60	–	730	4,061
5. Loans to customers	2,090	157,953	–	160,043	153,184
6. Financial assets designated at fair value through profit or loss	–	–	–	–	–
7. Hedges	X	X	–	–	–
8. Other assets	X	X			11
Total	**15,090**	**158,013**	**3,629**	**176,732**	**175,321**

The interest income on impaired assets totalled 5.1 million, down over 5.8 million as at 31 December 2013.

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)	**31.12.2014**	**31.12.2013**
a) on (foreign) currency assets	221	1,000

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	31.12.2014	31.12.2013
1. Due to central banks	756	X	–	756	2,873
2. Due to banks	1,589	X	–	1,589	1,730
3. Due to customers	25,343	X	–	25,343	28,607
4. Debt securities issued	X	32,761	–	32,761	28,729
5. Financial liabilities held for trading	–	–	–	–	–
6. Financial liabilities designated at fair value through profit or loss	110	4,815	–	4,925	8,456
7. Other liabilities and funds	X	X	–	–	–
8. Hedges	X	X	–	–	–
Total	**27,798**	**37,576**	**–**	**65,374**	**70,395**

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

1.6.1 Interest expense on liabilities in currency

(thousands of Euro)	31.12.2014	31.12.2013
a) on liabilities in foreign currency	765	770

1.6.2 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 services/Amounts *(thousands of Euro)*	31.12.2014	31.12.2013
a) Guarantees issued	**3,095**	**3,377**
b) Credit derivatives	**–**	**–**
c) Management, brokerage and consulting services:	**17,042**	**14,954**
1. trading of financial instruments	16	68
2. foreign currency transactions	383	369
3. portfolio management	–	–
3.1 Individual	–	–
3.2 Collective	–	–
4. custody and administration of securities	258	261
5. depositary bank	–	–
6. placement of securities	7,131	6,717
7. order receipt and transmission work	1,249	1,258
8. advisory services	–	–
8.1 on investments	–	–
8.1 on financial structures	–	–
9. distribution of third-party services	8,005	6,281
9.1 portfolio management	–	–
9.1.1 Individual	–	–
9.1.2 Collective	–	–
9.2 insurance products	4,868	3,306
9.3 other products	3,137	2,975
d) Collection and payment services	**4,817**	**4,892**
e) Servicing for securitisations	**–**	**–**
f) Factoring transaction services	**–**	**–**
g) Tax collection services	**–**	**–**
h) Managing multilateral trading systems	**–**	**–**
i) Maintaining and managing current accounts	**31,804**	**33,495**
j) Other services	**12,520**	**12,215**
Total	**69,278**	**68,933**

2.2 Fee and commission income: distribution channels for products and services

Channels/Amounts *(thousands of Euro)*	31.12.2014	31.12.2013
a) At own branches:	**15,136**	**12,946**
1. portfolio management	–	–
2. placement of securities	7,131	6,717
3. third party services and products	8,005	6,229
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)*	31.12.2014	31.12.2013
a) Guarantees received	**1,758**	**2,635**
b) Credit derivatives	**–**	**–**
c) Management and brokerage services:	**1,965**	**1,895**
1. trading of financial instruments	1,547	1,575
2. foreign currency transactions	77	73
3. portfolio management:	–	–
3.1 own	–	–
3.2 on behalf of third parties	–	–
4. custody and administration of securities	321	247
5. placement of financial instruments	20	–
6. external supply of financial instruments, products and services	–	–
d) Collection and payment services	**374**	**421**
e) Other services	**4,143**	**3,886**
1. transmission duties for cash point card details, POS	2,565	2,351
2. transmission duties for the Bank network	649	607
3. other	929	928
Total	**8,240**	**8,837**

Section 3 DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 *Dividends and similar income: breakdown*

Items/Amounts *(thousands of Euro)*	31.12.2014		31.12.2013	
	Dividends	Income from UCITS	Dividends	Income from UCITS
A. Financial assets held for trading	–	–	9	–
B. Financial assets available-for-sale	275	1,529	243	1,252
C. Financial assets designated at fair value through profit or loss	–	–	–	–
D. Investments	–	X	–	X
Total	**275**	**1,529**	**252**	**1,252**

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	**4,922**	**10,801**	**(11,377)**	**(3,829)**	**517**
1.1 Debt securities	961	47	(11)	(6)	991
1.2 Equity securities	–	–	–	–	–
1.3 UCITS units	–	–	–	–	–
1.4 Loans	–	–	–	–	–
1.5 Other	3,961	10,754	(11,366)	(3,823)	(474)
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	**–**	**1,988**	**(1,219)**	**(4,478)**	**(2,354)**
4.1 Financial derivatives:	–	1,988	(1,219)	(4,478)	(2,354)
- on debt securities and interest rates	–	1,354	(1,219)	(3,615)	(3,480)
- on equity instruments and share indices	–	634	–	(863)	(229)
- on currency and gold	X	X	X	X	1,355
- other	–	–	–	–	–
4.2 Credit derivatives	–	–	–	–	–
Total	**4,922**	**12,789**	**(12,596)**	**(8,307)**	**(1,837)**

The sub-item “Financial derivatives - on debt securities and interest rates”, negative for 3.5 million, refers to margins and differentials on IRSs held for trading, futures, and options on securities and rates.

Section 5 PROFITS (LOSSES) ON HEDGING ACTIVITIES - ITEM 90

5.1 Profits (losses) from hedging activities

During the financial year, as in the previous one, there were no differentials relevant to hedging transactions.

Section 6 PROFITS (LOSSES) ON SALE/REPURCHASE - ITEM 100

6.1 *Profits (losses) on sale/repurchase: breakdown*

Items/Income components *(thousands of Euro)*	**31.12.2014**			**31.12.2013**		
	Profit	**Loss**	**Net result**	**Profit**	**Loss**	**Net result**
Financial assets						
1. Due from banks	–	–	–	–	–	–
2. Loans to customers	–	(1,236)	(1,236)	188	–	188
3. Financial assets available-for-sale	14,904	(2,735)	12,169	5,789	(886)	4,903
3.1 Debt securities	12,343	(991)	11,352	5,789	(886)	4,903
3.2 Equity securities	–	–	–	–	–	–
3.3 UCITS units	2,561	(1,744)	817	–	–	–
3.4 Loans	–	–	–	–	–	–
4. Financial assets held to maturity	3	–	3	3	–	3
Total assets	**14,907**	**(3,971)**	**10,936**	**5,980**	**(886)**	**5,094**
Financial liabilities						
1. Due to banks	–	–	–	–	(1)	(1)
2. Due to customers	–	–	–	–	–	–
3. Debt securities issued	284	(17)	267	567	–	567
Total liabilities	**284**	**(17)**	**267**	**567**	**(1)**	**566**

Section 7 PROFITS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 110

7.1 *Net change in value of financial assets and liabilities designated at fair value through profit or loss: breakdown*

Transactions/Income components *(thousands of Euro)*	**Capital Gains (A)**	**Profits on disposal (B)**	**Capital Losses (C)**	**Losses on disposal (D)**	**Net result [(A+B) - (C+D)]**
1. Financial assets	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–
1.2 Equity securities	–	–	–	–	–
1.3 UCITS units	–	–	–	–	–
1.4 Loans	–	–	–	–	–
2. Financial liabilities	**2,568**	**806**	**(419)**	**(24)**	**2,931**
2.1 Debt securities	2,518	806	(419)	(24)	2,881
2.2 Due to banks	50	–	–	–	50
2.3 Due to customers	–	–	–	–	–
3. Foreign currency financial assets and liabilities: exchange differences	X	X	X	X	–
4. Financial and credit derivatives	**–**	**–**	**(2,913)**	**–**	**(2,913)**
Total	**2,568**	**806**	**(3,332)**	**(24)**	**18**

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)*	Adjustments			Recoveries				2014	2013
	Specific		Portfolio	Specific		Portfolio			
	Derecogni-tions	Other		From interest	Other recoveries	From interest	Other recoveries		
A. Due from banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Loans	–	–	–	–	–	–	–	–	–
– Debt securities	–	–	–	–	–	–	–	–	–
B. Loans to customers	**(5,834)**	**(39,517)**	**(904)**	**4,776**	**14,427**	**–**	**4**	**(27,048)**	**(19,326)**
Purchased impaired loans	–	–	–	–	–	–	–	–	–
– Loans	–	–	X	–	–	X	X	–	–
– Debt securities	–	–	X	–	–	X	X	–	–
Other loans	(5,834)	(39,517)	(904)	4,776	14,427	–	4	(27,048)	(19,326)
– Loans	(5,834)	(39,517)	(904)	4,776	14,427	–	4	(27,048)	(19,326)
– Debt securities	–	–	–	–	–	–	–	–	–
C. Total	**(5,834)**	**(39,517)**	**(904)**	**4,776**	**14,427**	**–**	**4**	**(27,048)**	**(19,326)**

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)*	Adjustments		Recoveries		2014	2013
	Specific		Specific			
	Derecognitions	Other	A	B		
A. Debt securities	–	–	–	–	–	–
B. Equity securities	–	(1,839)	X	X	(1,839)	(352)
C. UCITS units	–	–	X	–	–	–
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. Total		**(1,839)**	**–**	**–**	**(1,839)**	**(352)**

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)*	**Adjustments**			**Recoveries**				**2014**	**2013**
	Specific		**Portfolio**	**Specific**		**Portfolio**			
	Derecog-nitions	**Other**		**From interest**	**Other recoveries**	**From interest**	**Other recoveries**		
A. Guarantees issued	–	(134)	–	–	82	–	–	(52)	609
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to disburse funds	–	–	–	–	–	–	–	–	–
D. Other transactions	–	–	–	–	–	–	–	–	–
E. Total	**–**	**(134)**	**–**	**–**	**82**	**–**	**–**	**(52)**	**609**

Section 9 ADMINISTRATIVE EXPENSES - ITEM 150

9.1 *Personnel expenses: breakdown*

Type of cost/Amounts *(thousand of Euro)*	**31.12.2014**	**31.12.2013**
1) Employees	72,578	72,290
a) salaries and wages	50,256	49,924
b) social security costs	13,939	13,700
c) employee termination indemnities	–	–
d) pension costs	–	–
e) provisions to employee termination indemnities	2,504	2,599
f) provisions for retirement benefits and similar commitments:	–	–
- defined contribution plans	–	–
- defined benefit plans	–	–
g) payments to external supplementary pension funds:	2,736	2,777
- defined contribution plans	2,736	2,777
- defined benefit plans	–	–
h) costs resulting from share-based payment arrangements	–	–
i) other employee benefits	3,143	3,290
2) Other working staff	–	–
3) Directors and auditors	1,320	1,311
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	**73,898**	**73,601**

9.2 Average number of employees per category

	31.12.2014	31.12.2013
1. Employees	**968**	**992**
a) Officers	29	29
b) Line managers	364	361
c) Remaining employees	575	602
2. Other employees	**–**	**–**
Total	**968**	**992**

The average number of employees does not include the directors and auditors. Part-time employees are considered at 50%, by convention.

99.3 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 0.9 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)	31.12.2014	31.12.2013
1. Equipment and software leasing charges	1,039	1,400
2. Vehicle circulation and travel/accommodation reimbursements	1,394	1,493
3. Fees for professional services	4,939	3,814
4. Membership fees	567	527
5. SEC (consortium data processing centre) management costs	9,659	7,525
6. Donations	310	270
7. Property rental	4,958	5,130
8. Stamp duty and tax on stock exchange contracts	11,588	10,147
9. Indirect taxes	629	566
10. Insurance premiums	711	828
11. Transport	873	873
12. Security services	754	722
13. Electricity, heating, and condominium fees	1,704	1,873
14. Office supplies	1,127	1,357
15. Investigation and commercial information	1,359	1,357
16. Legal fees for credit collection	2,331	2,586
17. Property, furniture and plant maintenance	2,812	4,246
18. Advertising and entertainment	2,882	2,952
19. Office cleaning	929	1,074
20. Telephone, postal, data transmission and telex	2,221	2,575
21. Taxes and duties	1,528	1,514
22. Other costs	133	164
Total	**54,447**	**52,993**

Section 10 NET PROVISIONS FOR RISKS AND CHARGES - ITEM 160

10.1 Net provisions for risks and charges: breakdown

(thousands of Euro)	31.12.2014	31.12.2013
a) Provision for civil disputes, revocatory bankruptcy action and other charges	(1,972)	(1,720)
b) Release of provisions	177	1,409
Total	**(1,795)**	**(311)**

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	(5,396)	–	–	(5,396)
– for functional use	(5,396)	–	–	(5,396)
– for investment	–	–	–	–
A.2 Purchased under finance Lease	–	–	–	–
– for functional use	–	–	–	–
– for investment	–	–	–	–
Total	**(5,396)**	**–**	**–**	**(5,396)**

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	(1,105)	–	–	(1,105)
– generated internally	–	–	–	–
– Other	(1,105)	–	–	(1,105)
A.2 Acquired under finance lease	–	–	–	–
Total	**(1,105)**	**–**	**–**	**(1,105)**

Section 13 OTHER OPERATING INCOME (EXPENSES) - ITEM 190

13.1 Other operating expenses: breakdown

(thousands of Euro)	**31.12.2014**	**31.12.2013**
1. Cash, material, and operating differences	(116)	(58)
2. Losses on loans from Deposit Insurance Funds	–	–
3. Other costs	(2,302)	(1,977)
Total	**(2,418)**	**(2,035)**

13.2 Other operating income: breakdown

(thousands of Euro)	**31.12.2014**	**31.12.2013**
1. Property rental	493	498
2. Recovery of management costs	5,596	5,631
3. Charges to third parties for various recoveries	12,995	11,506
4. Other income	366	948
Total	**19,450**	**18,583**

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)*	**31.12.2014**	**31.12.2013**
A. Income	–	21
1. Revaluations	–	–
2. Profits on disposal	–	–
3. Recoveries	–	21
4. Other income	–	–
B. Charges	(661)	(1,988)
1. Write-downs	–	–
2. Losses on impairment	(661)	(1,974)
3. Losses on disposal	–	(14)
4. Other costs	–	–
Net result	**(661)**	**(1,967)**

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)*	**31.12.2014**	**31.12.2013**
A. Property	–	–
– Profits on disposal	–	–
– Losses on disposal	–	–
B. Other assets	18	29
– Profits on disposal	18	37
– Losses on disposal	–	(8)
Net result	**18**	**29**

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)**	**31.12.2014**	**31.12.2013**
1. Current taxes (-)	(13,817)	(5,096)	(18,913)	(20,692)
2. Changes in current taxes compared to previous years (+/-)	1,655	21	1,676	(493)
3. Reduction in current taxes for the year (+)	–	–	–	–
3. bis Reduction in current taxes for the year for tax credits pursuant to Italian Law no. 214/2011 (+)	–	–	–	–
4. Changes in deferred tax assets (+/-)	2,514	844	3,358	4,252
5. Changes in deferred tax liabilities (+/-)	(210)	(57)	(267)	133
6. Taxes for the year (–) (–1+/–2+3+/–4+/–5)	(9,858)	(4,288)	(14,146)	(16,800)

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	**9,458**	**27.50%**
Tax-free losses on investments	687	2.00%
Non-deductible interest expense	719	2.09%
Non-deductible costs	583	1.70%
Total tax effect of increases	**1,989**	**5.79%**
Dividends	(72)	−0.21%
Other decreases	(1,517)	−4.41%
Total tax effect of decreases	**(1,589)**	**−4.62%**
IRES tax charged to the income statement	**9,858**	**28.67%**

(thousands of Euro)	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	%
IRAP tax with application of nominal rate	**1,671**	**4.86%**
Personnel expenses	2,260	6.57%
Net losses/recoveries on impairment	1,314	3.82%
Non-deductible interest expense	127	0.37%
Other increases	608	1.77%
Total tax effect of increases	**4,309**	**12.53%**
Dividends	(7)	−0.02%
Other decreases	(1,685)	−4.90%
Total tax effect of decreases	**(1,692)**	**−4.92%**
IRAP tax charged to the income statement	**4,288**	**12.47%**

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)	31.12.2014	31.12.2013
a) Debit adjustments	**349,934**	**339,219**
1. Current accounts	78,788	80,824
2. Central portfolio	270,962	258,074
3. Cash on hand	157	252
4. Other accounts	27	69
b) Credit adjustments	**391,626**	**390,586**
1. Current accounts	81,160	91,900
2. Assignment of bills and documents	309,779	297,807
3. Other accounts	687	879

Section 21 EARNINGS PER SHARE

	31.12.2014	31.12.2013
Basic earnings per share	0.53	0.49
Diluted earnings per share	0.53	0.49

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.

