DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2015

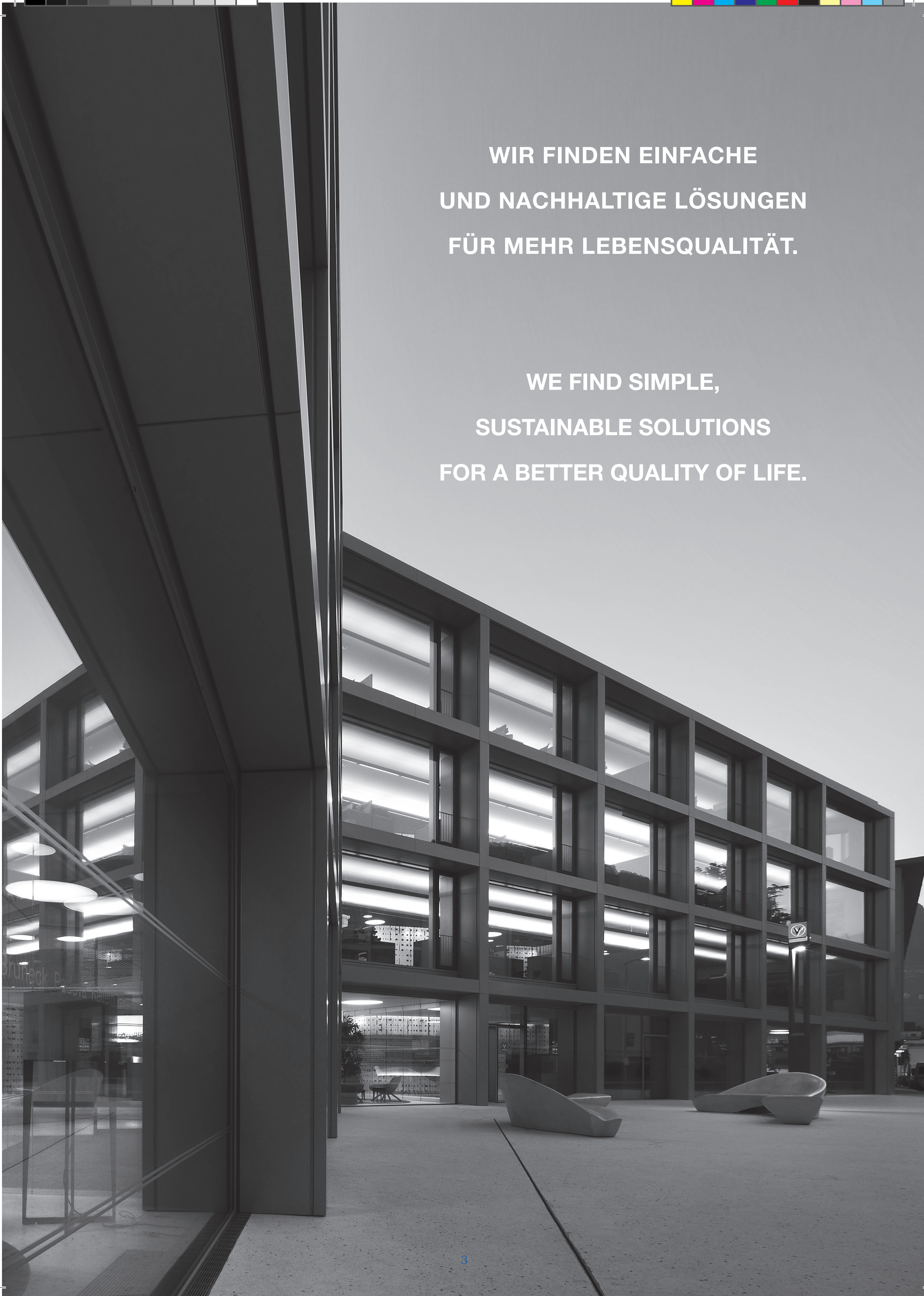
Banca Popolare Volksbank

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 2015: Euro 179,535,732 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

WIR FINDEN EINFACHE
UND NACHHALTIGE LÖSUNGEN
FÜR MEHR LEBENSQUALITÄT.

WE FIND SIMPLE,
SUSTAINABLE SOLUTIONS
FOR A BETTER QUALITY OF LIFE.



Es geht uns darum, nach innen zu wachsen: Wir werden noch mehr Qualität in unseren Produkten und Dienstleistungen bieten, serviceorientierter arbeiten und die menschliche und persönliche Nähe zu unseren Kunden weiter erhöhen.

Otmar Michaeler

Die Volksbank hat ein erfolgreiches Jahr 2015 hinter sich.

Die Herausforderungen waren groß – nicht minder groß sind jene, die die Bank 2016 erwarten. Es gilt auch heuer wieder, mit Bodenständigkeit zu agieren, um solide Ergebnisse zu erwirtschaften.

Sehr geehrte Mitglieder,

2015 wird als das Jahr der Fusion mit der Banca Popolare di Marostica in die Geschichte der Volksbank eingehen. Es war das Jahr, in dem die Volksbank einen zweiten Heimatmarkt in der Provinz Vicenza erschlossen hat; das Jahr, in dem die Zahl der Mitarbeiter, der Kunden, der Filialen und der verwalteten Mittel um jeweils ein Drittel angestiegen ist. Wir haben dieses Jahr und seine Herausforderungen gut bewältigt. Bodenständigkeit macht sich bezahlt.

Als tragfähig hat sich diese Bodenständigkeit nicht nur bei der Fusion erwiesen. Wir hatten es 2015 mit einem besonders herausfordernden Zinsumfeld zu tun. Die Konjunktur im gesamten Einzugsgebiet war schwach. Die Auflagen der Aufsichtsbehörden nahmen zu. Trotz dieser Rahmenbedingungen ist es der Volksbank gelungen, einen Gewinn nach Steuern von 22,4 Mio. Euro zu erwirtschaften. Ein ordentliches Ergebnis, das der Verwaltungsrat sehr positiv wertet.

Ein Ergebnis, das ohne treue Mitglieder und Kunden so nicht zustande gekommen wäre. Als Regionalbank setzen wir auf den persönlichen Kontakt zu Ihnen. Jeder vierte unserer Kunden ist Mitglied der Volksbank! Es freut uns, dass wir im vergangenen Jahr das 50.000ste Mitglied in unserer Bank willkommen heißen konnten. Und natürlich freuen wir uns über die Unterstützung unserer mittlerweile über 57.000 Mitglieder im Rahmen der Kapitalerhöhung, die wir im Januar 2016 sehr erfolgreich abschließen konnten.

Für das abgelaufene Geschäftsjahr schlägt der Verwaltungsrat der Mitgliederversammlung einen Ausgabepreis von 19,65 Euro und eine Dividende von 27 Cent pro Aktie vor.

Das Jahr 2016 wird nicht weniger spannend als 2015: Wir stehen vor der Umwandlung in eine Aktiengesellschaft, so wie es das Gesetz für Genossenschaften mit Aktiva über 8 Mrd. Euro vorsieht. Darüber werden wir Sie weiterhin ausführlich informieren.

Unsere zweite wichtige Aufgabe für 2016 ist es, unser Augenmerk noch stärker auf unsere Kunden zu richten. Unsere Retail-, Privat- und Firmenkunden werden wir künftig noch besser, spezifischer und konkreter beraten. Unser Strategieplan bis 2020 ist darauf ausgerichtet, die Kunden noch stärker in den Mittelpunkt zu rücken und die Bank noch effizienter und rentabler zu machen.

Danke für Ihre Unterstützung und Ihr Vertrauen.

Ihr

Otmar Michaeler
Präsident des Verwaltungsrates

“Our aim is to grow from the inside: we will enhance the quality of products and services, we will work to provide services that are increasingly targeted and we will improve even more our human and personal relations with our customers.” **Otmar Michaeler**

For Banca Popolare · Volksbank, 2015 was a year full of success stories. The challenges were enormous – no less so than those our Bank can expect in 2016. This year, too, we will need to keep our feet fixed firmly on the ground to achieve solid results.