	31.12.2014	31.12.2013
Weighted average number of ordinary shares	38,127,110	38,131,318
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**	**20,247**
	Other comprehensive income without reclassification to profit or loss	**(1,678)**	**461**	**(1,217)**
20.	Property and equipment	–	–	–
30.	Intangible assets	–	–	–
40.	Actuarial gains (losses) on defined benefit plans	(1,678)	461	(1,217)
50.	Discontinued operations	–	–	–
60.	Portion of valuation reserves of equity-accounted investees	–	–	–
	Other comprehensive income with reclassification to profit or loss	**4,847**	**(1,404)**	**3,443**
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:	4,847	(1,404)	3,443
	a) changes in fair value	5,022	(1,461)	3,561
	b) reclassification to profit or loss	(175)	57	(118)
	– losses on impairment	–	–	–
	– profits/losses on disposal	(175)	57	(118)
	c) other changes	–	–	–
120.	Portion of valuation reserves of equity-accounted investees	–	–	–
	a) changes in fair value	–	–	–
	b) reclassification to profit or loss	–	–	–
	– losses on impairment	–	–	–
	– profits/losses on disposal	–	–	–
	c) other changes	–	–	–
130.	**Total other comprehensive income**	**3,169**	**(943)**	**2,226**
140.	**Comprehensive income (10+130)**	**3,169**	**(943)**	**22,473**

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. The IPPF divulges the best experience from the practices used for internal audits. The compliance with the principles and the guidelines is not mandatory, but is in any event strongly recommended in order to ensure a high level of professionalism in 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 Compliance Office is to identify, mitigate and monitor the compliance risk. This is the risk of not complying with 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 Compliance Office operates independently and autonomously within the unit, answering functionally in relation to its activities to just the Board of Directors, the natural beneficiary of the evaluations made in-house. The current mandate of the compliance office was approved by the Board of Directors in its meeting of 20 June 2014. The main responsibilities of the Compliance 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 Company 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 (in 2014, 248 were identified and assessed), evaluates the impact on the corporate structure and promptly informs the organisational structures involved; it gives formal (31 in 2014) and informal advice (47 in 2014), and makes proactive evaluations (30 in 2014) 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. The Compliance office 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 action deemed 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 2014:

- 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 It. Leg. Decree 231/2001 and Code of Ethics;
- complaint management.

The activities performed in 2014 by the Compliance Office in accordance with its mandate and detailed in the 2014 Work Schedule approved by the Board of Directors on 24 January 2014 mainly focused on preparation of the following:

- audit report;
- consultancy report;
- on-going identification of the standards applicable to Banca Popolare dell'Alto Adige and measurement and assessment of their impact on the companies' processes and procedures: if necessary, the competent organisational units were alerted, for the consequent adaptations;
- periodic reports to the Board of Directors;
- 2014 operations report approved on 6 February 2015, related to the whole of 2014.

The Compliance Office in 2014 further developed the implementation of 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". Consequently, the Compliance Office now takes action in the sphere of the "Internal controls system - Co-ordination, integration, information flows between the audit units" which Banca Popolare dell'Alto Adige's Board of Directors approved on 1 August 2014; its investigatory activities co-ordinate within the sphere of the Internal Audit Committee, made up of the managers of the Company's second and third level audit units, for the purpose of maintaining synergy and greater interaction between said units.

Previously, the intervention of the Compliance office in order to identify any risks of non-compliance were limited to a series of well-defined areas (for example brokering financial instruments, transparency, conflicts of interest, remuneration policies, consumer protection, etc.); at present, by means of the new rules, the compliance office oversees all Company activities (therefore including for example, the important credit area). In order to strengthen this set up, common methods for assessing the adequacy of the procedures will be defined before long, with the units which carry out specialist organisational functions.

RISK MANAGEMENT

By means of the charter of the Risk management office, approved in first draft on 20 December 2012 and reviewed in June 2014, the Board of Directors formalised the duties and tasks of the risk management office, which had already been established by Banca Popolare · Volksbank in 2003, via which the latest national and international regulations concerning the role and obligations of the audit units, to which the risk management section belongs, are acknowledged among other aspects, framed within the more general Internal Controls System, and which laid down:

- 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 office 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.

Within the Internal Controls System, the risk control unit has the purpose of implementing the risk governance policies of Banca Popolare · Volksbank, by means of a suitable risk management process.

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 Company with respect to the new requirements within the scope of the Internal Audit System, the IT System and the Continuing Operations. The analyses led to definition of a master plan of the measures in different environments including the role of the control functions, the internal audit system structure, the risk appetite framework (RAF), the evaluation and management system of company risks and the outsourcing policy of company activities. Most of 2014 was therefore dedicated to the accomplishment of this master plan; the main areas of intervention, with regard to the risk management office, concerned:

- the updating of the process for defining and handling the Risk Appetite Framework (RAF) with the legislative definitions of the various components;
- the formalisation of the Risk management responsibilities in terms of RAF, inclusive of follow-up control processes and checking on the outsourcing of the handling of the cash;
- the extension of the scope of assessment of the corporate activities and the organisation of the accounting standards for the securities receivable;
- the completion of the formalisation of the new product approval process and the consolidation of the involvement of the risk management office in the ex ante analysis of the risks;
- the introduction of the assessment and control methods for the reputational risks and the strategic risk;
- the formalisation of the criteria for the identification of transactions of greatest significance and the related assessment process.

Efforts were once again intensified, 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 22 December 2014. This essential document includes an organic and systematic description of the policies for identifying, measuring, managing and controlling risk and the conditions for assuming such risks on an informed basis.

The Policy firstly contains the definition, in accordance with 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 Company, 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 Company's 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 Company's 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 Company intends to take on to pursue its strategic objectives. It reflects the risk appetite of the Company 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 Company 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 for the Company to operate, including in stress conditions, within the limits of the maximum risk that it can take on.

The new version of the Policy introduces a new document which formalises the RAF structure in quantitative terms for each year. It is established that once a year, the body responsible for strategic supervision, in other words the Board of Directors, with the support of the risk management office, checks the suitability of the RAF, its compliance with the Banca Popolare · Volksbank business model and quantifies for each year, on a consistent basis with the strategic objectives, the risk objectives and any tolerance thresholds within a document entitled Risk Appetite Statement (RAS).

With regard to the risk assessment, or the activities by means of which the Company periodically assesses the relevance and significance of each risk it is exposed to, a method and an assessment scale are used compliant with the integrated assessment methods common to the company control units. In detail, the method envisages that, for each risk category, the relevance takes into consideration - where possible - the probability that the risk will occur and the impact which will derive therefrom. Each control unit, with regard to the areas it is responsible for, is involved and shares the results of the risk assessment.

The annual risk assessment led to identification of insolvency risk (a case of credit risk) as the type of high-level risk for the Company for which the entire operating and control strategy structure must monitor as carefully as possible.

Within the scope of the Internal Audit System (IAS), the "integrated method" was streamlined in 2014, 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 Company 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.

In direct relation to the main document, in 2014 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 "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 of the Company 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 "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 Company - of the interest rate risk level, given by the structure and the repricing of the interest rates and the expiries of the financial assets and liabilities, and to express the potential for profit or loss resulting from market rate fluctuations.

The recently introduced Policies, drawn up under the impetus of the afore-mentioned provision laid down by the 15th up-date of circular No. 263/2006 of the Bank of Italy, include:

- the "Strategic risk policy", which pursues the aim of achieving strategic and planning decisions;
  - which are coherent with and informed in terms of the level of propensity to risk adopted, avoiding at all costs decisions which may place the income-earning capacity of the Company at risk and/or its equity endowment;
  - capable of anticipating and/or dynamically governing the risks associated with the sources of "external" riskiness of the reference context;
- the "Reputational risk policy", which defines the guidelines for the handling of the reputational risk within Banca Popolare · Volksbank. This risk, despite being difficulty to gauge and envisage, takes on particular importance for the banking sector, whose business is fundamentally based on the maintenance of satisfactory relationships of trust with its customers and public opinion in general;
- the "Business activity assessment policy" which - in relation to each balance sheet asset item - establishes rules and methods aimed at ensuring the reliability of the processes and the assessment methods, also for accounting purposes, of all the business activities, supplementing processes and methods with the risk management process, guaranteeing that the assessment of a financial instrument is entrusted to an independent unit with respect to that which trades it, ensuring the vigour and the repeatable nature of the assessment methods, taking care to use, where possible, more than one information source, and furthering the verification of the assessment methods also under stress scenarios;
- the "Policy for transactions of greatest significance" which defines the criteria for the identification of transactions of greatest significance and the assessment process which also includes the Risk Management prior opinion phase.

All those transactions which satisfy all the following conditions are identified as transactions of greatest significance.

- those which do not fall under the decision-making responsibilities of the management body;
- the transaction which satisfies, in terms of type and amount, the criteria included in a specific list, which is an integral part of the Policy.

As in the previous year, in 2014 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. Furthermore, the process was adapted where necessary for the purpose of ensuring coherence with the set up and risk objectives laid down by the RAF.
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 Company’s 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 also significantly confirmed the solidity and quality of the Company’s equity structure, as well as its ability to continue as a going concern.
Again in 2014 the new Basel 3 framework was dealt with on several occasions and at varying degrees of detail and implementation. With the new framework regulatory authorities intend to strengthen rules governing the international banking system by introducing a new definition of regulatory capital with stricter requirements in terms of quality and by providing additional measures to reduce procyclicality of rules (buffer capital) and setting limits on financial leverage while promoting new rules on liquidity management. In particular, during 2014 the instructions set out in Circular No. 285 dated 17 December 2013 of the Bank of Italy, entitled “The new Supervisory Regulations for banks and intermediaries” were implemented, acknowledging the European provisions for banks and investment firms contained in the regulation (CRR) and in the directive (CRD IV) dated 26 June 2013.

BANK RISKS

CREDIT RISK

Credit risk is the total or partial risk of insolvency of a key counterparty and constitutes Banca Popolare · Volksbank’s main risk factor, in accordance with its own retail nature as a Company 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 2014 was entirely inspired by the Credit Risk Policy, which was approved at the end of 2011 and subject to annual review in December 2014. 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 Company'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 is 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 the credit risk on equity and the Company's financial statements and therefore: determination of the capital 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.

Specifically, a monitoring and management system exists for the 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.

In order to improve the quality of credit and minimise risk, the following measures were introduced in 2014 as part of the granting, monitoring, and periodic reviewing processes involved in lending:

- formalisation within the “Credit risk policy” of the guidelines of the system for the management of the counterparty and credit risk mitigation techniques;
- definition of a set up for checking the correct performance of the trend monitoring in the individual credit exposures;
- review and amendment of the structure of the decision-making responsibilities with regard to the granting of credit and authorisation of the overruns within the sales network, based on a strong array of criteria now also including the disbursement rating;
- extension of the automatic monitoring of the detrimental issues, which now also avails itself of the reports provided by Ribes;
- blocking of the automatic debit of the fees on another account in the absence of funds;
- more stringent handling of the items under warning status, which can only be cancelled by the qualified staff of the central offices, specifically authorised for this purpose;
- possibility of changing the notes relating to the credit facilities exclusively by authorised staff at head office;

Adoption of the Credit Risk Mitigation methods to calculate the Bank’s regulatory capital in accordance with Basel III 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 2014 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 Company plays an important role as a fundamental tool to monitor performance of the lending activities and related risks, and to monitor adherence to the risk objectives (RAF) 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 2014 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 monthly basis by the Internal Credit Committee, which, among other things, also makes an in-depth detailed analysis of the aforesaid monthly and quarterly reports and the situation regarding the main impaired positions.

MARKET RISK

Market risk is defined as the risk of loss on owned financial instruments from possible fluctuations in financial market variables (rates, volatility, exchange rates, share prices), considering that each individual financial instrument may be exposed to one or more of these risks. Therefore, Banca Popolare · Volksbank measures market risk as changes in value of 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 Company 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.

INTEREST RATE RISK

With regard to the banking book, which corresponds to the Company'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 Company'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, along with the related limits and operational powers for financial management and the 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 2014 the Company's banking book 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 2014.

Liquidity risk is the risk that the Company might not be able to meet its own payment commitments at the due date and/or fund increases in its activities. 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 Company 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, not directly under the influence of the Company, over specific timeframes. Interest liquidity flows in the LaR analysis are daily imbalances not caused by Company decisions, or flows not "dependent" on the intent of the Company 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 fully weighted in order to determine five different operational situations resulting from progressive deterioration of this liquidity position of the Company: 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.

During 2014, the calculation and launch of the monthly reports to the supervisory authority for the liquidity indicators envisaged by Basel III regulations, was finally applied. This involves a short-term indicator, the so-called LCR, Liquidity Coverage Ratio, and a long-term one, the so-called NSFR, Net Stable Funding Ratio.

Once a year, the Board of Directors defines - within the RAF - the Company's risk propensity in terms of financial leverage establishing a minimum leverage ratio level (ratio between Tier 1 and total assets, as per the Basel III definition).

In 2014 the Company 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 associated with various countries in the Eurozone including Italy.

The policy of the Company 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 Company inevitably assumes while being remunerated for such risk, operational risk may generate losses without any compensation being received by the Company. 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 Company 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, which the Company complies with, 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 over the years has provided valuable inspiration and suggestions to assess and optimise processes and activities of the Company.

The management of operational risks is the responsibility of the Risk management service and is also taken into consideration within the scope of the internal audit system and the Internal Control Committee which meets 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.

A report on the Company’s operational risk situation is drafted on a quarterly basis by the risk management service discussed in the Internal Control Committee and presented to the Board of Directors.

Starting from 2012, the capital requirements necessary to deal with operational risks were calculated in accordance with standardised Basel 2 methods which require the execution of initiatives to improve the general level of monitoring of operational risks 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 Company, 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 Company;
- 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. 285 (Title III - Chapter 1 - Annex B) by the Granularity Adjustment (GA) method.
Specific procedures were defined under the ICAAP process in compliance with applicable regulatory provisions in order to calculate geo-sector concentration risk, i.e., risk deriving from counterparties operating in the same sector or geographical area.
A defined system of limits that controls and steers the guidelines to limit exposure to concentration risk in the Company's loan portfolio was activated.
The various forms of concentration risk are also monitored in the quarterly credit report, and discussed at the quarterly meetings of the Internal Credit Committee.

OTHER RISKS

The Risk Management Policy identifies and defines the following further classes of risk, which are periodically subject to analysis and assessment:

- strategic risk which covers, with respect to its timing in terms of occurrence, the following sub-types:
  - short-term risk (business or commercial risk), or rather the risk of losses further to unexpected changes in the sales volumes (minor revenues) and/or expected margins (greater costs due to technological innovation, deterioration of the taxation system, change in the legislative context, etc.);
  - strategic risk in the strict sense or positioning risk, or rather the risk of losses, current or forecast, drops in profits or capital deriving from changes in the operating context or from erroneous business decisions, inadequate implementation of decisions, scant reactivity to changes in the competitive scenario:
- risks deriving from securitisation transactions;
- investment risk, or risk that the book value of an investment may suffer a decrease due to the drop in the price on the stock markets, in the event of listed companies, or equity default of the investee company which makes it necessary/advisable to review the book value, in the event of unlisted companies;
- reputational risk, or rather the risk - current or forecast - of a decrease in the profits or the capital deriving from a negative perception of the Company's image by stakeholders or any party with which the Company enters into dealings.

ANTI-MONEY LAUNDERING OFFICE

Money laundering and terrorism financing are activities that, also due to their international nature, pose a serious threat to the economy and can have destabilising effects, especially on the banking and financial system.

The wide-ranging legal basis on which the entire system involved in the international and internal fight against money-laundering and terrorism are aimed at protecting the system from the risk of being used, also inadvertently, to perform unlawful acts. They call on operators to “collaborate actively”, i.e. by reporting any transactions that raise suspicions regarding the unlawful 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 dell’Alto Adige 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.

In this connection, 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 MEF Circular dated 31 January 2014 containing clarifications with regard to the anti-money laundering obligations associated with the so-called “voluntary disclosure” procedure as per Italian Decree Law No. 4 dated 28 January 2014;
- the UIF Communication of 18 February 2014 showing typical patterns of anomalous behaviour in operations related to payment cards;
- the UIF Ruling dated 10 March 2014 concerning the instructions for the communication of reimbursement transactions as per Article 23.1 bis of Italian Legislative Decree No. 231 dated 2007;
- the 2013 Annual Report on Moneyval’s activities dated 4 June 2014 by the Committee of experts on the evaluation of anti-money laundering measures and the financing of terrorism within the sphere of the European Council;
- the Bank of Italy Discussion Paper dated 26 August 2014 on the anti-money laundering obligations applicable further to factoring transactions;
- the MEF 2013 Annual Report dated 24 September 2014 on the assessment of activities for the prevention of laundering and financing of terrorism;
- the Guidance for a risk-based approach dated October 2014 by the Financial Action Task Force (FATF-GAFI);
- the UIF Communiqué dated 27 October 2014 on the organisational reform of the UIF, consistent with the departmental one of the Central Administration of the Bank of Italy;
- the up-date of the UIF dated 8 January 2015 on the summary codes on the basis of the amendments to the Bank of Italy Circular No. 140 (CEB);

- the MEF circular dated 9 January 2015 relating to the voluntary collaboration for the emergence and return of capital held abroad as per Italian Law No. 186 dated 15 December 2014;
- the UIF Communication dated 30 January 2015 on the anomalous use of virtual currencies;
- the countless up-dates of the European Council via regulations and decisions regarding the restrictive measures vis-à-vis various countries and/or parties subject to sanctions.

No organisational changes took place in Banca Popolare dell'Alto Adige during 2014, while in previous years adequate organisational controls had been set up in order to fulfil its obligations relating to the regulations in force and to effectively govern risks; therefore, the necessary requirements of the anti-money laundering office in the Company remained unchanged. In summary, the anti-money laundering office in Banca Popolare dell'Alto Adige:

- is independent;
- reports directly to the strategic supervision body (Board of Directors);
- has access to all the Company's 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 who see to duties relating to the anti-money laundering office, including by following special training programmes on a continuous basis;
- is coordinated by a manager appointed by the Board of Directors.

In 2014 the following activities were developed, adapting to the legislative requirements and making the envisaged improvements to the procedures in any event already operating and functioning:

a) full recovery of all the questionnaires for the suitable checking of the customers with current and savings deposit accounts outstanding, with forced closure of accounts in the event of impossibility of contacting the customers;
b) qualitative improvements in the process for the suitable checking of the customers;
c) introduction of a new IT procedure for a more in-depth and above all else prompter assessment of potentially anomalous transactions by the branches;
d) preparation of a new process for checking "cash" operations of the customers, with particular reference to payments made outside the branch (via cash-in);
e) creation of the new process for handling Politically Exposed Individuals (PEP) - Italy;
f) qualitative/quantitative increase in internal and external training activities;
g) check on the activities of the anti-money laundering office carried out by the Board of Statutory Auditors;
h) official Bank of Italy inspection of 3 Bank branches in October 2014.

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 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 2014 were also published. During the financial year 168 written complaints were received and processed (165 the previous year), including 153 regarding bank services (153) and 15 regarding investment services (12). Out of 168 complaints as at 31 December 2014, 129 were settled, 18 were closed pending settlement, while 21 are still under assessment. A complaint is considered to have been settled when the reason behind the complaint made by the customer has been resolved, whereby the Company has provided a complete and exhaustive response within the timeframe provided and the customer has not made any further complaints in the following thirty days, with respect to the same product or service. The complaint is also considered to have been settled in the case where a settlement is reached or an amicable solution to the matter is reached with the customer.
With respect to complaints made in 2014 regarding the banking services, the Company repaid customers a total gross amount of Euro 29,918.05; with respect to loss forecasts relating to complaints which have not yet been settled, a total loss of Euro 19,152.00 was envisaged; this amount was allocated to the appropriate provision.
With respect to complaints made in 2014 regarding financial instrument intermediation, the Company repaid customers a total gross amount of Euro 334.76; with respect to loss forecasts relating to complaints which have not yet been settled, a total loss of Euro 552.00 was envisaged.
Repayments relating to complaints made in previous years (two presented in 2013) were made in 2014 for Euro 63,256.30. A detailed investigation of the complaints made in 2014 did not show up any particular procedural, organisational or behavioural shortfalls.

CODE OF ETHICS

A good reputation implies trust in the organisation, as an institution that adopts business and relation policies with stakeholders.
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.

CODE OF CONDUCT FOR INTERNAL DEALING

The Code of Conduct for Internal Dealing is in force within Banca Popolare dell'Alto Adige; it describes both the obligations which certain parties must meet (so-called associated parties) when they carry out financial transactions concerning shares, and the related option rights issued, and the disclosure obligations which the party appointed to handle said information must comply with.
This code, constantly up-dated as recently as 18 July 2014, defines the subjective sphere of application and, among the most significant provisions, lays down:

- the inclusion within the circle of relevant parties, for the purposes of the code, of certain Company staff who have full access to the information and data in that they are functionally appointed with the activities for the supervision, handling and control of the financial instruments issued;
- the time-related restriction on carrying out transactions, which is always active in the 30 days prior to the date when the Board of Directors formulates the proposal for the premium for the issue of new shares, but which now can be interrupted as from the date of any communication to the general public of this proposal by means of the press bodies, without waiting for the shareholders' meeting which formally approves said share premium.

By means of the control activities carried out in this connection during 2014, the Compliance office ascertained the observance of the Code of Conduct by the parties concerned.

STATEMENT PURSUANT TO ARTICLE 154 BIS OF THE CONSOLIDATED LAW ON FINANCE (TUF)

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 Company'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 Company 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 Company 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 Company 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 Company'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 Company'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 Company turn out to be less effective than expected. The residual risk is manifest, therefore, in relation to the Credit Risk Mitigation (CRM) 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 Company;
- 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 the counterparty is unable to fulfil its obligations (handover securities or sums of money) during settlement, after the Company has already honoured its commitments;
- risk of change in solvency is associated with the deterioration of the borrower's and counterparty's credit rating, so that it must be classified in a lower rating class (so-called downgrading), without there necessarily being an immediate economic loss for the Company;
- 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 Internal Credit Committee analyses and guides all policies for credit risk management based on the outcome of testing and monitoring with the support of detailed reports provided by the Risk management department. In detail, 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 application) 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 Company 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 Company 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 own funds. This limit can however be raised at the complete discretion of the Board of Directors. Nonetheless, obligations imposed by current supervisory regulations of the Bank of Italy on maximum individual and group credit limits obviously remain binding. In 2014, 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 Internal credit committee, and thus the Board of Directors. The quarterly credit risk report plays an important role as a tool to monitor performance of the Company'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 Company'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 the related supervisory reporting 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 Company 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 Company).

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 Company's capital requirements in accordance with Basel III 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 Company considers it appropriate to allocate funds to a provision 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 Company, in accordance with the regulatory provisions (item 2477 of the Accounting Manual), granting 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 Company'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 unite, 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	–	–	–	–	–	46,947	**46,947**
2. Financial assets available-for-sale	–	–	–	–	–	815,428	**815,428**
3. Investments held to maturity	–	–	–	–	–	54,757	**54,757**
4. Due from banks	–	–	–	–	–	39,420	**39,420**
5. Loans to customers	165,442	140,769	20,243	17,417	260,837	4,519,461	**5,124,169**
6. Financial assets designated at fair value through profit or loss	–	–	–	–	–	–	**–**
7. Financial assets held for sale	–	–	–	–	–	–	**–**
8. Hedges	–	–	–	–	–	–	**–**
Total as at 31.12.2014	**165,442**	**140,769**	**20,243**	**17,417**	**260,837**	**5,476,013**	**6,080,721**
Total as at 31.12.2013	**152,121**	**133,901**	**41,762**	**38,380**	**188,111**	**5,121,174**	**5,675,449**

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
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	(net exposure)
1. Financial assets held for trading	–	–	–	X	X	46,947	**46,947**
2. Financial assets available-for-sale	–	–	–	815,428	–	815,428	**815,428**
3. Investments held to maturity	–	–	–	54,757	–	54,757	**54,757**
4. Due from banks	–	–	–	39,420	–	39,420	**39,420**
5. Loans to customers	483,149	(139,278)	343,871	4,804,458	(24,160)	4,780,298	**5,124,169**
6. Financial assets designated at fair value through profit or loss	–	–	–	X	X	–	**–**
7. Financial assets held for sale	–	–	–	–	–	–	**–**
8. Hedges	–	–	–	X	X	–	**–**
Total as at 31.12.2014	**483,149**	**(139,278)**	**343,871**	**5,761,010**	**(24,160)**	**5,736,850**	**6,080,721**
Total as at 31.12.2013	**494,991**	**(128,827)**	**366,164**	**5,332,545**	**(23,260)**	**5,309,285**	**5,675,449**

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 exposures	151,664	54,231	33,490	21,452	260,837
Total as at 31.12.2014	**151,664**	**54,231**	**33,490**	**21,452**	**260,837**
Total as at 31.12.2013	**146,818**	**8,197**	**33,096**	**–**	**188,111**

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) Impaired past due exposures	–	–	X	–
e) Other assets	232,665	X	–	232,665
TOTAL A	**232,665**	**–**	**–**	**232,665**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	–	–	X	–
b) Other	14,202	X	–	14,202
TOTAL B	**14,202**	**–**	**–**	**14,202**
TOTAL A+B	**246,867**	**–**	**–**	**246,867**

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	283,590	(118,148)	X	165,442
b) Substandard loans	160,292	(19,523)	X	140,769
c) Restructured exposures	20,782	(538)	X	20,244
d) Impaired past due exposures	18,486	(1,068)	X	17,418
e) Other assets	5,520,767	X	(24,160)	5,496,607
TOTAL A	**6,003,917**	**(139,277)**	**(24,160)**	**5,840,480**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	6,965	(330)	X	6,635
b) Other	537,320	X	–	537,320
TOTAL B	**544,285**	**(330)**	**–**	**543,955**
TOTAL A+B	**6,548,202**	**(139,607)**	**(24,160)**	**6,384,435**

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	**257,360**	**148,467**	**48,835**	**40,328**
of which: exposures sold and not cancelled	4,708	4,330	–	2,612
B. Increases	**100,133**	**111,185**	**5,581**	**57,182**
B.1 Income from performing loan exposure	9,968	50,989	–	54,795
B.2 Transferred from other categories of impaired exposures	69,289	52,490	5,176	380
B.3 Other increases	20,876	7,706	405	2,007
C. Decreases	**73,903**	**99,360**	**33,634**	**79,025**
C.1 Transferred to performing loans	443	14,612	–	48,284
C.2 Derecognitions	16,154	–	–	–
C.3 Collections	41,332	18,372	1,487	1,929
C.4 Sale proceeds	15,974	–	–	–
C.4 Bis. Losses on sales	–	–	–	–
C.5 Transferred to other categories of impaired exposures	–	66,376	32,147	28,812
C.6 Other decreases	–	–	–	–
D. Gross exposure at the end of the year	**283,590**	**160,292**	**20,782**	**18,485**
of which: exposures sold and not cancelled	8,209	4,360	–	2,455

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	**105,239**	**14,566**	**7,073**	**1,948**
of which: exposures sold and not cancelled	705	107	–	81
B. Increases	**37,097**	**25,106**	**145**	**3,418**
B.1 Adjustments	23,962	17,490	17	3,408
B.1 bis Loss on disposal	1,236	–	–	–
B.2 Transferred from other categories of impaired exposures	11,899	7,616	128	10
B.3 Other increases	–	–	–	–
C. Decreases	**24,188**	**20,149**	**6,680**	**4,298**
C.1 Recoveries on valuation	–	–	–	–
C.2 Recoveries on collection	6,291	7,102	164	250
C.2 bis Profit on disposal	–	–	–	–
C.3 Derecognitions	16,621	–	–	–
C.4 Transferred to other categories of impaired exposures	–	11,564	6,516	1,573
C.5 Other decreases	1,276	1,483	–	2,476
D. Overall adjustments at the end of the year	**118,148**	**19,523**	**538**	**1,068**
of which: exposures sold and not cancelled	1,229	133	–	126

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 Company adopts the credit ratings issued by the following external credit assessment institution (ECAI): Moody's Investors Service and DBRS Ratings Limited.
Specifically, reference is made to the ECAI DBRS ratings for the Exposures to Central administrations and central banks statutory portfolio.
With regard to the other portfolios (multilateral banks, bodies, companies, OIC, securitisations), reference is made to the ECAI Moody's ratings.
Taking into account the composition of the loan portfolio, composed predominantly of loans to small and medium-size companies, family business and craftsmen, professionals, and consumer families, the distribution of the cash and "off-balance sheet" exposures by rating class appears insignificant.

A.2.2 Distribution of cash and "off-balance sheet" credit exposures by internal rating class

For prudent credit risk purposes, these are measured with the standard method. The internally generated rating assessments are not relevant for loan processing and prudent governance purposes.

A.3 Distribution of guaranteed loans by guarantee-type.