Dear Members

2015 will go down in Volksbank's history as "the year of the merger" with Banca Popolare di Marostica. It was the year in which Volksbank was able to access a wider market of origin in the province of Vicenza; one in which the number of employees, customers, branches and managed assets rose by one third. We handled the past year and its challenges extremely well. Being deeply rooted in the area bears fruit.

And not only as regards the merger. In 2015 the modest interest rate trend was particularly tough. The economic trend in the entire catchment area was weak. Directives from the regulatory authorities increased. Despite this situation, however, Volksbank achieved a net profit of Euro 22.4 million. A good result, recognised as highly positive also be the Board of Directors.

A result we could not have achieved without the invaluable contribution from our shareholders and our customers. For us, as a regional bank, personal contact is extremely important. A quarter of our customers are also shareholders of the Bank! We are very happy to have welcomed our 50,000th member during last year. And naturally we are proud of the support from our shareholders, now numbering over 57,000, at the time of our share capital increase which was concluded with enormous success in January 2016.

With regard to last year, the Board of Directors would like to propose an issue price of Euro 19.65 and a dividend of 27 cents per share to the shareholders' meeting.

2016 will be another compelling year: in fact, as required by the law governing cooperatives with assets of more than Euro 8 billion, we are looking towards the transformation into a joint-stock company. We will keep you informed of the details.

Our second major task for 2016 will be to focus more strongly on caring for our customers. In future we intend to offer our retail, private and corporate customers even more in-depth advice. Our strategic plan envisages that by 2020 our customers will be positioned even closer to the heart of our interests and our Bank will become more efficient and remunerative.

All thanks to your support and your trust.

Kind regards

Otmar Michaeler
Chairman of the Board of Directors

2015 ANNUAL FINANCIAL REPORT

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CORPORATE OFFICES AS AT 31 DECEMBER 2015

BOARD OF DIRECTORS

Chairman
Otmar Michaeler

Deputy Chairmen
Lorenzo Salvà (**)
Maria Giovanna Cabion

Directors
Marcello Alberti (**)
Lorenzo Bertacco (*) (**)
David Covi (*) (***)
Philip Froschmayr (***)
Lukas Ladurner (***)
Alessandro Marzola (**)
Giuseppe Padovan
Margit Tauber (*) (***)
Gregor Wierer (**)

BOARD OF ARBITRATORS

Chairman
Federica Isotti

Standing Arbitrators
Christine Mayr
Richard Stampfl

Substitute Arbitrators
Karin Runggaldier
Stefano Stivanello

BOARD OF STATUTORY AUDITORS

Chairman
Heinz Peter Hager

Standing Auditors
Joachim Knoll
Georg Hesse

Substitute Auditors
Massimo Biasin resigned 24/04/2015
Emilio Lorenzon

MANAGEMENT

General Manager
Johannes Schneebacher

Deputy General Manager
Stefan Schmidhammer

THE MANAGER RESPONSIBLE FOR THE PREPARATION OF CORPORATE ACCOUNTING DOCUMENTS

Alberto Caltroni

INDEPENDENT AUDITORS

BDO Italia S.p.A.

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

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 del Macello 55 – Bozen, Schlachthofstraße 55
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. +39 0471-944 270
Bolzano – Bozen Galleria Telser 1 – Telsergalerie 1	tel. +39 0471-944 170
Bolzano – Bozen Piazza Mazzini 2 – Mazziniplatz 2	tel. +39 0471-944 020
Bolzano – Bozen Piazza Parrocchia 4 – Pfarrplatz 4	tel. +39 0471-944 050
Bolzano – Bozen Via C. Augusta 5 – C.-Augusta-Straße 5	tel. +39 0471-944 250
Bolzano – Bozen Via del Macello 55 – Schlachthofstraße 55	tel. +39 0471-944 310
Bolzano – Bozen Via del Ronco 15 – Neubruchweg 15	tel. +39 0471-944 260
Bolzano – Bozen Via Galvani 3/f – Galvanistraße 3/f	tel. +39 0471-944 320
Bolzano – Bozen Via Leonardo da Vinci 2 – Leonardo-da-Vinci-Straße 2	tel. +39 0471-996 151
Bolzano – Bozen Via Resia 130 – Reschenstraße 130	tel. +39 0471-944 290
Bolzano – Bozen Via Roma 45 – Romstraße 45	tel. +39 0471-944 200
Bolzano – Bozen Via Sassari 4 b/c – Sassaristraße 4 b/c	tel. +39 0471-944 100
Bolzano – Bozen Viale Druso 64 – Drususallee 64	tel. +39 0471-944 340
Bressanone – Brixen Portici Maggiori 2 – Große Lauben 2	tel. +39 0472-811 213
Bressanone – Brixen Via Rio Scaleres 26 – Am Schalderer Bachl 26	tel. +39 0472-811 630
Bressanone – Brixen Via Dante 51 – Dantestraße 51	ATMs
Bressanone – Brixen Via J. Durst 28 – J.-Durst-Straße 28	tel. +39 0472-811 600
Bressanone – Brixen Via Plose 38/b – Plosestraße 38/b	tel. +39 0472-811 560
Brunico – Bruneck Bastioni 24 – Graben 24	tel. +39 0474-544 700
Brunico – Bruneck Via Ospedale 11 – Spitalstraße 11	ATMs
Brunico – Bruneck Via S. Nicolò 14 – St.-Nikolaus-Straße 14	tel. +39 0474-544 790
Brunico S. Giorgio – Bruneck St. Georgen Via Valle Aurina 30 – Ahrntaler Straße 30	tel. +39 0474-544 760
Cadipietra – Steinhaus Cadipietra 105 – Steinhaus 105	tel. +39 0474-544 800
Caldaro – Kaltern P.zza Principale 13 – Marktplatz 13	tel. +39 0471-944 220
Caldaro – Kaltern Via Stazione 10 – Bahnhofstraße 10	tel. +39 0471-944 230
Campo Tures – Sand in Taufers Via Municipio 4 – Rathausstraße 4	tel. +39 0474-544 740
Chienes – Kiens Via Chienes 1 – Kiener Dorfweg 1	tel. +39 0474-544 730
Chiusa – Klausen Piazza Tinne 5 – Tinneplatz 5	tel. +39 0472-811 540
Dobbiaco – Toblach Viale S. Giovanni 23 – St.-Johannes-Straße 23	tel. +39 0474-544 770
Egna – Neumarkt Largo Municipio 32 – Rathausring 32	tel. +39 0471-944 280
Fiè allo Sciliar – Völs am Schlern Via Bolzano 3 – Bozner Straße 3	tel. +39 0471-944 080
Fortezza – Franzensfeste Via Brennero 7/c – Brennerstraße 7/c	tel. +39 0472-811 530
Gargazzone – Gargazon Vicolo dei Campi 2 – Feldweg 2	tel. + 0473-254 320
La Villa – Stern Via Colz 56 – Colz Straße 56	tel. +39 0471-944 010
Laces – Latsch Via Stazione 1/b – Bahnhofstraße 1/b	tel. +39 0473-254 440
Laives – Leifers Via Kennedy 123 – Kennedystraße 123	tel. +39 0471-944 240
Lana Piazza Tribus 17 – Tribusplatz 17	tel. +39 0473-254 350
Lasa – Laas Via Venosta 44 – Vinschgaustraße 44	tel. +39 0473-254 310
Lazfons – Latzfons San Giacomo 3 – St. Jakob 3	tel. +39 0472-811 620
Luson – Lüsen Vicolo Dorf 19 – Dorfgasse 19	tel. +39 0472-811 590
Malles Venosta – Mals Via Stazione 9/b – Bahnhofstraße 9/b	tel. +39 0473-254 400
Merano – Meran Piazza del Grano 3 – Kornplatz 3	tel. +39 0473-254 111
Merano – Meran Piazza del Grano 3 – Kornplatz 3	tel. +39 0473-254 106
Merano – Meran Piazza Stazione – Bahnhofsplatz	ATMs
Merano – Meran Via Goethe 74/a – Goethestraße 74/a	tel. +39 0473-254 300
Merano – Meran Via Matteotti 43 – Matteottistraße 43	tel. +39 0473-254 330
Merano – Meran Via Monte Tessa 34 – Texelstraße 34	tel. +39 0473-254 390
Merano – Meran Via Roma 278 – Romstraße 278	tel. +39 0473-254 420
Monguelfo – Welsberg Via Parrocchia 13 – Pfarrgasse 13	tel. +39 0474-544 750
Naturno – Naturns Via Principale 37/b – Hauptstraße 37/b	tel. +39 0473-254 370
Nova Levante – Welschnofen Via Roma 8 – Romstraße 8	tel. +39 0471-944 090
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Scena – Schenna Piazza Arciduca Giovanni 7 – Erzherzog-Johann-Platz 7	tel. +39 0473-254 430
Selva Gardena – Wolkenstein Via Meisules 155/a – Meisulesstraße 155/a	tel. +39 0471-944 000
Silandro – Schlanders Via Covelano 10 – Göflaner Straße 10	tel. +39 0473-254 410
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Vandoies – Vintl Via J. A. Zoller 8 – J.-A.-Zoller-Straße 8	tel. +39 0472-811 640
Varna – Vahrn Via Brennero 101 – Brennerstraße 101	tel. +39 0472-811 650
Velturno – Feldthurns Paese 12 – Dorf 12	tel. +39 0472-811 580
Vipiteno – Sterzing Via Città Nuova 22/a – Neustadt 22/a	tel. +39 0472-811 500