A.3.1 Guaranteed loans to banks

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								
		Mort-gaged property	Property in finan-cial lease	Securities	Other real guaran-tees	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:	**4,038,975**	**6,266,595**	**–**	**35,320**	**24,351**	**–**	**–**	**–**	**–**	**–**	**–**	**19,115**	**1,338**	**692,139**	**7,038,858**
1.1 fully guaranteed	3,693,299	6,150,538	–	29,993	20,442	–	–	–	–	–	–	15,833	1,338	621,754	6,839,898
- of which impaired	247,948	451,112	–	425	495	–	–	–	–	–	–	–	–	32,785	484,817
1.2 partly guaranteed	345,676	116,057	–	5,327	3,909	–	–	–	–	–	–	3,282	–	70,385	198,960
- of which impaired	57,882	43,085	–	118	2	–	–	–	–	–	–	–	–	8,331	51,536
2. Off balance sheet guaranteed loan exposures:	**107,489**	**15,314**	**–**	**3,456**	**3,853**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**333**	**92,417**	**115,373**
2.1 fully guaranteed	95,682	12,750	–	2,381	2,919	–	–	–	–	–	–	–	271	86,460	104,781
- of which impaired	2,112	2,058	–	–	102	–	–	–	–	–	–	–	–	1,717	3,877
2.2 partly guaranteed	11,807	2,564	–	1,075	934	–	–	–	–	–	–	–	62	5,957	10,592
- of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

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	4	(146)	X	–	–	X	140,788	(104,369)	X	24,649	(13,633)	X
A.2 Substandard loans	–	–	X	–	–	X	1,388	(37)	X	–	–	X	126,990	(19,015)	X	12,391	(471)	X
A.3 Restructured exposures	–	–	X	–	–	X	3,497	(93)	X	–	–	X	16,746	(445)	X	–	–	X
A.4 Past due exposures	–	–	X	–	–	X	–	–	X	–	–	X	12,591	(767)	X	4,826	(301)	X
A.5 Other exposures	665,008	X	–	11,891	X	(62)	114,543	X	(485)	171,681	X	–	2,767,782	X	(14,532)	1,765,701	X	(9,082)
Total A	**665,008**	**–**	**–**	**11,891**	**–**	**(62)**	**119,432**	**(276)**	**(485)**	**171,681**	**–**	**–**	**3,064,897**	**(124,596)**	**(14,532)**	**1,807,567**	**(14,405)**	**(9,082)**
B. Off-balance sheet exposures																		
B.1 Doubtful loans	–	–	X	–	–	X	–	–	X	–	–	X	3,609	(183)	X	52	(76)	X
B.2 Substandard loans	–	–	X	–	–	X	–	–	X	–	–	X	1,771	(72)	X	133	–	X
B.3 Other impaired assets	–	–	X	–	–	X	–	–	X	–	–	X	587	–	X	481	–	X
B.4 Other exposures	80	X	–	293	X	–	5,797	X	–	20	X	–	436,664	X	–	94,466	X	–
Total B	**80**	**–**	**–**	**293**	**–**	**–**	**5,797**	**–**	**–**	**20**	**–**	**–**	**442,631**	**(255)**	**–**	**95,132**	**(76)**	**–**
Total as at 31.12.2014	**665,088**	**–**	**–**	**12,184**	**–**	**(62)**	**125,229**	**(276)**	**(485)**	**171,701**	**–**	**–**	**3,507,528**	**(124,851)**	**(14,532)**	**1,902,699**	**(14,481)**	**(9,082)**
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)**

B.2 *Geographic distribution of cash and off-balance sheet credit exposure from loans to customers (book value)*

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
(thousands of Euro)	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	165,217	117,869	224	279	–	–	–	–	–	–
A.2 Substandard loans	140,364	19,513	404	11	–	–	–	–	–	–
A.3 Restructured exposures	20,244	538	–	–	–	–	–	–	–	–
A.4 Past due exposures	17,270	1,058	148	10	–	–	–	–	–	–
A.5 Other exposures	5,422,702	23,951	73,314	207	295	1	247	1	49	–
Total	**5,765,797**	**162,929**	**74,090**	**507**	**295**	**1**	**247**	**1**	**49**	**–**
B. Off-balance sheet exposures										
B.1 Doubtful loans	3,662	259	–	–	–	–	–	–	–	–
B.2 Substandard loans	1,905	72	–	–	–	–	–	–	–	–
B.3 Other impaired assets	1,068	–	–	–	–	–	–	–	–	–
B.4 Other exposures	509,074	–	28,214	–	–	–	–	–	–	–
Total	**515,709**	**331**	**28,214**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total as at 31.12.2014	**6,281,506**	**163,260**	**102,304**	**507**	**295**	**1**	**247**	**1**	**49**	**–**
Total as at 31.12.2013	**5,840,966**	**151,871**	**85,004**	**492**	**265**	**1**	**–**	**–**	**52**	**–**

Exposures/Geographic areas	NORTH WEST ITALY		NORTH EAST ITALY		CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS		TOTAL	
(thousands of Euro)	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	12,721	2,063	150,929	114,792	1,446	811	121	203	165,217	117,869
A.2 Substandard loans	4,376	1,117	133,105	18,305	2,727	86	155	4	140,363	19,512
A.3 Restructured exposures	3,497	93	16,746	445	–	–	–	–	20,243	538
A.4 Past due exposures	1	–	17,230	1,055	38	3	1	–	17,270	1,058
A.5 Other exposures	193,965	611	4,425,865	22,883	784,812	362	18,062	96	5,422,704	23,952
Total	**214,560**	**3,884**	**4,743,875**	**157,479**	**789,023**	**1,262**	**18,339**	**303**	**5,765,797**	**162,929**
B. Off-balance sheet exposures										
B.1 Doubtful loans	358	50	3,302	209	–	–	2	–	3,662	259
B.2 Substandard loans	74	–	1,831	72	–	–	–	–	1,905	72
B.3 Other impaired assets	–	–	1,068	–	–	–	–	–	1,068	–
B.4 Other exposures	16,250	–	490,740	–	1,935	–	149	–	509,074	–
Total	**16,682**	**50**	**496,941**	**281**	**1,935**	**–**	**151**	**–**	**515,709**	**331**
Total as at 31.12.2014	**231,242**	**3,934**	**5,240,816**	**157,760**	**790,958**	**1,262**	**18,490**	**303**	**6,281,506**	**163,260**
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**

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 exposures	203,442	–	24,821	–	4,191	–	165	–	46	–
Total	**203,442**	**–**	**24,821**	**–**	**4,191**	**–**	**165**	**–**	**46**	**–**
B. Off-balance sheet exposures										
B.1 Doubtful loans	–	–	–	–	–	–	–	–	–	–
B.2 Substandard loans	–	–	–	–	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–	–	–	–	–
B.4 Other exposures	6,935	–	7,269	–	–	–	–	–	–	–
Total	**6,935**	**–**	**7,269**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total as at 31.12.2014	**210,377**	**–**	**32,090**	**–**	**4,191**	**–**	**165**	**–**	**46**	**–**
Total as at 31.12.2013	**243,192**	**–**	**40,354**	**–**	**4,699**	**–**	**16**	**–**	**74**	**–**

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 exposures	53,999	–	59,140	–	56,794	–	33,509	–	203,442	–
Total	**53,999**	**–**	**59,140**	**–**	**56,794**	**–**	**33,509**	**–**	**203,442**	**–**
B. Off-balance sheet exposures										
B.1 Doubtful loans	–	–	–	–	–	–	–	–	–	–
B.2 Substandard loans	–	–	–	–	–	–	–	–	–	–
B.3 Other impaired assets	–	–	–	–	–	–	–	–	–	–
B.4 Other exposures	350	–	178	–	6,407	–	–	–	6,935	–
Total	**350**	**–**	**178**	**–**	**6,407**	**–**	**–**	**–**	**6,935**	**–**
Total as at 31.12.2014	**54,349**	**–**	**59,318**	**–**	**63,201**	**–**	**33,509**	**–**	**210,377**	**–**
Total as at 31.12.2013	**56,176**	**–**	**120,994**	**–**	**66,023**	**–**	**–**	**–**	**243,192**	**–**

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)
31.12.2014	6	1,116,156	201,034
31.12.2013	3	547,092	107,842

C. 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, with copy sent to central management.
With regard to credit risk management, however, reference should be made to the general Company 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 transfer date	30.09.2006
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 38.1 million in securities remain, 19.2 million of which are Class A2, 5.7 million of which are Class B, 5.7 million are Class C and 7.6 million of which are Class D. The Company holds 5.0 million Class A2 securities, 4.4 million of class C securities and 7.6 million of Class D securities.

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 Company 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 No. 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 No. 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 No. 3 S.r.l.
Company interest in the SPV	0%
Loans transfer date	01.09.2011
Type of loans transferred	Mortgage loans
Status of loans transferred	Performing
Guarantees on loans transferred	Mortgage loan I. Legal grade
Geographic area of loans transferred	Northern Italy
Business of debtors transferred	Private individuals and companies
Number of loans transferred	3,188
Price of loans transferred	Euro 387,269,164.82
Nominal value of loans transferred	Euro 387,269,164.82
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 C securities were fully subscribed by the Company. A total of 271.9 million in securities remain, 212.2 million of which are Class A2 and 59.7 are Class C. Of these, 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 No. 3 S.r.l. for a cash reserve amounting to Euro 11.0 million as at 31 December 2014.

Securitisation of residential mortgages - S.P.V. VOBA No. 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 No. 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 No. 4 S.r.l.
Company interest in the SPV	0%
Loans transfer date	01.07.2012
Type of loans transferred	Mortgage loans and unsecured loans
Status of loans transferred	Performing
Guarantees on loans transferred	in part mortgage
Geographic area of loans transferred	Northern Italy
Business of debtors transferred	Small and medium sized enterprises
Number of loans transferred	3,714
Price of loans transferred	Euro 601,313,690.21
Nominal value of loans transferred	Euro 601,313,690.21

The characteristics of the securities issued are as follows:

Tranche	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 Junior securities were fully subscribed by the Company. As at 31 December 2014, a total of 367.3 million in securities remain, 196.9 million of which are Class A and 170.4 million are Junior class. Of these, 150.2 million of the class A securities and 170.4 million of the Junior class are held by the Company.

Securitisation of residential mortgages - S.P.V. VOBA No. 5 S.r.l. (February 2014)

Issue characteristics

On 24 February 2014, the Board of Directors authorised the realisation of a securitisation for a loan portfolio consisting of mortgage loans and performing unsecured loans to small to medium enterprises (SMEs) under the name VOBA n. 5 S.r.l.

The transaction involved the transfer of 4,164 loans for a total value of Euro 479,791,803.44.

Like the previous VOBA Finance S.r.l., VOBA n. 3 S.r.l. and VOBA n. 4 S.r.l securitisations, this was established to obtain instruments eligible for the refinancing transactions at the ECB to support liquidity requirements.

SPV	VOBA No. 5 S.r.l.
Company interest in the SPV	0%
Loans transfer date	01.02.2014
Type of loans transferred	Residential mortgage loans
Status of loans transferred	Performing
Guarantees on loans transferred	Mortgage
Geographic area of loans transferred	Northern Italy
Business of debtors transferred	SAE 600, 614, 615
Number of loans transferred	4,164
Price of loans transferred	Euro 479,791,803.44
Nominal value of loans transferred including accruals	Euro 479,791,803.44

The characteristics of the securities issued are as follows:

Tranche	Rating S&P/Moody's	Percentage	Total (in Euro)
Class A1	AAA/AA+	41.11%	201,400,000
Class A2	AAA/AA+	40.62%	199,000,000
Junior class	NR	18.26%	89,450,000
Total		**100.00%**	**489,850,000**

The Junior securities were fully subscribed by the Company. As at 31 December 2014, a total of 448.5 million in securities remain, 160.0 million of which are Class A1, 199.0 million are Class A2 and 89.5 million are Junior class. Of these, as at 31 December 2014 160.0 million of the class A securities and 89.5 million of the Junior class are held by the Company.

C.1 *Exposures from securitisations according to the quality of the underlying assets*

Underlying asset quality/*Exposures*	**Cash exposures**						**Guarantees issued**						**Credit lines**					
(thousand of Euro)	**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:	**315,209**	**315,209**	**4,350**	**4,350**	**327,150**	**327,150**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
b) Other	315,209	315,209	4,350	4,350	327,150	327,150	–	–	–	–	–	–	–	–	–	–	–	–
B. With underlying third party assets:																		
a) Impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
b) Other	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

C.2 *Exposures from Bank's own major securitisations according to securitised asset type and exposure type*

Securitised asset type/Exposures	**Cash exposures**						**Guarantees issued**						**Credit lines**					
(thousands of Euro)	**Senior**		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**	
	Book value	**Adjustments/ recoveries**	**Book value**	**Adjustments/ recoveries**	**Book value**	**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	**315,209**	**–**	**4,350**	**–**	**327,150**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 Voba Finance S.r.l.																		
- Mortgage loans	315,209	–	4,350	–	327,150	–	–	–	–	–	–	–	–	–	–	–	–	–

C.3 Exposures from main third party securitisations according to securitised asset type and exposure type

Underlying asset type/Exposures (thousands of Euro)	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjustments/ recoveries	Book value	Adjustments/ recoveries	Book value	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	888	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

C.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	31.12.2014	31.12.2013
1. Cash exposures	**–**	**–**	**–**	**888**	**–**	**888**	**985**
– “Senior”	–	–	–	888	–	888	985
– “Mezzanine”	–	–	–	–	–	–	–
– “Junior”	–	–	–	–	–	–	–
2. Off-balance sheet exposures	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– “Senior”	–	–	–	–	–	–	–
– “Mezzanine”	–	–	–	–	–	–	–
– “Junior”	–	–	–	–	–	–	–

C.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:**		**1,164,571**	**–**
	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	1,164,571	–
		1. Doubtful loans	8,209	–
		2. Substandard loans	4,360	–
		3. Restructured exposures	–	–
		4. Past due exposures	2,455	–
		5. Other assets	1,149,547	–
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.6 SPVs for the securitisation

Securitisation name / SPV name	Registered offices	Consolida-tion	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Voba Finance S.r.l.	Milan	NO	3,515	–	–	19,190	11,300	7,600
Voba No. 3 S.r.l.	Conegliano (TV)	NO	17,382	–	–	212,185	–	59,700
Voba No. 4 S.r.l.	Conegliano (TV)	NO	38,933	–	–	196,886	–	170,400
Voba No. 5 S.r.l.	Conegliano (TV)	NO	14,766	–	–	359,027	–	89,450

C.7 Non-consolidated SPVS for the securitisation

As at the balance sheet date, there are no holdings in non-consolidated SPVS for the securitisation. Furthermore, there are no exposures to the afore-mentioned companies nor have any measures been or support agreement resolved, including financial, for said companies.

C.8 *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.	4,306	95,857	1,098	16,542	–	94.66 %	–	–	–	–
Voba 3 S.r.l.	766	266,615	203	31,136	–	37.33 %	–	–	–	–
Voba 4 S.r.l.	9,476	345,035	1,166	75,098	–	55.56 %	–	–	–	–
Voba 5 S.r.l.	477	442,039	39	37,268	–	8.97 %	–	–	–	–

D INFORMATION ON NON-CONSOLIDATED STRUCTURED BODIES (OTHER THAN SECURITISATION SPVS)

QUALITATIVE INFORMATION

The Company did not hold any structured bodies not consolidated in the accounts as at the date of the financial statements.

QUANTITATIVE INFORMATION

The Company did not hold any structured bodies not consolidated in the accounts as at the date of the financial statements.

E. DISPOSAL TRANSACTIONS

The information in this section regards all disposal transactions, including securitisations.

A. Financial assets sold but not fully derecognised

QUALITATIVE INFORMATION

The transactions mainly refer to the use of debt securities in the portfolio for short and medium term repurchase agreements and loans to customers sold as part of the Voba Finance S.r.l., Voba No. 3 S.r.l., Voba No. 4 S.r.l. and Voba No. 5 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.

E.1 Financial assets sold and not derecognised: carrying amount and full value

Technical forms/portfolio *(thousands of Euro)*	Financial assets held for trading			Financial assets designated at fair value through profit or 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	31.12.2014	31.12.2013
A. Cash assets	**2,881**	**–**	**–**	**–**	**–**	**–**	**99,946**	**–**	**–**	**6,344**	**–**	**–**	**–**	**–**	**–**	**1,157,451**	**–**	**–**	**1,266,622**	**885,076**
1. Debt securities	2,881	–	–	–	–	–	99,946	–	–	6,344	–	–	–	–	–	–	–	–	109,171	34,908
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	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,157,451	–	–	1,157,451	850,168
B. Derivatives	**–**	**–**	**–**	**X**	**X**	**X**	**–**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	**–**
Total as at 31.12.2014	**2,881**	**–**	**–**	**–**	**–**	**–**	**99,946**	**–**	**–**	**6,344**	**–**	**–**	**–**	**–**	**–**	**1,157,451**	**–**	**–**	**1,266,622**	**X**
of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	13,536	–	–	13,536	X
Total as at 31.12.2013	**1,441**	**–**	**–**	**–**	**–**	**–**	**33,467**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**850,168**	**–**	**–**	**X**	**885,076**
of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	10,757	–	–	X	10,757

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)

E.2 Financial liabilities from financial assets sold but not derecognised: book value

Liability/Asset portfolio *(thousands of Euro)*	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Financial assets available-for-sale	Investments held to maturity	Due from banks	Loans to customers	Total
1. Due to customers	**2,877**	**–**	**99,979**	**7,033**	**–**	**405,192**	**515,081**
a) in relation to assets recognised in full	2,877	–	99,979	7,033	–	405,192	515,081
b) in relation to assets recognised partially	–	–	–	–	–	–	–
2. Due to banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) in relation to assets recognised in full	–	–	–	–	–	–	–
b) in relation to assets recognised partially	–	–	–	–	–	–	–
Total as at 31.12.2014	**2,877**	**–**	**99,979**	**7,033**	**–**	**405,192**	**515,081**
Total as at 31.12.2013	**1,437**	**–**	**33,508**	**–**	**–**	**159,646**	**194,591**

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.

E.3 Disposal transactions with liabilities recouped exclusively from sold assets: fair value

The fair value of the financial assets sold but still recognised are shown in columns A and B, respectively on a full or partial basis in the balance sheet assets, and the fair value of the associated financial liabilities recorded following said sale if the liabilities can only be recouped from the related assets sold. The case only applies to the VOBA Finance S.r.l., VOBA N. 3 S.r.l., VOBA N. 4 S.r.l. e VOBA N. 5 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 2014.

Technical forms/Portfolio	Financial assets held for trading		Financial assets designated at fair value through profit or loss		Financial assets available-for-sale		Investments held to maturity (fair value)		Due from banks (fair value)		Loans to customers (fair value)		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	31.12.2014	31.12.2013
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	–	–	–	–	–	–	–	–	–	–	1,284,481	–	1,284,481	917,194
B. Derivatives	**–**	**–**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	**–**
Total assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,284,481**	**–**	**1,284,481**	**917,194**
C. Associated liabilities														
1. Due to customers	–	–	–	–	–	–	–	–	–	–	1,164,571	–	X	X
2. Due to banks	–	–	–	–	–	–	–	–	–	–	–	–	X	X
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,164,571**	**–**	**1,164,571**	**603,650**
Net value (T)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**119,910**	**–**	**119,910**	**X**
Net value (T-1)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**313,544**	**–**	**X**	**313,544**

Key:
A = financial assets sold and fully recognised
B = financial assets sold and partly recognised

B. Financial assets sold and fully derecognised with recognition of the continued involvement

There were no cases of this type as at 31 December 2014.

E.4 Covered Bond Transactions

As at the balance sheet date, there are no existing covered bond transactions.

F. 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 RISK

2.1 *Interest rate risk and price risk - regulatory trading portfolio*

QUALITATIVE INFORMATION

A. General aspects

As at 31 December 2014, 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 Company 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:

- 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 Company 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	**–**	**6,827**	**66**	**–**	**–**	**6,837**	**–**	**–**
1.1 Debt securities	–	6,827	66	–	–	6,837	–	–
– With option of early redemption	–	–	–	–	–	–	–	–
– Other	–	6,827	66	–	–	6,837	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**2,877**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Reverse repurchase agreements	–	2,877	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**(3,541)**	**(25,799)**	**(677)**	**(8,798)**	**(14,580)**	**(3,746)**	**–**
3.1 With underlying security	–	5,164	89	(108)	(143)	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	5,164	89	(108)	(143)	–	–	–
+ Long positions	–	5,553	135	35	45	–	–	–
+ Short positions	–	(389)	(46)	(143)	(188)	–	–	–
3.2 Without underlying security	–	(8,705)	(25,888)	(569)	(8,655)	(14,580)	(3,746)	–
– Options	–	1	–	7,980	345	(4,580)	(3,746)	–
+ Long positions	–	2	–	7,981	77,569	57,048	21,653	–
+ Short positions	–	(1)	–	(1)	(77,224)	(61,628)	(25,399)	–
– Other derivatives	–	(8,706)	(25,888)	(8,549)	(9,000)	(10,000)	–	–
+ Long positions	–	32,970	1,862	8,951	16,250	–	–	–
+ Short positions	–	(41,676)	(27,750)	(17,500)	(25,250)	(10,000)	–	–

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	**–**	**37,720**	**25,596**	**(461)**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	37,720	25,596	(461)	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	37,720	25,596	(461)	–	–	–	–
+ Long positions	–	48,291	26,218	–	–	–	–	–
+ Short positions	–	(10,571)	(622)	(461)	–	–	–	–

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	**–**	**974**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	974	–	–	–	–	–	–
- Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
- Other derivatives	–	974	–	–	–	–	–	–
+ Long positions	–	1,605	–	–	–	–	–	–
+ Short positions	–	(631)	–	–	–	–	–	–

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	**–**	**(5,156)**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	(5,156)	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	(5,156)	–	–	–	–	–	–
+ Long positions	–	8,816	–	–	–	–	–	–
+ Short positions	–	(13,972)	–	–	–	–	–	–

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	**–**	**(410)**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	(410)	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	(410)	–	–	–	–	–	–
+ Long positions	–	513	–	–	–	–	–	–
+ Short positions	–	(923)	–	–	–	–	–	–

Currency: Other

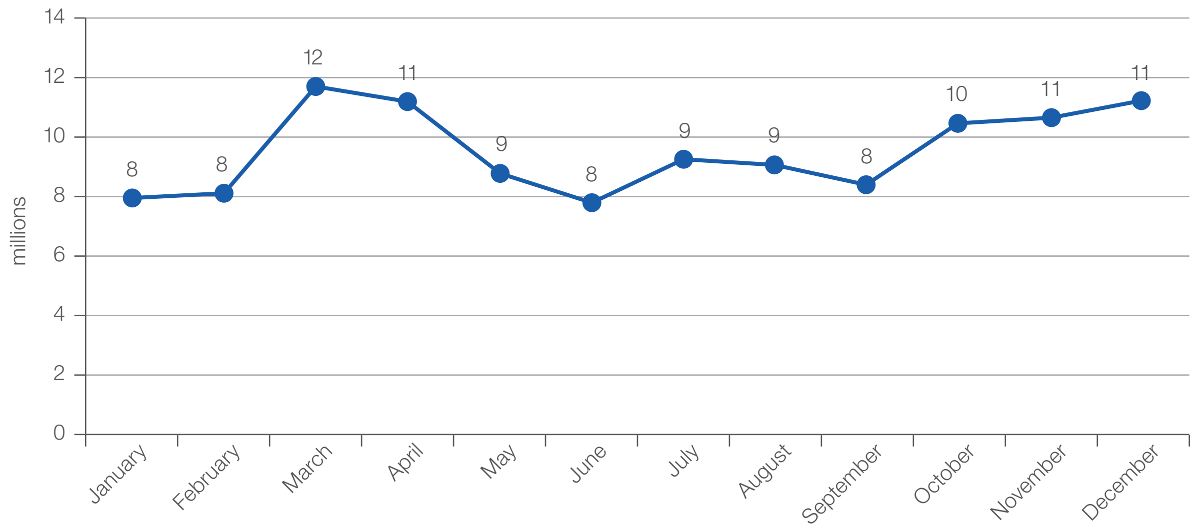
Type/Residual life ***(thousands of Euro)***	**Repayable on demand**	**Under 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**From 5 to 10 years**	**Over 10 years**	**Unspecified life**
1. Cash assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– 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	**–**	**5,260**	**–**	**–**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	5,260	–	–	–	–	–	–
Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	5,260	–	–	–	–	–	–
+ Long positions	–	5,650	–	–	–	–	–	–
+ Short positions	–	(390)	–	–	–	–	–	–

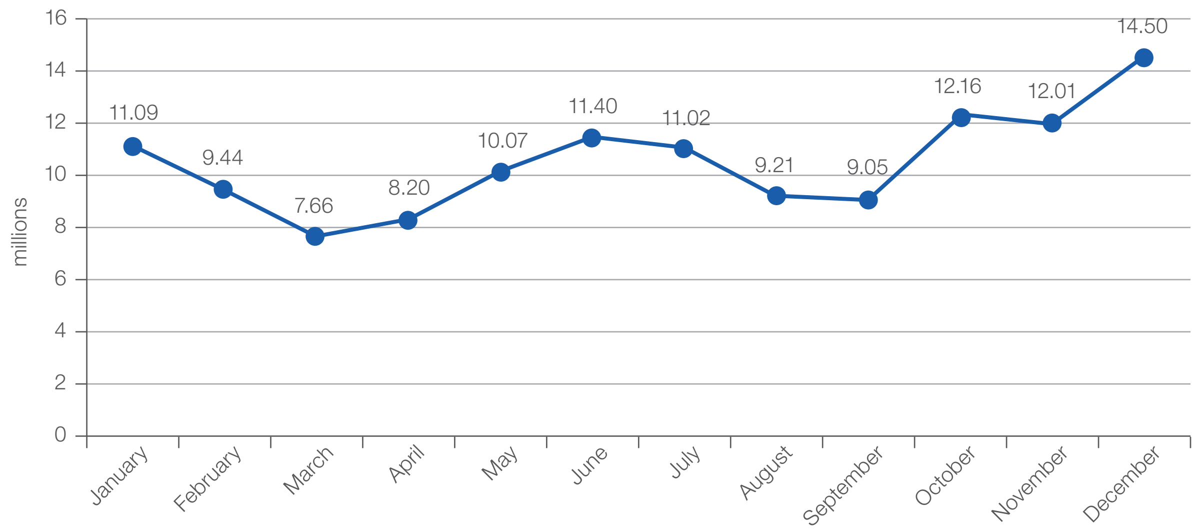
2. Regulatory trading portfolio: breakdown of the exposures in equity securities and share indexes by leading countries of the listed market

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 2014 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 2014 (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 Company, 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 Company'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 Company's income and underlying economic value. In fact, asymmetries in interest rate repricing times can also expose the Company 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 Company'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 the contract over time.

The Company's banking book management and investment strategies are based on criteria for the optimisation of the risk-yield ratio and are implemented according to expected interest rate performance. The Company'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 own funds.

For realistic treatment of core deposits (current accounts in Euro and in foreign currency and savings accounts), the analysis uses an econometric model with parameters based on their historical trends.

Ermas, by the Prometeia company, is the 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 Company'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:

– Indicator ΔMI %: Interest Margin difference (shock ±1%) / Expected Interest Margin
– Indicator ΔVE %: Economic Value difference (shock ±2%) / own funds

A limit of 6% is set for the first indicator whereas a limit of 16% is set for the second. The Risk Management Service is responsible for verifying the limitations presented in the preceding paragraph, at least once every month.

As at 31 December 2014, 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 0.5% of the margin, quantifiable in a loss of Euro 0.6 million;
– for a sudden shock of +100 bps on the interest rate curve, a positive impact of 2.8%, quantifiable in a gain of Euro 3.1 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 9.8 million, 1.7% of own funds.
– for an increase of 200 bps, a reduction of Euro 6.6 million is estimated, that is 1.1% of own funds.

The banking book price risk only refers to the variations in market price of the assets classed as available-for-sale. As regards these assets, the methods for measuring and controlling price risk utilise the calculation model previously described, i.e. the daily calculation of 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 Company 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 2014, 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	**2,062,662**	**2,694,521**	**287,514**	**171,427**	**589,420**	**125,378**	**84,636**	**–**
1.1 Debt securities	237,042	38,885	256,813	117,975	331,591	51,112	8,448	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	237,042	38,885	256,813	117,975	331,591	51,112	8,448	–
1.2 Loans to banks	5,878	25,267	–	–	–	–	–	–
1.3 Loans to customers	1,819,742	2,630,369	30,701	53,452	257,829	74,266	76,188	–
– current accounts	1,241,602	11,266	1,334	19,005	41,526	–	–	–
– other loans	578,140	2,619,103	29,367	34,447	216,303	74,266	76,188	–
– with option of early redemption	317,331	2,538,628	18,610	16,199	146,039	73,944	76,166	–
– other	260,809	80,475	10,757	18,248	70,264	322	22	–
2. Cash liabilities	**2,611,196**	**1,239,390**	**342,780**	**341,952**	**631,487**	**3,060**	**405,192**	**–**
2.1 Due to customers	2,507,802	325,200	97,281	128,259	1,453	–	405,192	–
– current accounts	2,176,739	–	–	–	–	–	–	–
– other payables	331,063	325,200	97,281	128,259	1,453	–	405,192	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	331,063	325,200	97,281	128,259	1,453	–	405,192	–
2.2 Due to banks	103,394	402,605	–	2,047	6,765	3,060	–	–
– current accounts	13,350							–
– other payables	90,044	402,605	–	2,047	6,765	3,060	–	–
2.3 Debt securities	–	511,585	245,499	211,646	623,269	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	–	511,585	245,499	211,646	623,269	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**(14,211)**	**(3,848)**	**11,411**	**6,648**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	(14,211)	(3,848)	11,411	6,648	–	–	–
– options	–	–	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–	–	–
– other derivatives	–	(14,211)	(3,848)	11,411	6,648	–	–	–
+ long positions	–	92,000	63,510	11,411	6,648	–	–	–
+ short positions	–	(106,211)	(67,358)	–	–	–	–	–
4. Other off-balance sheet transactions	**(183,160)**	**2,348**	**351**	**524**	**33,654**	**37,264**	**109,020**	**–**
+ long positions	–	2,348	351	524	33,654	37,264	109,020	–
+ short positions	(183,160)	–	–	–	–	–	–	–

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**	**Unspeci-fied life**
1. Cash assets	**4,304**	**298**	**638**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Loans to banks	4,146	–	–	–	–	–	–	–
1.3 Loans to customers	158	298	638	–	–	–	–	–
– current accounts	2	–	–	–	–	–	–	–
– other loans	156	298	638	–	–	–	–	–
– with option of early redemption	156	298	638	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
2. Cash liabilities	**34,116**	**22,081**	**12,365**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	33,662	–	–	–	–	–	–	–
– current accounts	31,758	–	–	–	–	–	–	–
– other payables	1,904	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	1,904	–	–	–	–	–	–	–
2.2 Due to banks	454	22,081	12,365	–	–	–	–	–
– current accounts	6	–	–	–	–	–	–	–
– other payables	448	22,081	12,365	–	–	–	–	–
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**	**Unspeci-fied life**
1. Cash assets	**3,116**	**25,291**	**7,595**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Loans to banks	80	3,327	–	–	–	–	–	–
1.3 Loans to customers	3,036	21,964	7,595	–	–	–	–	–
– current accounts	1	–	–	–	–	–	–	–
– other loans	3,035	21,964	7,595	–	–	–	–	–
– with option of early redemption	3,035	21,964	7,595	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
2. Cash liabilities	**6,870**	**24,951**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	3,098	–	–	–	–	–	–	–
– current accounts	2,476	–	–	–	–	–	–	–
– other payables	622	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	622	–	–	–	–	–	–	–
2.2 Due to banks	3,772	24,951	–	–	–	–	–	–
– current accounts	3,767	–	–	–	–	–	–	–
– other payables	5	24,951	–	–	–	–	–	–
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	–	8,317	–	–	–	–	–	–
+ short positions	–	(8,317)	–	–	–	–	–	–

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**	**Unspeci-fied life**
1. Cash assets	**164**	**1,400**	**171**	**50**	**14**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Loans to banks	164	–	–	–	–	–	–	–
1.3 Loans to customers	–	1,400	171	50	14	–	–	–
– current accounts	–	–	–	–	–	–	–	–
– other loans	–	1,400	171	50	14	–	–	–
– with option of early redemption	–	1,400	171	50	14	–	–	–
– other	–	–	–	–	–	–	–	–
2. Cash liabilities	**6**	**1,377**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	6	–	–	–	–	–	–	–
– current accounts	6	–	–	–	–	–	–	–
– other payables	–	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
2.2 Due to banks	–	1,377	–	–	–	–	–	–
– current accounts	–	–	–	–	–	–	–	–
– other payables	–	1,377		–	–	–	–	–
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**	**Unspeci-fied life**
1. Cash assets	**125**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Loans to banks	125	–	–	–	–	–	–	–
1.3 Loans to customers	–	–	–	–	–	–	–	–
– current accounts	–	–	–	–	–	–	–	–
– other loans	–	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
2. Cash liabilities	**1,210**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	1,106	–	–	–	–	–	–	–
– current accounts	1,103	–	–	–	–	–	–	–
– other payables	3	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	3	–	–	–	–	–	–	–
2.2 Due to banks	104	–	–	–	–	–	–	–
– current accounts	–	–	–	–	–	–	–	–
– other payables	104	–	–	–	–	–	–	–
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**	**Unspeci-fied life**
1. Cash assets	**432**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
1.2 Loans to banks	432	–	–	–	–	–	–	–
1.3 Loans to customers	–	–	–	–	–	–	–	–
– current accounts	–	–	–	–	–	–	–	–
– other loans	–	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
2. Cash liabilities	**890**	**4,877**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Due to customers	849	–	–	–	–	–	–	–
– current accounts	849	–	–	–	–	–	–	–
– other payables	–	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	–	–	–	–	–	–	–	–
2.2 Due to banks	41	4,877	–	–	–	–	–	–
– current accounts	36	–	–	–	–	–	–	–
– other payables	5	4,877	–	–	–	–	–	–
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	–	809	–	–	–	–	–	–
+ short positions	–	(809)	–	–	–	–	–	–

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 46.6 million Euro on 31 December 2014.