BELLUNO PROVINCE

Auronzo di Cadore Via Corte 33	tel. +39 0435-505 650
Belluno Via Caffi 15	tel. +39 0437-356 700
Belluno Via Vittorio Veneto 278	tel. +39 0437-356 600
Cencenighe Agordino Via XX Settembre 107	tel. +39 0437-356 640
Cortina d'Ampezzo Largo delle Poste 49	tel. +39 0436-863 500
Domegge di Cadore Via Roma 48	tel. +39 0435-505 620
Dosoledo Piazza Tiziano 2	tel. +39 0435-505 670
Feltre Via Monte Grappa 28	tel. +39 0439-842 600
Forno di Zoldo Via Roma 70/b	tel. +39 0437-356 620
Limana Via Roma 116/118	tel. +39 0437-356 690
Longarone Via Roma 89	tel. +39 0437-356 720
Mel Via Tempietto 33/a	tel. +39 0437-356 660
Padola Piazza San Luca 22	tel. +39 0435-505 690
Ponte nelle Alpi Viale Roma 87	tel. +39 0437-356 630
S. Pietro di Cadore Via P.F. Calvi 16	tel. +39 0435-505 680
S. Stefano di Cadore Via Venezia 30	tel. +39 0435-505 630
Santa Giustina Via Feltre 17	tel. +39 0437-356 680
Sappada Via Borgata Cottern 22	ATMs
Sedico Via Cordevole 2/b	tel. +39 0437-356 650
Tai di Cadore Via Ferdinando Coletti 15	tel. +39 0435-505 600
Valle di Cadore Via XX Settembre 76	tel. +39 0435-505 660

PORDENONE PROVINCE

Cordenons Via Sclavons 77	tel. +39 0434-786 540
Pordenone Via Galvani 8	tel. +39 0434-786 520
Sacile Via Martiri Sfriso 9	tel. +39 0434-786 500

TRENTO PROVINCE

Ala Via della Roggia 10	tel. +39 0464-912 520
Arco Via S. Caterina 20	tel. +39 0464-912 510
Borgo Valsugana Corso Vicenza 47	ATMs
Borgo Valsugana Via Hippoliti 11/13	tel. +39 0461-211 060
Cavalese Viale Libertà 7	tel. +39 0462-248 500
Cles Piazza Navarrino 16/17	tel. +39 0463-840 510
Fondo Via Cesare Battisti 39	tel. +39 0463-840 500
Lavis Via Rosmini 65	tel. +39 0461-211 070
Mezzolombardo Via A. De Gasperi 4	tel. +39 0461-211 030
Moena Piaz de Ramon 24	tel. +39 0462-248 510
Mori Via della Terra Nera 48/d	tel. +39 0464-912 500
Pergine Viale Venezia 44	tel. +39 0461-211 050
Riva del Garda Via Damiano Chiesa 4/g-h	tel. +39 0464-912 560
Rovereto Via della Vittoria 11	tel. +39 0464-912 550
Rovereto Via G. M. Della Croce 2	tel. +39 0464-912 530
Tione Via Circonvallazione 56	tel. +39 0465-338 500
Trento Piazza Lodron 31	tel. +39 0461-211 000
Trento Via Brennero 302/a	tel. +39 0461-211 080
Trento Via Enrico Fermi 11	tel. +39 0461-211 090
Trento Via S. Croce 44	tel. +39 0461-211 040
Villa Lagarina Via degli Alpini 8	tel. +39 0464-912 540

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Castelfranco Veneto Borgo Treviso 62	tel. +39 0423-974 610
Castelfranco Veneto Corso 29 Aprile 17	tel. +39 0423-974 640
Conegliano Via Cavour 11	tel. +39 0438-907 770
Conegliano Via Cesare Battisti 5	tel. +39 0438-907 740
Crocetta del Montello Via Andrea Erizzo 64	tel. +39 0423-974 620
Loria – Ramon Di Loria Via Poggiana 4	tel. +39 0423-974 670
Mogliano Veneto Via degli Alpini 16/e-g	tel. +39 041-5446 660
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Motta di Livenza Via P. L. Bello/Ang. Via Cigana 1	tel. +39 0422-508 180
Oderzo Via degli Alpini 24/26	tel. +39 0422-508 100
Paese Via Cesare Battisti 3	tel. +39 0422-508 140
Pieve di Soligo Via Nubie 3/d	tel. +39 0438-907 700
Preganziol Piazza Gabbin 16	tel. +39 0422-508 120
Quinto di Treviso Via Vittorio Emanuele 11	tel. +39 0422-508 190
S. Zenone Ca' Rainati Via Monte Grappa 32	tel. +39 0423-974 630
Spresiano Piazza Luciano Rigo 49	tel. +39 0422-508 130
Treviso Viale IV Novembre 13/a	tel. +39 0422-508 110
Treviso Città Via San Vito 12	tel. +39 0422-508 150
Treviso Viale Brigata Treviso 1	tel. +39 0422-508 210
Treviso Viale Monte Grappa 46	tel. +39 0422-508 200
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Cogollo del Cengio Via Dal Zotto 74	tel. +39 0445-617 060
Conco Piazza San Marco 20	tel. +39 0424-596 170
Dueville Piazza Monza 30/31	tel. +39 0444-577 020
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Marostica Via Mazzini 84	tel. +39 0424-596 200
Mason Vicentino Via Marconi 85	tel. +39 0424-596 000
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Nove Via Molini 2	tel. +39 0424-596 110
Pianezze San Lorenzo Piazza degli Alpini 1	tel. +39 0424-596 130
Romano d'Ezzelino Via Roma 62	tel. +39 0424-596 140
Rosà Via Dei Tigli 7	tel. +39 0424-596 150
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Sandrigo Via Roma 34	tel. +39 0444-577 040

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Schiavon Via Roma 120	tel. +39 0444-577 050
Schio Via Cementi 8	tel. +39 0445-617 080
Schio SS. Trinità Via Muratori 1/a	tel. +39 0445-617 100
Tezze Sul Brenta Via Risorgimento 23	tel. +39 0424-596 180
Belvedere di Tezze S. B. Via Nazionale 47	tel. +39 0424-596 020
Thiene Viale Bassani 26/28	tel. +39 0445-617 110
Vicenza Laghetto Via dei Laghi 135	tel. +39 0444-577 060
Vicenza Porta Castello Viale Roma 10	tel. +39 0444-577 070
Villaverla Via S. Antonio 43	tel. +39 0445-617 130
Zanè Via Trieste 110	tel. +39 0445-617 140

PADUA PROVINCE	
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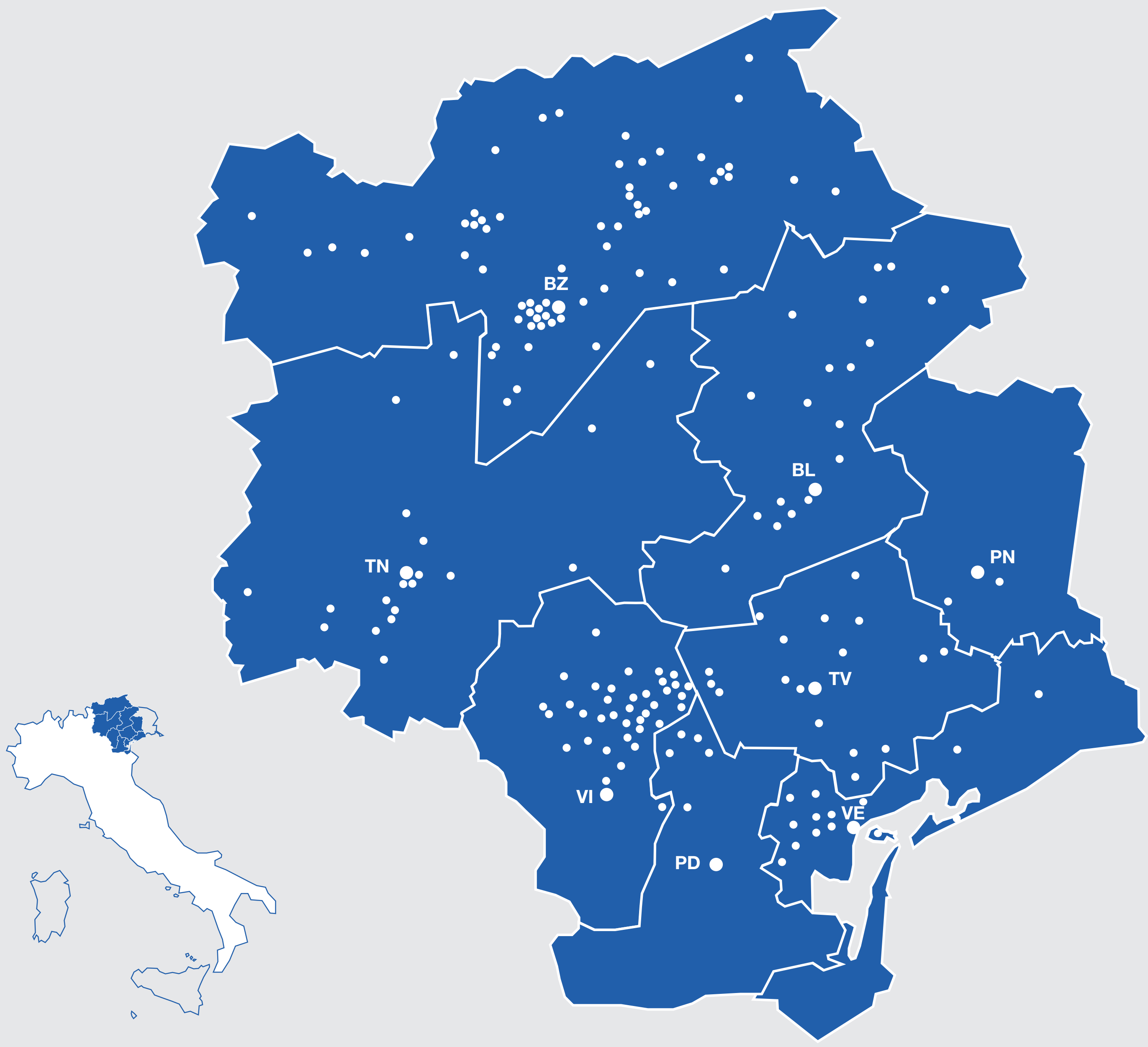
Cittadella Via Riva Pasubio 5	tel. +39 049-6950 040
Padua Corso Milano 99	tel. +39 049-6950 020
Piazzola Sul Brenta Via dei Contarini 36	tel. +39 049-6950 050
Sarmeola di Rubano Via della Provvidenza 7/a	tel. +39 049-6950 060
Tombolo Via Vittorio Veneto 1	tel. +39 049-6950 000

VENICE PROVINCE	
Fossò Via Roncaglia 1	tel. +39 041-5446 690
Jesolo Lido Via Firenze 6	tel. +39 0421-480 820
Marcon Viale della Repubblica 2	tel. +39 041-5446 680
Martellago Via Friuli 28	tel. +39 041-5446 780
Mira Via Alfieri 9/c	tel. +39 041-5446 790
Mira Via Venezia 120	tel. +39 041-5446 730
Mirano Via Cavin di Sala 39	tel. +39 041-5446 710
Noale Via Tempesta 31	tel. +39 041-5446 630
Portogruaro Via S. Agnese 28	tel. +39 0421-480 810
San Donà di Piave Via Vizzotto 92	tel. +39 0421-480 800
Spinea Piazza Marconi 17	tel. +39 041-5446 670
Venice Mestre Piazza Mercato 51 – Fraz. Marghera	tel. +39 041-5446 800
Venice Mestre Via Rovereto 8 – Fraz. Chirignago	tel. +39 041-5446 600
Venice Mestre Via Torre Belfredo 23 – Villa Toesca	tel. +39 041-5446 750
Venice Campo SS Apostoli Sestriere Cannaregio 4547/4552	tel. +39 041-5446 810



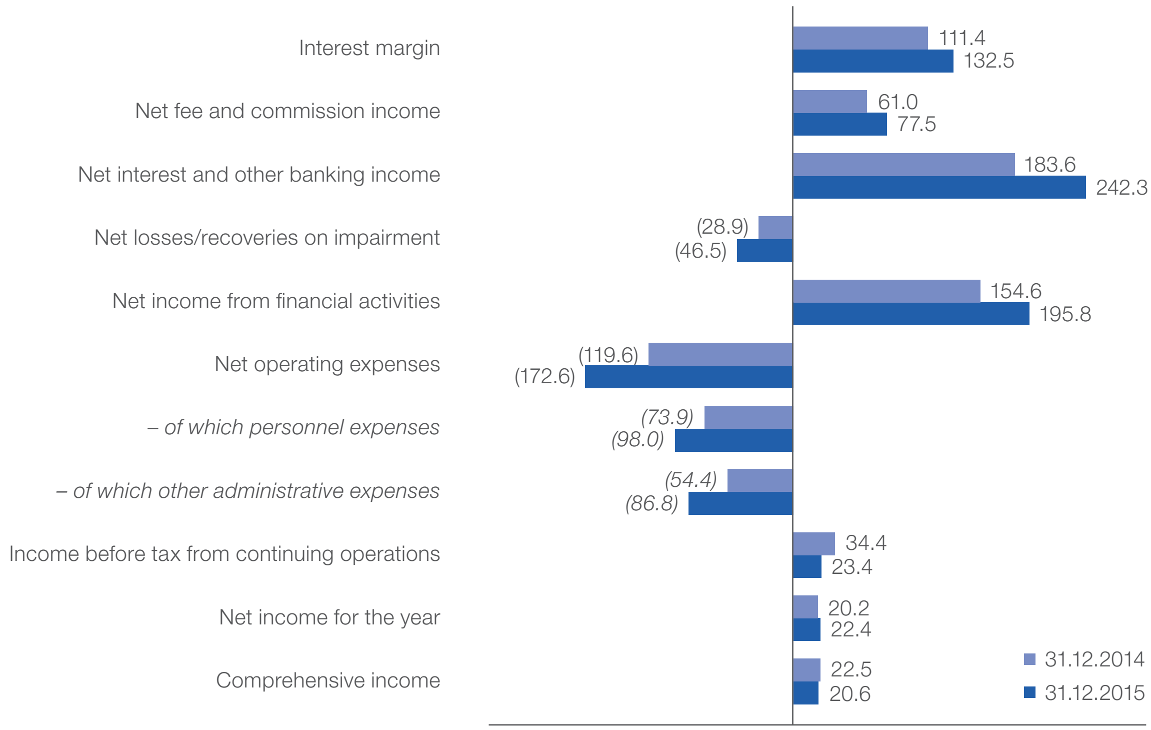
DIRECTORS' REPORT AND FINANCIAL STATEMENTS