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 Company'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 flows 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 in line with the reference exchange rates of the European Central Bank and constitute the economic contribution from exchange activities to general Company profitability.

B. Exchange risk hedging

Exposure to foreign exchange risk is limited by the extremely prudent attitude of the Company, 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	Australian dollar	GB pound	Yen	Other currencies
A. Financial assets	**5,240**	**36,003**	**2**	**125**	**1,799**	**430**
A.1 Debt securities	–	–	–	–	–	–
A.2 Equity securities		–	–	–	–	–
A.3 Loans to banks	4,146	3,408	2	125	164	430
A.4 Loans to customers	1,094	32,595	–	–	1,635	–
A.5 Other financial assets	–	–	–	–	–	–
B. Other assets	**418**	**946**	**20**	**84**	**1**	**154**
C. Financial liabilities	**68,562**	**31,822**	**4,929**	**1,210**	**1,383**	**839**
C.1 Due to banks	34,900	28,724	4,877	104	1,377	41
C.2 Due to customers	33,662	3,098	52	1,106	6	798
C.3 Debt securities	–	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–	–
D. Other liabilities	**–**	**–**	**–**	**–**	**–**	**–**
E. Financial derivatives	**62,856**	**(5,156)**	**4,887**	**974**	**(410)**	**373**
– Options	–	–	–	–	–	–
+ long positions	–	–	–	–	–	–
+ short positions	–	–	–	–	–	–
– Other derivatives	62,856	(5,156)	4,887	974	(410)	373
+ long positions	74,510	8,816	4,908	1,605	513	742
+ short positions	(11,654)	(13,972)	(21)	(631)	(923)	(369)
Total assets	**80,168**	**45,765**	**4,930**	**1,814**	**2,313**	**1,326**
Total liabilities	**80,216**	**45,794**	**4,950**	**1,841**	**2,306**	**1,208**
Difference (+/-)	**(48)**	**(29)**	**(20)**	**(27)**	**7**	**118**

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 types *(thousands of Euro)*	**31.12.2014**		**31.12.2013**	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
1. Debt securities and interest rates	55,399	25,250	320,605	27,947
a) Options	17,633	–	18,611	–
b) Swap	32,000	–	298,112	–
c) Forward	766		382	1,447
d) Futures	5,000	25,250	3,500	26,500
e) Other	–	–	–	–
2. Equity securities and share indexes	–	–	–	–
a) Options	–	–	–	–
b) Swap	–	–	–	–
c) Forward	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	93,920	–	36,276	–
a) Options	–	–	–	–
b) Swap	–	–	–	–
c) Forward	93,920	–	36,276	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Goods	–	–	–	–
5. Other assets	–	–	–	–
Total	**149,319**	**25,250**	**356,881**	**27,947**
Average values	**222,878**	**39,313**	**420,254**	**22,870**

A.2 Banking book: year-end 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)*	**31.12.2014**		**31.12.2013**	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
1. Debt securities and interest rates	188,569	–	323,814	–
a) Options	15,000	–	15,000	–
b) Swap	173,569	–	307,364	–
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	**188,569**	**–**	**323,814**	**923**
Average values	**240,594**	**–**	**388,985**	**–**

A.3 Financial derivatives: positive gross fair value - breakdown by product

Underlying assets / Derivative types *(thousands of Euro)*	Positive fair value			
	31.12.2014		31.12.2013	
	Over the counter	Central counterparts	Over the counter	Central counterparts
A. Regulatory trading portfolio	**1,827**	**–**	**4,781**	**–**
a) Options	102	–	681	–
b) Interest rate swap	216	–	4,046	–
c) Cross currency swap	–	–	–	–
d) Equity swap	–	–	–	–
e) Forward	1,509	–	54	–
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	**5,752**	**–**	**9,272**	**–**
a) Options	–	–	–	–
b) Interest rate swap	5,752	–	9,266	–
c) Cross currency swap	–	–	–	–
d) Equity swap	–	–	–	–
e) Forward	–	–	6	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**7,579**	**–**	**14,053**	**–**

A.4 Financial derivatives: negative gross fair value - breakdown by product

Underlying assets / Derivative types *(thousands of Euro)*	Negative fair value			
	31.12.2014		31.12.2013	
	Over the counter	Central counterparts	Over the counter	Central counterparts
A. Regulatory trading portfolio	**3,303**		**6,991**	
a) Options	–	–		–
b) Interest rate swap	3,134	–	6,815	–
c) Cross currency swap	–	–	–	–
d) Equity swap	–	–	–	–
e) Forward	169		176	
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	**99**	**–**	**285**	**–**
a) Options	–	–	–	–
b) Interest rate swap	99	–	284	–
c) Cross currency swap	–	–	–	–
d) Equity swap	–	–	–	–
e) Forward		–	1	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**3,402**	**–**	**7,276**	**–**

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	**–**	**–**	**58,573**		**–**	**2**	**686**
– notional value	–	–	54,713		–	2	684
– positive fair value	–	–	318		–	–	2
– negative fair value	–	–	3,134	–	–	–	–
– future exposure	–	–	408		–	–	–
2) Equity securities and share indexes	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
3) Currency and gold	**–**	**–**	**83,727**	**–**	**–**	**12,035**	**546**
– notional value	–	–	81,629	–	–	11,747	544
– positive fair value	–	–	1,363	–	–	143	1
– negative fair value	–	–	126	–	–	41	1
– future exposure	–	–	609	–	–	104	–
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	**–**	**–**	**189,295**	**–**	**–**	**5,159**	**–**
– notional value	–	–	183,569	–	–	5,000	–
– positive fair value	–	–	5,594	–	–	159	–
– negative fair value	–	–	99	–	–	–	–
– future exposure	–	–	33	–	–		–
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 *(thousand of Euro)*	**Under 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
A. Regulatory trading portfolio	**111,710**	**15,571**	**22,038**	**149,319**
A.1 Financial derivatives on debt securities and interest rates	17,790	15,571	22,038	55,399
A.2 Financial derivatives on equity securities and share indexes	–	–	–	–
A.3 Financial derivatives on exchange rates and gold	93,920	–	–	93,920
A.4 Financial derivatives on other stocks	–	–	–	–
B. Banking book	**181,921**	**6,648**	**–**	**188,569**
B.1 Financial derivatives on debt securities and interest rates	181,921	6,648	–	188,569
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 31.12.2014	**293,631**	**22,219**	**22,038**	**337,888**
Total 31.12.2013	**425,817**	**226,559**	**28,318**	**680,694**

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 values 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 Company 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 Company 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 Company 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 Company's rating (internal factor) or expansion of credit spreads (market factor);
- market liquidity risk, which is the risk that the Company 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 Company 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 Company 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 Company’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 Company 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-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 Company'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 flows. The data is processed to prevent determination of daily cash flow linked solely to decisions not under the direct control (Treasury service) and so resulting from customer conduct. The 3 confidence levels in question should represent the 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 Company'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 (CFP, 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 Company’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 Company’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 Company 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 2014, the analysis of the Company’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.

With reference to the disclosure required on potential outgoing cash flows (“contingent liquidity and funding needs”), as of the balance sheet date there were no accelerated repayment clauses or those for the issue of further guarantees associated with a downgrading of the reporting bank.

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	**1,251,390**	**5,595**	**12,106**	**131,634**	**168,262**	**203,683**	**501,963**	**1,986,185**	**1,870,925**	**25,267**
A.1 Government securities	–	–	13	–	86	35,525	124,361	393,687	99,000	–
A.2 Other debt securities	1	–	70	3,684	20,568	6,041	11,013	212,085	125,948	–
A.3 UCITS units	84,534	–	–	–	–	–	–	–	–	–
A.4 Loans	1,166,855	5,595	12,023	127,950	147,608	162,117	366,589	1,380,413	1,645,977	25,267
– Banks	5,733	–	–	101	–	–	–	–	–	25,267
– Customers	1,161,122	5,595	12,023	127,849	147,608	162,117	366,589	1,380,413	1,645,977	–
Cash liabilities	**2,532,633**	**113,711**	**75,539**	**41,649**	**414,778**	**264,362**	**466,865**	**1,144,958**	**537,612**	**–**
B.1 Deposits and current accounts	2,473,957	6,172	63,091	40,077	107,143	96,289	127,855	1,329	–	–
– Banks	25,678	–	–	–	–	–	–	–	–	–
– Customers	2,448,279	6,172	63,091	40,077	107,143	96,289	127,855	1,329	–	–
B.2 Debt securities	–	639	12,055	1,572	129,147	167,961	337,010	912,597	49,420	–
B.3 Other liabilities	58,676	106,900	393	–	178,488	112	2,000	231,032	488,192	–
Off-balance sheet transactions	**(3,690)**	**473**	**–**	**(4,992)**	**(65,716)**	**(60,873)**	**(108,413)**	**33,464**	**146,229**	**–**
C.1 Financial derivatives with exchange of principal amount	–	331	–	(4,992)	(32,795)	(24,753)	264	(190)	–	–
– Long positions	–	1,636	–	8	584	747	486	90	–	–
– Short positions	–	(1,305)	–	(5,000)	(33,379)	(25,500)	(222)	(280)	–	–
C.2 Financial derivatives without exchange of principal amount	(2,816)	142	–	–	733	793	(235)	–	–	–
– Long positions	318	142	–	–	801	803	–	–	–	–
– Short positions	(3,134)	–	–	–	(68)	(10)	(235)	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to disburse funds	(874)	–	–	–	(33,654)	(36,913)	(108,442)	33,654	146,229	–
– Long positions	–	2,348	–	–	–	351	524	33,654	146,229	–
– Short positions	(874)	(2,348)	–	–	(33,654)	(37,264)	(108,966)	–	–	–
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: 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	**4,304**	**–**	**–**	**63**	**234**	**637**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 UCITS units		–	–	–	–	–	–	–	–	–
A.4 Loans	4,304	–	–	63	234	637	–	–	–	–
– Banks	4,146	–	–	–	–	–	–	–	–	–
– Customers	158	–	–	63	234	637	–	–	–	–
Cash liabilities	**34,116**	**3,130**	**–**	**–**	**18,944**	**12,355**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	33,668	3,130	–	–	18,944	12,355	–	–	–	–
– Banks	6	3,130	–	–	18,944	12,355	–	–	–	–
– Customers	33,662	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	448	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**–**	**210**	**4,067**	**(8)**	**33,453**	**25,596**	**(461)**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of principal amount	–	210	4,067	(8)	33,453	25,596	(461)	–	–	–
– Long positions	–	10,116	4,118	–	34,058	26,218	–	–	–	–
– Short positions	–	(9,906)	(51)	(8)	(605)	(622)	(461)	–	–	–
C.2 Financial derivatives without exchange of principal amount	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– 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	**2,721**	**115**	**349**	**9,473**	**15,766**	**7,613**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 UCITS units	–	–	–	–	–	–	–	–	–	–
A.4 Loans	2,721	115	349	9,473	15,766	7,613	–	–	–	–
– Banks	80	–	–	3,327	–	–	–	–	–	–
– Customers	2,641	115	349	6,146	15,766	7,613	–	–	–	–
Cash liabilities	**8,670**	**8,317**	**16,633**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	6,865	8,317	16,633	–	–	–	–	–	–	–
– Banks	3,767	8,317	16,633	–	–	–	–	–	–	–
– Customers	3,098	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	5	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**–**	**7,209**	**(12,365)**		**–**	**–**	**–**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of principal amount	–	(1,108)	(4,048)		–	–	–	–	–	–
– Long positions	–	8,816	–	–	–	–	–	–	–	–
– Short positions	–	(9,924)	(4,048)		–	–	–	–	–	–
C.2 Financial derivatives without exchange of principal amount	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	8,317	(8,317)	–	–	–	–	–	–	–
– Long positions	–	8,317	–	–	–	–	–	–	–	–
– Short positions	–	–	(8,317)	–	–	–	–	–	–	–
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	**164**	**10**	**33**	**812**	**539**	**171**	**50**	**14**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 UCITS units	–	–	–	–	–	–	–	–	–	–
A.4 Loans	164	10	33	812	539	171	50	14	–	–
– Banks	164	–	–	–	–	–	–	–	–	–
– Customers	–	10	33	812	539	171	50	14	–	–
Cash liabilities	**6**	**–**	**–**	**1,377**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	6	–	–	1,377	–	–	–	–	–	–
– Banks	–	–	–	1,377	–	–	–	–	–	–
– Customers	6	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	–	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**–**	**(410)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	
C.1 Financial derivatives with exchange of principal amount	–	(410)	–	–	–	–	–	–	–	–
– Long positions	–	513	–	–	–	–	–	–	–	–
– Short positions	–	(923)	–		–	–	–	–	—	–
C.2 Financial derivatives without exchange of principal amount	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– 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	**557**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 UCITS units	–	–	–	–	–	–	–	–	–	–
A.4 Loans	557	–	–	–	–	–	–	–	–	–
– Banks	557	–	–	–	–	–	–	–	–	–
– Customers	–	–	–	–	–	–	–	–	–	–
Cash liabilities	**2,100**	**809**	**–**	**4,046**	**–**	**–**	**–**	**–**	**–**	**–**
B.1 Deposits and current accounts	1,991	809	–	4,046	–	–	–	–	–	–
– Banks	36	809	–	4,046	–	–	–	–	–	–
– Customers	1,955	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	109	–	–	–	–	–	–	–	–	–
Off-balance sheet transactions	**–**	**1,242**	**93**	**4,898**	**–**	**–**	**–**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of principal amount	–	1,242	93	4,898	–	–	–	–	–	–
– Long positions	–	2,263	93	4,898	–	–	–	–	–	–
– Short positions	–	(1,021)	–		–	–	–	–	–	–
C.2 Financial derivatives without exchange of principal amount	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– Long positions	–	809	–	–	–	–	–	–	–	–
– Short positions	–	(809)	–	–	–	–	–	–	–	–
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 forms	Pledged		Not pledged		Total	Total
	BV	FV	BV	FV	31.12.2014	31.12.2013
1. Cash and cash equivalents	–	X	51,173	X	51,173	54,320
2. Debt securities	403,138	403,826	652,504	621,079	1,055,642	694,943
3. Equity securities	19,492	6,721	–	–	19,492	19,718
4. Loans	1,159,733	X	3,853,142	X	5,012,875	4,966,605
5. Other financial assets	4,626	X	96,740	X	101,366	84,865
6. Non-financial assets	–	X	285,577	X	285,577	282,558
Total 31.12.2014	**1,586,989**	**410,547**	**4,939,136**	**621,079**	**6,526,125**	**X**
Total 31.12.2013	**1,220,237**	**209,868**	**4,882,772**	**486,190**	**X**	**6,103,009**

Key
VB = Book value
FV = Fair Value

3. *Disclosure on proprietary pledged assets not recognised in the financial statements*

Technical forms	Pledged	Not pledged	Total 31.12.2014	Total 31.12.2013
1. Financial assets	**395,209**	**341,051**	**736,260**	**1,068,458**
- Securities	395,209	341,051	736,260	1,068,458
- Other	–	–	–	–
2. Non-financial assets	**–**	**–**	**–**	**–**
Total 31.12.2014	**395,209**	**341,051**	**736,260**	**X**
Total 31.12.2013	**1,037,913**	**30,545**	**X**	**1,068,458**

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 Company's reputation and image.

Certain types of operational risks, due to their significance or singularity, are considered as separate types of risk and their coverage is also ensured by dedicated control functions:
- legal, judicial and non-compliance risks;
- risks of erroneous financial disclosure;
- risks of conditioning by influential parties;
- outsourcing risks;
- IT risk;
- model risk.

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 Company 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 Internal Controls Committee. The main sources of operational risk manifestation are identified in those meetings, also involving the operational units ("process owners") concerned from time to time, together with potential critical situations, the suitability of the existing operating processes with regard to the potential sources of loss, the action and measures to be taken with a view to preventing and mitigating these sources, and the quality of insurance hedges. All the results of analyses and the corrective actions identified are then submitted to the Management Committee and 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 Company 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 2014, the model estimated the potential operational losses in 1 year as Euro 3.87 million 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 Company adopted the Traditional Standardised Approach, starting from 31 December 2012, in compliance with the dictates of Regulation (EU) No. 575/2013 dated 26 June 2013, which acknowledges the provisions of Basel III. This envisages that the overall capital requirement calculation equals the average of the so-called TSA contribution, which refers to the most recent three observations made at the end of the financial year (31 December) on an annual basis. The TSA contribution is obtained from the sum of contributions from the individual regulatory business lines (BLs) each year; these sums are calculated by applying the regulatory coefficients (known as 'β' or risk factors) as weighting factors to the relevant indicator. These coefficients were estimated by the Supervisory Authority on the basis of the relationship between historically recorded losses by the banking industry in that particular BL and the related economic indicator. As significant indicator, the legislation establishes a whole series of elements, appropriately dealt with, taken from the accounting items of the income statement.

Identification and assessment of operational risks

A key element in the identification, assessment and implementation of actions to reduce operational risks in 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 service and related discussions by the same Internal Control Committee.

First level control

The first level controls, or line controls, are aimed at ensuring the correct and lawful performance of the transactions underlying all 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 (RAF);
- agree on the definition of the risk compliance measurement/evaluation methods, identifying suitable procedures to prevent the risks found and requesting their adoption;
- confirm/declare the company accounting information in accordance with the provisions of the law.

These controls are mainly focused on risk monitoring, 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 service (as the department that manages risk) and the Compliance area (which incorporates the regulatory compliance department and anti-money laundering department) carry out a portion of their work within the scope of the second level controls. In order to ensure the effectiveness of the performance of their duties, the departments that carry out the second level controls are equipped with the necessary independence, authority and professional competence.

Third level controls

The third level controls are carried out by different structures to the production units, and are aimed at identifying anomalous trends, breaches of procedures/regulations and evaluating the function of the entire internal control system. 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 reporting activities in 2014 recorded 131 new reports with a gross loss of Euro 1,226,278 thousand, of which 44% of cases were due to internal or external fraud (amounting to 49% of the value), 31% from processing errors (18% of the value), 26% due to other factors, forged banknotes, system errors, and legal disputes etc. (33% of the value).

By way of comparison, 130 events occurred in 2013, corresponding to gross losses equal to Euro 591,564.

27 cases were reported to the DIPO in 2014 (reporting threshold Euro 5,000) with a gross loss of Euro 1,117,660.

PART F INFORMATION ON THE 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 the capital requirements correlated with the multiyear objectives set in the strategic plan. In the process of defining the objectives for the annual budget, a compatibility test is performed with the level of capitalisation, as a function of the expected dynamics of the balance-sheet and income statement aggregates.

Capital adequacy is the result of several managerial decisions, such as the 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
- reserves
- valuation reserves
- income for the year

Banca Popolare · Volksbank's shareholders' equity, including the valuation allowances and provisions and the net profit for the year, as at 31 December 2014, amounts to 639.8 million, an increase over the previous year's figure of 628.8 million.

B. QUANTITATIVE INFORMATION

B.1 Company capital: breakdown

Items/Amounts *(thousands of Euro)*	31.12.2014	31.12.2013
1. Share capital	**152,508**	**152,508**
2. Share premium reserve	**202,459**	**202,459**
3. Reserves	**262,857**	**255,528**
– retained earnings:	232,714	225,385
a) legal	110,800	108,900
b) extraordinary	105,456	101,923
c) treasury shares	–	–
d) other	16,458	14,562
– other	30,143	30,143
4. Equity instruments	**–**	**–**
5. (Treasury shares)	**–**	**–**
6. Valuation reserves	**1,751**	**(476)**
– Financial assets available-for-sale	4,622	1,179
– Property and equipment	–	–
– Intangible assets	–	–
– Foreign investment hedges	–	–
– Cash flow hedges	–	–
– Exchange differences	–	–
– Discontinued operations	–	–
– Actuarial gains (losses) on defined benefit plans	(2,871)	(1,655)
– Portion of valuation reserves relating to equity-accounted investees	–	–
– Special revaluation laws	–	–
7. Net Income (loss)	**20,247**	**18,767**
Total	**639,822**	**628,786**

B.2 Valuation reserves of financial assets available-for-sale: breakdown

Asset/Value	31.12.2014		31.12.2013	
(thousands of Euro)	**Positive reserve**	**Negative reserve**	**Positive reserve**	**Negative reserve**
1. Debt securities	2,951	(233)	1,992	(603)
2. Equity securities	973	(12)	447	(10)
3. UCITS units	1,129	(186)	486	(1,133)
4. Loans	–	–	–	–
Total	**5,053**	**(431)**	**2,925**	**(1,746)**

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	**1,389**	**437**	**(647)**	**–**
2. Positive changes	**4,330**	**525**	**2,737**	**–**
2.1 Increases in fair value	3,800	525	1,111	–
2.2 Reclassification to profit or loss				
of negative reserves	530	–	1,626	–
– from impairment	–	–		–
– from disposal	530	–	1,626	–
2.3 Other changes	–	–	–	–
3. Negative changes	**2,365**	**1**	**387**	**–**
3.1 Decrease in fair value	171	1	250	–
3.2 Losses on impairment	–	–	–	–
3.3 Reclassification to profit or loss				
of positive reserves: from disposal	2,194	–	137	–
3.4 Other changes	–	–	–	–
4. Closing balance	**3,354**	**961**	**1,703**	**–**

B.4 Valuation reserves relating to defined benefit plans: annual changes

(thousands of Euro)	31.12.2014		31.12.2013	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
Defined benefit plans	–	(2,871)	–	(1,655)
Total	**–**	**(2,871)**	**–**	**(1,655)**

(thousands of Euro)	2014
1. Opening balance	**(1,655)**
2. Positive changes	**461**
2.1 Profits from changes to discount rates	–
2.3 Other changes	461
3. Negative changes	**1,677**
3.1 Losses due to discount rate adjustments	–
3.3 Other changes	1,677
4. Closing balance	**(2,871)**

Section 2 OWN FUNDS AND ADEQUACY RATIOS

As from 1 January 2014, the harmonised provisions for banks and investments companies are applicable, contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which were followed by the provisions issued by the Bank of Italy under Circular No. 286 dated 17 December 2013 - 3rd up-date dated 13 January 2015, by means of which the harmonised provision for banks and insurance companies was reviewed and under Circular No. 285 dated 17 December 2013 - 7th up-date dated 18 November 2014, by means of which the instructions for the compilation of prudent reporting were indicated.

Therefore, own funds, risk-weighted assets and solvency ratios as at 31 December 2014 were determined on the basis of the new provisions, which in the European Union transpose the standards defined by the Basel Committee for bank supervision (so-called Basel III framework), and on the basis of the afore-mentioned Bank of Italy circulars.

2.1 Own funds

A. QUALITATIVE INFORMATION

Own funds represent the first safeguard against the risks associated with all the banking activities and represent the main reference parameter for the assessments in terms of banking solidity. They comprise:

- Class 1 capital, in turn broken down into:
  - Class 1 primary capital (Common Equity Tier 1 - CET1);
  - Class 1 additional capital (Additional Tier 1 - AT1);
- Class 2 capital (Tier 2 - T2);

The new provisions envisage a transitory regime with the gradual introduction (so-called phase-in) of the new regulations on Own Funds and on capital requirements which will complete in 2017 and grandfathering regulations for the partial computability, with gradual exclusion by 2021, of the prior capital instruments which do not satisfy all the requirements laid down by the CRR for the CET1, AT1 and T2 capital instruments. Banca Popolare · Volksbank's capital instruments can be reckoned in full in CET1.

The capital instruments issued, so as to be reckoned in the Common Equity, must guarantee the absorption of the on-going concern losses, by means of observance of the following characteristics:

- maximum level of subordination;
- possibility of suspension of the recognition of dividends/coupons at the total discretion of the issuing body and in an non-cumulative manner;
- irredeemability;
- absence of incentives to reimburse.

1. Class 1 primary capital (Common Equity Tier 1 - CET 1)

The Class 1 primary capital (CET1) is made up of the following positive and negative elements:

- Share capital and related imput reserves;
- Retained earnings;
- Former OIC positive and negative valuation reserves;
- Other reserves;
- Prior CET1 instruments subject to transitory provisions (grandfathering);

- Prudential filters;
- Deductions.

The prudential filters comprise regulatory adjustment of the book value of the elements (positive and negative) of class 1 primary capital elements. The deductions represent negative elements of the class 1 primary capital. Therefore, in the calculation of the capital adequacy, no effects deriving from the application of the grandfathering regulations have come to light.

2. Class 1 additional capital (Additional Tier 1 - AT1)

The Class 1 additional capital (AT1) is made up of the following positive and negative elements:

- Equity instruments and related premiums;
- Prior AT1 instruments subject to transitory provisions (grandfathering);
- Deductions.

As a rule, the AT1 category includes the capital instruments other than ordinary shares which observe the legislative requirements for inclusion in this level of Own Funds (for example savings shares). Banca Popolare · Volksbank does not have instruments which can be reckoned in AT1.

3. Class 2 capital (Tier 2 - T2)

The Class 2 capital (T2) is made up of the following positive and negative elements:

- Equity instruments, subordinated loans and related premiums;
- Surpluses on the losses expected by the IRB banks for the value adjustments recorded, within the limit of 0.60% of the exposures weighted for the credit risk;
- Prior T2 instruments subject to transitory provisions (grandfathering);
- Deductions.

Banca Popolare · Volksbank does not have instruments which can be reckoned in T2.

B. QUANTITATIVE INFORMATION

		31.12.2014	31.12.2013
A.	**Class 1 primary capital (Common Equity Tier 1 - CET1) before application of prudential filters**	**628,384**	**617,348**
	- of which CET1 instruments subject to transitory provisions	–	–
B.	**CET1 prudential filters (+/–)**	**127**	**130**
C.	**CET1 gross of deductible elements and effects of the transitory regime (A +/– B)**	**628,511**	**617,478**
D.	**Elements deductible from CET1**	**(37,379)**	**(38,919)**
E.	**Transitory regime - Impact on CET1 (+/–)**	**(4,622)**	**(1,389)**
F.	**Total Class 1 primary capital (Common Equity Tier 1 - CET1) (C - D +/–E)**	**586,510**	**577,170**
G.	**Class 1 additional capital (Additional Tier 1 - AT1) gross of deductible elements and effects of the transitory regime**	**–**	**–**
	- of which AT1 instruments subject to transitory provisions	–	–
H.	**Elements deductible from AT1**	**–**	**–**
I.	**Transitory regime - Impact on AT1 (+/–)**	**–**	**–**
L.	**Total Class 1 additional capital (Additional Tier 1 - AT1) (G - H +/– I)**	**–**	**–**
M.	**Class 2 capital (Tier 2 - T2) gross of deductible elements and effects of the transitory regime**	**–**	**–**
	- of which T2 instruments subject to transitory provisions	–	–
N.	**Elements deductible from T2**	**–**	**–**
O.	**Transitory regime - Impact on T2 (+/–)**	**1,232**	**133**
P.	**Total Class 2 capital (Tier 2 - T2) (M - N +/– O)**	**1,232**	**133**
Q.	**Total own funds (F + L + P)**	**587,742**	**577,303**

Since the conditions envisaged by Article 26.2 of EU Regulation No. 575 dated 26 June 2013 (CRR) have occurred for its computability, in the Class 1 primary capital account was taken of the profit for the year and, consequently, the estimate of the dividends as per the 2014 result, quantified as Euro 0.30 per share, as proposed by the Board of Directors and adopted at the time of approval of the draft financial statements.
With reference to the choices made relating to the prudential filters, the amount of the exposure to third party securitisations was deducted in the calculation of the CET1, an amount which as at 31 December 2014 came to Euro 0.9 million.

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

As from 1 January 2014, the Common Equity Tier 1 - CET1 will have to be at least 7 % of the risk-weighted assets, of which 4.5% by way of minimum requirement and 2.5% by way of capital maintenance reserve. As from 1 January 2016, the minimum requirement will also comprise the anti-cyclical capital reserve.
Further to the ruling of the Bank of Italy dated 18 May 2010, which amended the prudent treatment of the debt securities of European Union countries for the purposes of calculation of the supervisory capital of Italian banks and banking groups, Banca Popolare · Volksbank exercised the option which makes it possible to neutralise the capital gains and losses recognised in the valuation reserves as from 31 December 2013.

B. QUANTITATIVE INFORMATION

Banca Popolare · Volksbank uses the standard method to calculate the capital requirements in the credit risk.
The main innovations introduced in the regulatory portfolios and the related weighted factors specifically concern the introduction of a support factor of 0.7619 to be applied to the prudential requirement (supporting factor) for the retail exposure to counterparties represented by SMIs and the introduction of a new capital requirement on the "adjustment of the valuation of the credit (CVA) risk, or rather against the risk of losses deriving from the adjustments to the market value of the OTC derivatives further to the changes in the credit worthiness.
The standard method was used with regard to the operational risks.

Category/Values	Unweighted amounts		Weighted/required amounts	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013 (*)
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	**6,874,083**	**6,341,504**	**4,069,682**	**4,128,077**
1. Standard method	6,874,083	6,341,504	4,069,682	4,128,077
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			**325,575**	**330,246**
B.2 Risk of adjustment of the credit assessment				
B.3 Regulation risk				
B.4 Market risk			**1,765**	**1,885**
1. Standard method			1,765	1,885
2. Internal models			–	–
3. Concentration Risk			–	–
B.3 Operational risk			**24,754**	**23,359**
1. Basic method			–	–
2. Standard method			24,754	23,359
3. Advanced method			–	–
B.4 Other prudential requirements			**–**	**–**
B.5 Other calculation items			**–**	**–**
B.6 Total prudential requirements (B1+B2+B3+B4+B5)			**352,094**	**355,490**
C. RISK ASSETS AND SUPERVISORY RATIOS				
C.1 Weighted risk assets			4,401,166	4,443,619
C.2 Class 1 primary capital/Weighted risk assets (CET1 capital ratio)			13.32 %	12.87 %
C.3 Class 1 capital/Weighted risk assets (Tier I capital ratio)			13.32 %	
C.4 Total own funds/ Weighted risk assets (Total capital ratio)			13.35 %	12.90 %

(*) the figures for 2013 were calculated according to the provident regulations.