2015 SUMMARY DATA

OUTLINE OF ECONOMIC-FINANCIAL DATA AND RATIOS

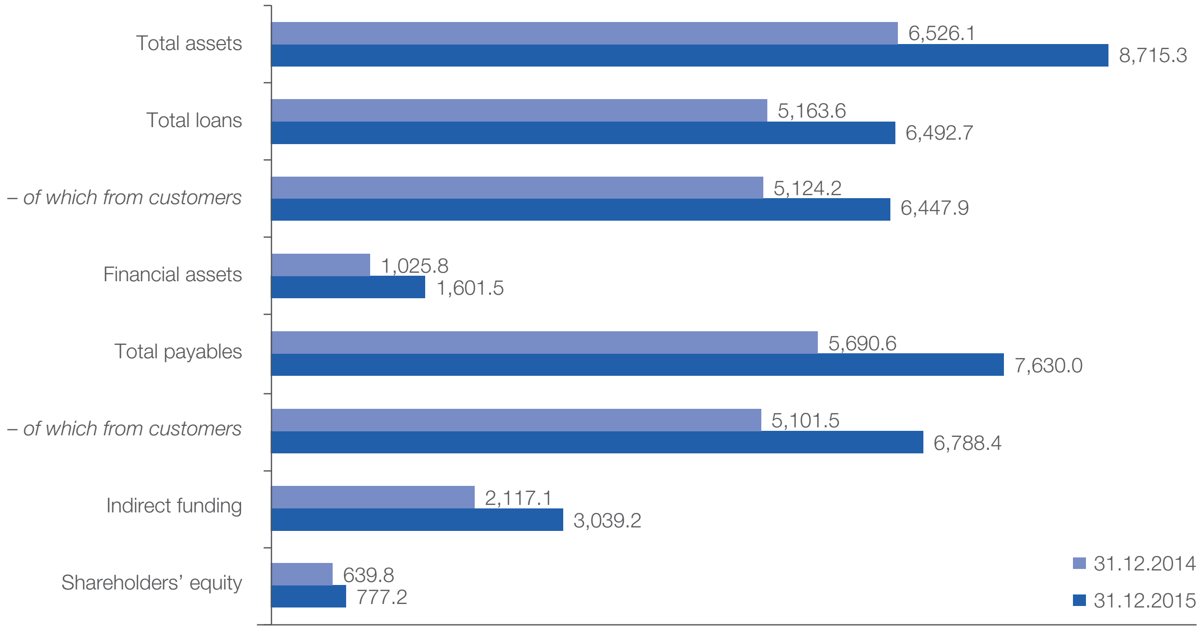
Below is an outline of bank data and ratios calculated on the basis of accounting records.

Main Income Statement Figures



Income Statement Figures	**31.12.2015**	**31.12.2014**	**Changes**	
(millions of Euro)			**Abs.**	**%**
Interest margin	132.5	111.4	21.1	19.0%
Net fee and commission income	77.5	61.0	16.5	27.0%
Net interest and other banking income	242.3	183.6	58.7	32.0%
Net losses/recoveries on impairment	(46.5)	(28.9)	(17.5)	60.6%
Net income from banking activities	195.8	154.6	41.1	26.6%
Net operating expenses	(172.6)	(119.6)	(53.0)	44.3%
– of which personnel expenses	*(98.0)*	*(73.9)*	*(24.1)*	*32.6%*
– of which other administrative expenses	*(86.8)*	*(54.4)*	*(32.4)*	*59.4%*
Income before tax	23.4	34.4	(11.0)	(31.9%)
Net income for the year	22.4	20.2	2.1	10.5%
Comprehensive income	20.6	22.5	(1.9)	(8.3%)

Main Balance Sheet Figures



Balance Sheet Figures	**31.12.2015**	**31.12.2014**	**Changes**	
(millions of Euro)			**Abs.**	**%**
Total assets	8,715.3	6,526.1	2,189.2	33.5%
Total loans	6,492.7	5,163.6	1,329.1	25.7%
– of which from customers	*6,447.9*	*5,124.2*	*1,323.7*	*25.8%*
Financial assets	1,601.5	1,025.8	575.7	56.1%
Total payables	7,630.0	5,690.6	1,939.4	34.1%
– of which from customers	*6,788.4*	*5,101.5*	*1,686.8*	*33.1%*
Indirect funding	3,039.2	2,117.1	922.2	43.6%
Shareholders' equity	777.2	639.8	137.3	21.5%

Main Ratios

Economic and financial ratios and other information	31.12.2015	31.12.2014
Financial Indicators		
Structural ratios		
Loans to customers / direct funding from customers (retail)	101.83%	110.83%
Fixed assets / total assets	3.12%	2.53%
Total risk-weighted assets (RWA) / total assets	66.04%	67.44%
Goodwill / total assets	1.14%	0.62%
Direct funding / total assets	77.89%	78.17%
Managed funding / indirect funding	52.73%	45.19%
Leverage (*)	16.43	10.84
Inter-bank balance (thousands of Euro)	(793,659)	(546,255)
Number of employees	1,368	1,041
Number of bank branches	188	133
Profitability ratios		
ROTE and its components (**)		
1. ROA (net profit / total assets)	0.26%	0.32%
– interest margin/total assets	1.54%	1.76%
– non-interest income/total assets	1.59%	1.41%
– operating expenses/total assets	2.32%	2.16%
Net adjustments to loans / net loans to customers	0.68%	0.53%
– net other income/total assets	–0.04%	–0.26%
– loans to customers/total assets	74.98%	81.15%
– ROA (before adjustments to loans)	0.77%	0.75%
2. Leverage (total assets/tangible equity)	12.7	10.8
– tangible equity/total assets	7.86%	9.22%
3. ROTE = ROA x Leverage	3.35%	3.42%
Cost to income ratio	71.81%	67.22%
Cost of risk (Net adjustments to loans / gross loans to customers)	63 BP	51 BP
Basic EPS (earnings per share – earnings per share basis)	0.45	0.53
Diluted EPS (earnings per share – earnings per diluted share)	0.45	0.53
Risk ratios		
Net non-performing loans / net loans to customers	9.73%	6.71%
Texas ratio (net non-performing loans / tangible equity)	95.74%	57.51%
Degree of doubtful loan hedging	51.55%	41.66%
Degree of non-performing loan hedging	40.15%	28.83%
Degree of performing loan hedging	0.65%	0.50%
Regulatory capital (thousands of Euro) and capital ratios		
Tier 1 capital (CET 1)	641,949	586,510
Total own funds	641,949	587,742
Total risk-weighted assets (RWA)	5,755,747	4,401,166
CET 1 Ratio – Tier 1 capital	11.15%	13.32%
Total capital ratio – Total own funds	11.15%	13.35%
Price/shareholders' equity	1.25	1.14
Price/tangible equity	1.49	1.22
Non-Financial Indicators		
Productivity ratios (in Euro)		
Direct funding per employee	4,962,258	4,900,601
Loans to customers per employee	4,713,356	4,922,353
Assets under management per employee	1,171,406	919,006
Administered assets per employee	1,050,267	1,114,681
Net interest and other banking income per employee	177,106	176,355

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

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

DIRECTORS' REPORT

DIRECTORS' REPORT

1.1. FINANCIAL ENVIRONMENT AND MARKETS

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

In the main emerging countries the economic situations remain disparate.
In China, the manufacturing industry indicators forecast a slowing of economic activity over the next three quarters. The economy is rebalancing in favour of services and consumption whilst imports decline.
In almost all the advanced economies consumer inflation remains at low levels. According to Bank of Italy data, in the United States the consumer price deflator stands at around 0.5%, without considering food products and energy which are instead at 1.3%.
In the United Kingdom, price trends have only recently returned positive, and in Japan the figure is around 0.3%. In emerging countries, on the other hand, price trends remain high at 15% in Russia, limited in China at 1.5% and India stand at 5.4%, in line with Indian Central Bank targets.