PART G BUSINESS COMBINATIONS CONCERNING COMPANIES OR BUSINESS BRANCHES

Section 1 BUSINESS COMBINATIONS CARRIED OUT DURING THE YEAR

No business combinations were carried out during the financial year.

Section 2 BUSINESS COMBINATIONS CARRIED OUT AFTER THE END OF THE FINANCIAL YEAR

No business combinations were carried out after the end of the financial year.
With regard to the proposed business combination with Banca Popolare di Marostica, please see point 1.6 of the directors' report "Significant Events during the year" and the notes to the accounts, Part A. Accounting policies, A.1. General Part, Section 3. Subsequent events.

Section 3 RETROSPECTIVE ADJUSTMENTS

No retrospective adjustments were made during the financial year.

PART H TRANSACTIONS WITH RELATED PARTIES

1. Information on the remuneration of directors, statutory auditors, and key personnel

The table below summarises the remuneration paid to directors, statutory auditors, and key personnel, i.e. to the most significant employees, directly or indirectly, in planning, management and control of the Company activities.
The remuneration paid is governed by the remuneration policies approved by the shareholders' meeting decisions.

(thousands of Euro)	**31.12.2014**
Directors	1,002
Key personnel	2,990
Statutory Auditors	318
Total	**4,310**

Remuneration of key personnel ***(thousands of Euro)***	**31.12.2014**
of which	
– short-term benefits	2,549
– post-retirement benefits	259
– long-term benefits	182
– employment termination benefits	–
– share-based payments	–
Total	**2,990**

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 Company's organisational and governance structure, the following natural and juridical persons are considered related parties:

- subsidiaries, companies over which the Company directly or indirectly exercises control, as defined by IAS 27;
- associates, companies in which the Company directly or indirectly exercises significant influence, as defined by IAS 28;
- joint ventures, companies over which the Company 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 party or of the party's common-law spouse - of Directors, Statutory Auditors, General Manager and the Deputy General Manager of the Company;
  - subsidiaries, subject to joint control, or subject to significant influence by Directors, Statutory Auditors, the General Manager, and the Deputy General Manager of the Company, 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
31.12.2014	2,917	–	–	–	248	–
Impact	0.06 %	0.00 %	0.00 %	0.00 %	0.07 %	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**
2014	35	–	–	–	26	–
Impact	0.02 %	0.00 %	0.00 %	0.00 %	0.04 %	0.00 %

Transactions with associated companies

(thousands of Euro)	Loans granted	Subscribed bonds	Loans obtained	Bonds issued	Guarantees	Commitments
31.12.2014	5,075	–	1,907	–	–	–
Impact	0.10 %	0.00 %	0.04 %	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**
2014	169	–	15	–	13	–
Impact	0.10 %	0.00 %	0.02 %	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		2,691	84,933	3,350	16,361	45	100	107,480
Commitments		1,976	47,451	3,334	14,410	32	98	67,301
	Impact	0.04 %	0.93 %	0.07 %	0.28 %	0.00 %	0.00 %	1.31 %
Credit commitments		4	13,924	11	46	–	–	13,985
	Impact	0.00 %	3.88 %	0.00 %	0.01 %	0.00 %	0.00 %	3.90 %
Direct funding		1,801	38,912	90	1,847	463	355	43,468
	Impact	0.04 %	0.76 %	0.00 %	0.04 %	0.01 %	0.01 %	0.85 %
Indirect funding		198	12,569	99	81	77	131	13,155
	Impact	0.01 %	0.59 %	0.00 %	0.00 %	0.00 %	0.01 %	0.62 %
Interest income		66	1,522	87	364	0	2	2,041
	Impact	0.04 %	0.86 %	0.05 %	0.21 %	0.00 %	0.00 %	1.15 %
Interest expense		17	699	2	16	3	5	742
	Impact	0.03 %	1.07 %	0.00 %	0.02 %	0.00 %	0.01 %	1.14 %
Fee and commission income and other income		12	230	4	82	–	1	329
	impact	0.02 %	0.33 %	0.01 %	0.12 %	0.00 %	0.00 %	0.47 %

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 Company 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 Company'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 reference accounting standards 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	12,128	90,837	9,465	(1,072)	111,358
Net fee and commission income	28,260	38,822	(1,891)	(4,153)	61,038
Financial margin	–	–	11,189	(1)	11,188
Net interest and other banking income	**40,388**	**129,659**	**18,763**	**(5,226)**	**183,584**
Net losses/recoveries on impairment	(1,077)	(27,809)	(52)	(1)	(28,939)
Net income from banking activities	**39,311**	**101,850**	**18,711**	**(5,227)**	**154,645**
Administrative expenses	–	–	–	(128,345)	(128,345)
Provisions for risks and charges	–	–	–	(1,795)	(1,795)
Amortisation of intangible assets and depreciation of property and equipment	–	–	–	(6,501)	(6,501)
Other operating income/expenses	–	–	–	17,032	17,032
Profits (losses) on investments in associates and companies subject to joint control / on disposal of investments	–	–	–	(643)	(643)
Income (loss) before tax from continuing operations	**39,311**	**101,850**	**18,711**	**(125,479)**	**34,393**

Analysis by business segments: balance sheet figures

(thousands of Euro)	Private individuals	Companies	Finance	Other	Total
Due from banks	–	–	39,420	–	39,420
Loans to customers	1,807,572	3,170,508	146,089	–	5,124,169
Own securities and investments	–	–	1,025,785	–	1,025,785
Due to banks	–	–	585,675	–	585,675
Direct funding	3,508,561	996,392	521,092	75,482	5,101,527
- Due to customers	2,007,106	922,416	512,092	65,695	3,507,309
- Securities issued	1,501,455	73,976	9,000	9,787	1,594,218
Indirect funding	2,057,968	59,100	–	–	2,117,068

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	39,420	–	39,420
Loans to customers	3,821,507	1,302,662	5,124,169
Own securities and investments	1,025,785	–	1,025,785
Due to banks	585,675	–	585,675
Direct funding	3,980,104	1,121,423	5,101,527
- Due to customers	2,809,775	697,534	3,507,309
- Securities issued	1,170,329	423,889	1,594,218
Indirect funding	1,690,116	426,952	2,117,068

Analysis by geographical area: income statement figures

(thousands of Euro)	Trentino and Alto Adige	Veneto and Friuli Venezia Giulia	Total
Interest margin	83,247	28,111	111,358
Net fee and commission income	44,221	16,817	61,038
Financial margin	11,188	–	11,188
Net interest and other banking income	**138,656**	**44,928**	**183,584**
Net losses/recoveries on impairment	(22,476)	(6,463)	(28,939)
Net income from banking activities	**116,180**	**38,465**	**154,645**
Administrative expenses	(105,414)	(22,931)	(128,345)
Provisions for risks and charges	(1,795)	–	(1,795)
Amortisation of intangible assets and depreciation of property and equipment	(4,979)	(1,522)	(6,501)
Other operating income/expenses	13,989	3,043	17,032
Profits (losses) on investments in associates and companies subject to joint control / on disposal of investments	(643)	–	(643)
Income (loss) before tax from continuing operations	**17,338**	**17,055**	**34,393**

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

Disclosure in accordance with Art. 149 – duodecies of Regulation No. 11971 of 14 May 1999 (Issuers' Regulation)

The fees of the 2014 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 services *(thousands of Euro)*	**Party that performed the service**	**Beneficiary**	**Remuneration (1)**
Independent Audit	BDO S.p.A.	Banca Popolare · Volksbank	48
Certification services	BDO S.p.A.	Banca Popolare · Volksbank	15
Total			**62**

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
Offices in Bolzano (BZ) Italy, Via Siemens 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 offices in Bolzano - Italy

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014
BALANCE SHEET

(amounts in Euro)

ASSETS	31.12.2014	31.12.2013
A. Share capital not paid in	**0**	**0**
B. Fixed assets		
I. Intangible assets		
II. Property and equipment		
1. Land and buildings	209,440	260,704
4. Other assets	182	471
Total	209,622	261,175
III. Financial investments		
1. Investments in:		
b. associates	1	1
3. Other securities	100	100
Total	*101*	*101*
Total fixed assets (B)	**209,723**	**261,276**
C. Current assets		
I. Inventories		
4. Finished products and goods for resale	1,110,274	83,654
Total	1,110,274	83,654
II. Loans/receivables		
1. Due from customers	1,897	135,551
4.bis Tax receivables	114,468	2,040
5. Due from others	6,065	7,351
Total	122,430	144,942
III. Financial assets under current assets		
IV. Cash and cash equivalents		
3. Cash and equivalents on hand	58	58
Total	58	58
Total current assets (C)	**1,232,762**	**228,654**
D. Prepayments and accrued Income	**10,300**	**12,155**
TOTAL ASSETS	**1,452,785**	**502,085**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014
BALANCE SHEET

(amounts in Euro)

LIABILITIES	31.12.2014	31.12.2013
A. Shareholders' equity		
I. Share capital	30,000	30,000
IV. Legal reserve	6,000	0
VII. Other reserves		
15. Reserves from rounding off	0	0
16. Reserve from tax amnesty		
17. Sundry other reserves	(45,000)	(45,000)
	(45,000)	(45,000)
VIII. Profits/losses carried over	26,025	(954,823)
IX. Net Income (loss)	(214,403)	986,849
Total	**(197,378)**	**17,026**
B. Provisions for risks and charges		
3. Other	45,000	45,000
Total	**45,000**	**45,000**
D. Payables		
3. Due to shareholders for loans	1,573,053	391,526
7. Trade payables	13,701	5,325
12. Tax payables	0	24,799
14. Other payables	18,409	18,409
Total	**1,605,163**	**440,059**
TOTAL LIABILITIES	**1,452,785**	**502,085**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014
INCOME STATEMENT

(amounts in Euro)

INCOME STATEMENT ITEMS	31.12.2014	31.12.2013
A. Production value		
1. Revenues from sales and services	19,922	23,685
2. Change in inventories of work in progress semi-finished and finished products	1,026,621	0
5. Other revenues and income	4,677	391,384
Total	1,051,220	415,069
B. Production costs		
6. Raw, ancillary and consumable materials and goods for resale	1,026,008	7,493
7. Services	55,383	135,315
8. Use of third party assets	12,435	6,553
9. Personnel charges:		
a. salaries and wages	*0*	*42,145*
b. social security costs	*0*	*1,896*
e. fees and commissions and other costs	*0*	*83,750*
	0	127,791
10. Amortisation, depreciation and write-downs		
b. depreciation of property and equipment	*25,653*	*25,653*
d. write-down of current receivables and of liquid funds	*135,000*	*0*
	160,653	25,653
14. Other operating charges	10,436	163,606
Total production costs	1,264,915	466,411
Difference between production value and costs (A-B)	**(213,695)**	**(51,342)**
C. Financial income and expenses		
15. Income from investments	0	1,266,401
of which from associates		*1,266,401*
16. Other financial income		
d. income other than the above	*0*	*120,325*
of which from associates		*120,325*
	0	120,325
17. Interest and other financial charges	708	348,535
of which from associates		*29,999*
of which from parent companies		*20,270*
Total financial income and expenses	(708)	1,038,191
D. Adjustments/recoveries on investments		
E. Extraordinary items		
Income before taxes A-B+C+D+E)	**(214,403)**	**986,849**
23. Net Income (loss)	**(214,403)**	**986,849**

Financial Statements of the subsidiary Valpolicella Alta Società Agricola S.r.l.

Valpolicella Alta Società Agricola S.r.l.

Valpolicella Alta Società Agricola S.r.l. - Single shareholder company
Offices in Bolzano (BZ) Italy, Via Siemens 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 offices in Bolzano - Italy

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014
BALANCE SHEET

(amounts in Euro)

ASSETS	31.12.2014	31.12.2013
A. Share capital not paid in	**–**	**–**
B. Fixed assets		
I. Intangible assets	–	–
II. Property and equipment	4,192,207	4,228,481
1. Land and buildings	*2,831,797*	*2,831,797*
4. Other assets	*1,310,410*	*1,346,684*
5. Construction in progress and advances	*50,000*	*50,000*
Total	*4,192,207*	*4,228,481*
III. Financial investments	–	–
Total fixed assets (B)	**4,192,207**	**4,228,481**
C. Current assets		
I. Inventories		83,654
II. Receivables		144,942
1. Due from customers	*124,371*	*124,298*
4.bis Tax receivables	*20,439*	*45,571*
5. Due from others	*700,359*	*699,459*
Total	*845,169*	*869,328*
III. Financial assets under current assets	–	–
IV. Cash and cash equivalents		58
1. Bank and post office deposits	*12,212*	*13,481*
3. Cash and equivalents on hand	*302*	*361*
Total	*12,514*	*13,842*
Total current assets (C)	**857,683**	**883,170**
D. Prepayments and accrued Income	**1**	**212**
TOTAL ASSETS	**5,049,891**	**5,111,863**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014
BALANCE SHEET

(amounts in Euro)

LIABILITIES		31.12.2014	31.12.2013
A.	**Shareholders' equity**		
I.	Share capital	10,000	10,000
IV.	Legal reserve	–	–
VII.	Other reserves		
	11. Payments to cover losses	3,796	1,432
	16. Reserves from tax amnesty		
VIII.	Profits/losses carried over	(234,136)	(297,636)
IX.	Net income (loss)		
	Total	**(220,340)**	**(286,204)**
B.	**Provisions for risks and charges**	**699,412**	**699,412**
	3. Other	*699,412*	*699,412*
C.	**Employee termination indemnities**	**–**	**–**
D.	**Payables**		
3.	Due to shareholders for loans	1,180,361	1,396,514
5.	Due to banks	3,353,970	3,244,075
7.	Trade payables	36,263	55,923
12.	Tax payables	–	2,014
14.	Other payables	225	129
	Total	**4,570,819**	**4,698,655**
E.	**Accrued expenses and deferred income**		**–**
TOTAL LIABILITIES		**5,049,891**	**5,111,863**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014
INCOME STATEMENT

(amounts in Euro)

	31.12.2014	31.12.2013
A. Production value		
1. Revenues from sales and services	*113,065*	*112,998*
5. Other revenues and income	*31,341*	*17,066*
Total	144,406	130,064
B. Production costs		
6. Raw, ancillary and consumable materials and goods for resale	*15,501*	*22,561*
7. Services	*112,724*	*123,341*
10. Amortisation, depreciation and write-downs		
a. amortisation of intangible assets	*–*	*670*
b. depreciation of property and equipment	*63,738*	*41,733*
	63,738	*42,403*
12. Provisions for risks	*–*	*25,000*
14. Other operating charges	*2,195*	*1,461*
Total production costs	194,158	214,766
Difference between production value and costs (A-B)	**(49,752)**	**(84,702)**
C. Financial income and expenses		
16. Other financial income	–	12
d. income other than the above	–	12
17. Interest and other financial charges	184,384	212,946
Total financial income and expenses	(184,384)	(212,934)
D. Adjustments/recoveries on investments	**–**	**–**
E. Extraordinary items	**–**	**1**
Income before taxes A-B+C+D+E)	**(234,136)**	**(297,636)**
22. Taxes on income - current, deferred and prepaid	–	–
23. Net Income (loss)	**(234,136)**	**(297,636)**