The United Kingdom and United States could also see significant downturns in the inflation forecasts of recent years, as this phenomenon has now become a worldwide problem. Mostly in the Eurozone there is an increasing risk of a permanent drop to below the level consistent with the definition of price stability. The main reason for this is the persistent weakness of economic activity.
In 2015 the ECB pursued the aim of combating the risk that persistent downward pressure on prices could result in long-term inflation forecasts, heightening the risk of deflation.

Monetary policy

The monetary policy on minimum interest rates, launched in the United States in 2008, ended in December with an increase in the rate on federal funds by the Federal Reserve. This move followed the significant improvement in the labour market.
In the Eurozone, the ECB Executive Council's decision regarding the purchase of Eurosystem securities shows positive effects in the support for business. Growth continues but remains fragile, also as a result of weakening foreign demand and the drop in oil commodities, which have in part heightened the risk of a downturn for inflation and growth.
At the end of last December, as part of the Eurosystem securities purchase programme, purchases of Italian public securities were made for a total of approximately Euro 79 billion (of which Euro 73 billion by the Bank of Italy). The average residual life of the securities purchased is a little over nine years.

Labour market

Positive developments were seen in the labour market during the summer. Growth was recorded in particular in the services industry and in jobs for young people. The percentage of recruitments under permanent contracts increased. A drop in the unemployment rate was seen, according to the Bank of Italy data falling to 11.4% in the two-month period October-November, the lowest level since the end of 2012. Of particular note is the decrease in young people's unemployment, though the rate remains high.

1 Formulated by the Banca Popolare · Volksbank from International Monetary Fund, World Economic Forum, Bank of Italy, ISTAT and Chamber of Commerce data sources, and from financial news reports and newspapers.

The national economic environment

Italian GDP rose by +0.2% in the third quarter, less than expected. Exports saw a decrease, also as a result of slower growth in the main emerging economies. The drop in exports also had negative effects on the other leading economies in the Eurozone.

The increase in household consumption, also as a result of stronger inventories, more than offset the decline in investments, especially in machinery. On the supply side, added value was higher in almost all the main business sectors. In particular, after the lengthy recession, the building industry stabilised.

Based on Bank of Italy data, in the fourth quarter GDP saw a new economic increase, estimated to be similar to that of the third quarter at +0.2%. The contribution of the manufacturing industry was slightly positive. More positive signs also come from the property market. In December the Ita-coin indicator processed by the Bank of Italy, providing a real-time estimate of baseline GDP performance, rose to 0.20, extending the positive trend that began in November 2014.

1.1.2. THE MARKETS

The declines in advanced economies' share indexes seen during the summer recovered in the second half of the year. From December there was a downturn in the indexes, caused primarily by a phase of uncertainty regarding high-risk assets, especially in emerging countries.

In the Chinese markets, as a result of the less than favourable macroeconomic figures compared to forecasts and due to the exchange depreciation, there was considerable turmoil.

Bank of Italy data indicate that in the first ten days of the month listed prices fell by over 10%. The Chinese authorities intervened on a number of occasions to bolster the markets, implementing cash injections and automatic trading suspensions.

The financial markets of advanced and other emerging economies also saw significant losses.

The European Central Bank's support for the public securities purchase plan had positive effects on sovereign spreads in the Eurozone. The 10-year government bond spreads compared to Germany's recorded declines in Italy, Spain and Ireland.

1.2. THE BANKING SYSTEM ([2])

1.2.1. LOANS AND DEPOSITS ([3])

Growth in private loans became stronger in the autumn. The slowdown of product mix variables continued because the cost of loans disbursed to households and businesses reached historic lows, benefiting from the expansion measures adopted by the ECB.

The improvement in economic activities, albeit gradual, had positive effects on credit quality, and consequently also on banks' profitability and capitalisation. According to Bank of Italy data, the growth in credit to private individuals between September and November rose by 1.5%, considered year-on-year and net of seasonal factors.

The change in the economic trend for loans to businesses was +1.5%, positive for the first time since the end of 2011.

Developments in loans to households and home purchase mortgages also benefited from the low interest rates.

As regards loans to businesses, there was a general recovery though differentiated among the various industries. Loans granted to companies in the manufacturing industry recorded a growth. In the services sector, on the other hand, growth was barely positive, with a decline in the building and non-manufacturing industries.

The total deposits of Italian banks recorded a decrease in bonds between August and November, which can be explained in part by the satisfactory position of banks' liquidity. Deposits from customers resident in Italy, however, saw an increase.

In the third quarter there was a slight improvement in economic activities. Based on Bank of Italy data, the ratio of new loans to existing loans declined, net of seasonal factors and considered year-on-year, to 3.6% from 3.8% in the previous quarter.

A more marked reduction was seen in the ratio of new non-performing loans to existing loans, especially for businesses in the building industry. A further improvement is forecast during the year, both for businesses and private individuals.

Net bond funding from Italian businesses was positive in the third quarter. Gross issues of shares by non-financial companies registered in Italy increased slightly during the summer months, but in any event the amount involved remained modest.

In general, according to Bank of Italy data, GDP is estimated to have risen by 0.8% in 2015. GDP needs to grow by around 1.5% in 2016 and by a similar percentage in 2017. Inflation forecasts remain anchored to minimum levels.

The stimuli deriving from the Stability Law, demand forecasts and more favourable lending conditions could provide an incentive to growth of investments, which until now have seen only a modest trend. Consequently, the stronger labour market could translate to growth in disposable income and support a recovery in consumption.

2 Formulated by the Banca Popolare · Volksbank from International Monetary Fund, World Economic Forum, Bank of Italy, ISTAT and Chamber of Commerce data sources, and from financial news reports and newspapers.

3 Source: ABI Monthly Outlook

1.2.2. ASSETS UNDER MANAGEMENT

According to Assogestioni data, in the last month of the year the AUM industry recorded deposits of around Euro 11 billion, provisionally closing 2015 with net deposits of around Euro 141 billion.

Subscriptions to open-end funds amounted to almost Euro 3 billion and, with Euro 94.3 billion deposited in 2015, saw their best year since 1999.

For assets under management, the subscriptions from institutional investors were up by almost Euro +7.3 billion and from retail investors up Euro +234 million, reaching a total of Euro +7.6 billion. A total of Euro 46 billion was deposited in 2015. The 2015 year-end figure shows an industry total of assets under management of Euro 1,823 billion. 51% of AUM (totalling Euro 933 billion) is invested in individual mandates, whilst the remaining 49% (around Euro 891 billion) is invested in UCITs.

Assogestioni data shows that subscriptions to long-term funds focus on flexible products (Euro +1.6 billion as at December; Euro +51.5 billion in 2015), share funds (Euro +548 million as at December; Euro +9.5 billion in 2015), balanced funds (Euro +492 million as at December; Euro +12.5 billion in 2015) and bond funds (Euro +489 million as at December; Euro +14.9 billion in 2015).

1.3. THE MERGER OF BANCA POPOLARE DI MAROSTICA INTO BANCA POPOLARE · VOLKSBANK

1 April 2015 was the effective date of the merger of Banca Popolare di Marostica into Banca Popolare · Volksbank, thereby finalising the merger plan resolved by the respective shareholders' meetings of 22 and 23 February 2015.
The merger plan, together with the wider-ranging merger agreement, contains the guidelines and main arrangements for the merger of the two banks which, in compliance with the common tradition among co-operative banks of maintaining their local identity, gave rise to a new bank with strong roots in the north-east of Italy that can form the basis for further growth. The aim of the merger plan is to create value for the stakeholders of Banca Popolare di Marostica and Banca Popolare · Volksbank, in particular their shareholders, employees, customers and local communities.

1.3.1. SUMMARY DETAILS OF THE TRANSACTION

On 24 October 2014 the Boards of Directors of Banca Popolare · Volksbank and Banca Popolare di Marostica completed the negotiation stage for the acquisition of the Marostica-based bank and its subsidiary Banca di Treviso, with resolution on the plan to merge Banca Popolare di Marostica into Banca Popolare · Volksbank.
The transaction received approval from the Bank of Italy pursuant to articles 56 and 61 of the Consolidated Banking Act on 13 January 2015, and from the AGCM (Italian Competition Authority) on 21 January 2015.
Pursuant to art. 2501-quater, paragraph 1 of the Italian Civil Code, on 27 October 2014 Banca Popolare · Volksbank and Banca Popolare di Marostica filed the merger plan, prepared in accordance with art. 2501-ter of the Italian Civil Code, and on 16 January 2015 filed the documents and published them on the website as required by art. 2501-ter paragraph 2 and art. 2501-septies of the Italian Civil Code.
The extraordinary shareholders' meeting of Banca Popolare di Marostica (22 February 2015) and the extraordinary shareholders' meeting of Banca Popolare · Volksbank (23 February 2015) resolved upon the merger. Later, on 23 March 2015, the deed for the merger of Banca Popolare di Marostica into Banca Popolare · Volksbank was prepared and registered by Notary Public Luca Barchi.
The merger became legally effective on 1 April 2015.
The merger forms the basis for Banca Popolare · Volksbank's positioning in the north-east of Italy, with its size, area coverage, efficiency and profitability capable of offering the Bank a significant competitive position on the market. The transaction ensures that Banca Popolare · Volksbank retains its vocation as a "local bank", strengthening its profile through the setup of two area centres with sales management divisions dedicated to the local communities, designed to maintain a high level of service and close contact with customers and with the traditional areas of operation. These are:

- the Alto Adige centre based in Bolzano, responsible for the Bank's branches in the provinces of Bolzano, Trento and Belluno (total branches: 103);
- the Veneto centre based in Marostica, responsible for the Bank's branches in the provinces of Vicenza, Padua, Treviso, Venice and Pordenone (total branches: 92).

The merger agreement envisaged the setup of a foundation known as "Fondazione Banca Popolare di Marostica" for the promotion and support of cultural, educational, training, recreation, social aid and healthcare initiatives or for scientific research to the benefit of local communities in the traditional area of operations of the merged entity Banca Popolare di Marostica. Fondazione Banca Popolare di Marostica was established by deed on 6 August 2015.

The Foundation was filed with and recorded in the Veneto Region register of privately-operated legal entities on 4 December 2015.

As designated by the Board of Directors of the merging entity, the merger agreement also envisaged the co-opting on to the Board of Directors of Banca Popolare·Volksbank of three directors of the former Banca Popolare di Marostica. The directors were formally co-opted at the meeting of 10 April 2015.

The shareholders' meeting held in relation to the merger amended the articles of association of Banca Popolare · Volksbank, amongst other things introducing mechanisms to guarantee suitable representation of the corporate base of the merged entity on the Board of Directors of Banca Popolare · Volksbank.

The merger of Banca Popolare di Marostica into Banca Popolare · Volksbank was implemented by increasing the share capital of Banca Popolare · Volksbank with same-time issue by the merging entity of 6,656,253 ordinary shares with a nominal value of Euro 4.00, assigned to Banca Popolare di Marostica shareholders in exchange for their Banca Popolare di Marostica shares held.

The financial terms of the merger are provided below:

- swap ratio of 2,656 newly-issued Banca Popolare · Volksbank shares for every 1 (one) ordinary Banca Popolare di Marostica share. The share swap ratio is supported, amongst other things, by the fairness report envisaged in art. 2501-sexies of the Civil Code, prepared by the independent auditors PricewaterhouseCoopers S.p.A. on assignment from the Court of Bolzano;
- the new Banca Popolare · Volksbank ordinary shares issued and assigned via swap do not carry dividend rights, as resolved by the ordinary shareholders' meeting of Banca Popolare · Volksbank in reference to the year ending 31 December 2014;
- as part of the merger and prior to its legal effective date, Banca Popolare di Marostica arranged the distribution of reserves to its own shareholders amounting to Euro 23.00 per ordinary Banca Popolare di Marostica share outstanding. As there were 2,507,422 shares outstanding, net of treasury shares, Banca Popolare di Marostica distributed a total of Euro 57,670,706;
- assignment free of charge of a maximum 797,079 newly-issued shares, in the ratio of 0.117 ordinary Banca Popolare · Volksbank shares for every Banca Popolare · Volksbank share assigned in the swap with Banca Popolare di Marostica shareholders, who as a result of the merger became Banca Popolare · Volksbank shareholders, and who retain uninterrupted ownership of the Banca Popolare · Volksbank shares assigned in the swap for a period of 36 months from the effective date of the merger. This right to assignment free of charge of Banca Popolare · Volksbank shares does not apply to shareholders disposing of all or part of their shares received in the swap within 12 months of the effective date of the merger, and is proportionately reduced if any shares received in the swap are sold between twelve and thirty-six months after the effective date of the merger.

1.3.2 STRATEGIC REASONS FOR THE TRANSACTION

The merger of Banca Popolare di Marostica into Banca Popolare · Volksbank forms the basis for creation of banking business in the north-east of Italy, with its size, area coverage, efficiency and profitability capable of offering a new and significant competitive profile. Specifically, the transaction:

- creates an entity that is competitive from the outset, with a profound presence and extensive distribution network deeply rooted in its traditional areas of operation;
- ensures the retention of its local identity, also through the setup of two area centres dedicated to the local communities, designed to maintain a high level of service and close contact with customers;

- enhances the development of profit potential, integrating two standard business models through a customer approach similar and complementary to the two networks, without the need for significant restructuring;
- strengthens the new entity's positioning in a context of strong banking system competition.

The new entity is characterised by a significant presence in the retail customer and SME segments. It retains the strategic approach already adopted prior to the merger: safeguarding of its cooperative matrix, brand promotion and ties with the local communities.

The market shares are evenly distributed across the provinces of Bolzano, Trento, Belluno, Vicenza, Padua, Venice, Treviso and Pordenone.

The cultural, local and cooperative matrix is confirmed in the considerable spread of its ownership structure, characterised by major fragmentation of share possession, combined with high levels of participation in corporate events.

Future development will be based on the vocation of local coverage and enhancement of the relations with shareholders, employees and the local communities.

The transactions is characterised by business and operational prerequisites consistent with the Banca Popolare · Volksbank business plan, for the long-term protection of stakeholders' interests.

- shareholders will be able to benefit from the synergies of the merger, also in the form of participation in corporate decisions and representation in the governance of the new entity as envisaged in the newly-amended articles of association;
- customers will be able to benefit from the allocation of resources, released by cost synergies, to the new service format;
- local communications will be able to benefit from a banking entity of a larger dimension that in any event retains its vocation as a local bank, operating with a view to maintaining a high level of services and a close relationship with customers and the local communications in their respective areas;
- employees will be able to benefit from the prospects of professional growth.

1.3.3. INTEGRATION OF THE INFORMATION SYSTEMS AND OPERATIONAL ARRANGEMENTS

The weekend of 4 and 5 July saw completion of the successful migration of the Banca Popolare di Marostica information system to that used by Banca Popolare · Volksbank. This step was fundamental to the full achievement of synergies envisaged in the business plan.

As part of the broader integration plan, which in addition to integration of the information systems also includes definition of the new operational and organisational setup, the main action areas and related projects are identified as follows:

- Non-performing Loans and Legal Consultation: integration of the loan portfolios, acquisition and management of issues associated with disputes and legal risks;
- Commercial Model: definition of the new commercial organisation based on two sales areas, one referring to the traditional Alto Adige area and one to the traditional Veneto area;
- Communications: the customer communications process, differentiated according to customer class, ensuring suitable disclosure of the impact of the integrated operations;
- Loans/Credit Risk: analysis and integration of the portfolios;
- Organisational model and cultural and structural integration: the startup of internal structure rationalisation, also in reference to decentralised structures in Marostica, to ensure overall coherence of operations with the new organisational structures;

- Administration, Finance and Control, with a view to rationalising and optimum allocation of the structures;
- Technical/Security/Logistics, with the aim of integrating the systems and processes;
- Control departments, to adapt the overall internal control system to the new structures.

The integration activities continue into the second part of the year, focusing in particular on the operating structure of the central offices and the sales network.

1.3.4 MERGER OF BANCA DI TREVISO S.P.A. INTO BANCA POPOLARE · VOLKSBANK

On 18 May 2015, the Boards of Directors of Banca Popolare · Volksbank and Banc di Treviso S.p.A. approved the plan to merge Banca di Treviso into Banca Popolare · Volksbank.

The merger is one of the activities envisaged in the Banca Popolare · Volksbank Business Plan, which aims to pursue the simplification and rationalisation of the organisational structure and corporate structure created by the merger of Banca Popolare di Marostica into Banca Popolare · Volksbank, as well as the optimisation and enhancement of resources and reduction in operating costs, in line with the action plan submitted to the Bank of Italy as part of the approval process for this merger.

The merger was approved by the Bank of Italy on 22 July 2015, pursuant to art. 57, Italian Legislative Decree no. 385 of 1 September 1993 (the Consolidated Banking Act).

The Boards of Directors of Banca Popolare · Volksbank and Banca di Treviso, assisted by independent advisors, determined the share swap rate (with no balance of payments in cash) as 0.52 (nought point five two) newly-issued ordinary shares of the merging entity, with a nominal value of Euro 4.00 each, for every 1 (one) ordinary BTV share.

The merger of Banca di Treviso into Banca Popolare · Volksbank was implemented by increasing the share capital of Banca Popolare · Volksbank with same-time issue by the merging entity of 100,715 ordinary shares with a nominal value of Euro 4.00, assigned to Banca di Treviso shareholders in exchange for their Banca di Treviso shares held. This number of shares includes 145 shares from the share swap following exercise of the right of withdrawal by certain Banca di Treviso shareholders, pursuant to art. 2437 et seq. of the Italian Civil Code (see paragraphs below), for a total of 2,800 BTV shares. On conclusion of the settlement procedure pursuant to art. 2437-quater of the Italian Civil Code, the aforementioned 145 shares were acquired by Banca Popolare · Volksbank in exercise of the option and redemption right and were cancelled and repaid to the entitled parties on 2 November 2015. The share capital of Banca Popolare · Volksbank after the merger of Banca di Treviso therefore increased by a total of 100,570 shares.

The share settlement value was determined by the Board of Directors of the merged entity, with opinion in favour from the Board of Statutory Auditors and the independent auditors, as Euro 1 (one) for each ordinary Banca di Treviso share. In determining the withdrawal price, the Board of Directors of the merged entity received support from the financial advisor Deloitte Financial Advisory S.r.l. The withdrawal price setting took into account (i) the range of prices recorded in Banca di Treviso share trading on the Hi-MTF market in the period 01.01.2014-31.03.2015 (excluding transactions in which the former parent company Banca Popolare di Marostica was the counterparty), the values of which were between a minimum Euro 0.756 and a maximum Euro 1.00 per share and (ii) binding arrangements for the purchase of a total of 3,300,352 shares completed by Banca Popolare · Volksbank on 15 May 2015 at a price of Euro 1.00 per share. Details of this transaction of 15 May 2015 were disclosed by Banca Popolare · Volksbank in a special press release, also published on the website www.bancapopolare.it.

The Board of Directors of Banca Popolare · Volksbank assessed the withdrawal price with support from the financial advisor Equita SIM S.p.A., using the Dividend Discount Model (DDM; 'excess capital' version with verification via the Earnings Multiplier) to identify a range of reference values to determine the share price. The withdrawal price offered a 7.6% premium compared to the upper limit of the DDM range. The withdrawal price was considered fair by Banca Popolare · Volksbank as it corresponded with the purchase price applied to the Banca di Treviso shares purchased on 15 May 2015, which resulted in an investment in the share capital of Banca di Treviso in excess of 90%, thereby granting access to the simple merger procedure referred to in art. 2505-bis of the Italian Civil Code.

The merger was completed in simple format pursuant to art. 2505-bis of the Italian Civil Code as the merging entity held an interest of more than 90% of the share capital of the merged entity. This investment was the result of:

(i) the purchase, as an effect of the merger of Banca Popolare di Marostica into Banca Popolare · Volksbank, of 86.67% of the share capital previously held by Banca Popolare di Marostica;

(ii) an agreement reached on 15 May between Banca Popolare · Volksbank and a number of minority shareholders of Banca di Treviso, for the purchase of 3,300,352 shares representing around 6.48% of Banca di Treviso share capital, corresponding to a total of Euro 3,300,352.00.

Pursuant to art. 2505-bis of the Italian Civil Code, the shareholders of the merged entity (other than Banca Popolare · Volksbank) were granted the right to claim buy-out of their shares by the merging entity for a price determined in accordance with the withdrawal criteria. This price was set at Euro 1.00 for each Banca di Treviso square and, consequently, in an amount equal to the withdrawal price determined by the Board of Directors of the merged entity.

Taking into consideration that for Banca di Treviso the merger is a highly significant related party transaction, the Board of Directors adopted its decisions with opinion in favour from the independent directors of Banca di Treviso, pursuant to its own regulations on transactions with related parties and with their associated parties.

The independent directors of Banca di Treviso, assisted by their independent advisors appointed especially in accordance with the aforementioned regulation, gave their opinion in favour in relation to: (i) safeguarding of the interests of Banca di Treviso shareholders other than Banca Popolare · Volksbank on implementation of the merger, based on the terms and conditions indicated in the draft merger plan submitted to them for examination, and (ii) the economic convenience and essential fairness of the aforementioned terms and conditions.

The Transaction was carried out under the terms of exemption from procedures adopted by Banca Popolare · Volksbank, in implementation of the Supervisory Instructions on "Risky operations and conflicts of interest with related parties" in that there are no "significant" interest of other related parties in the transaction as defined in art. 13, paragraph 5 of the Banca Popolare · Volksbank regulation on "Risky operations and conflicts of interest with related parties. Related polices and controls".

Having satisfied the aforementioned prerequisites, Banca Popolare · Volksbank made use of the option to set aside the procedures for transactions with related parties. Pursuant to art. 2501-quater, paragraph 1 of the Italian Civil Code, the plan to merge Banca di Treviso into Banca Popolare · Volksbank, approved by the respective Boards of Directors on 18 May 2015, was filed and made available to shareholders at the registered office of each bank involved in the merger. After the merger plan was approved by the Bank of Italy on 22 July 2015, Banca Popolare · Volksbank and Banca di Treviso filed and published the related documentation in the relevant Registers of Companies and at the registered offices in accordance with the methods and deadlines dictated by law on merger decisions pursuant to art. 2502 of the Italian Civil Code. The merger of Banca di Treviso into Banca Popolare · Volksbank was decided by the Board of Directors – with regard to Banca Popolare · Volksbank – on 28 August 2015, in application of art. 37 of the articles of association and as permitted by art. 2505-bis, paragraph 2 of the Italian Civil Code. Note that Banca Popolare · Volksbank shareholders did not take up the option to request approval of the merger by shareholders' meeting resolution pursuant to art. 2502 of the Italian Civil Code. The merger was approved by the Banca di Treviso shareholders' meeting of 1 September 2015.

Then the merger became effective on 5 October 2015. The legal effects therefore apply from that date. The tax and accounting effects of the merger apply from 1 April 2015, the date on which Banca Popolare · Volksbank acquired control of Banca di Treviso.

1.4 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. Included in this context of strengthening its position as a Retail Bank is the acquisition of the Banca Popolare di Marostica Group.

The growth in terms of size further accentuated the aspects related to risk control, the strengthening of capital adequacy and constant cost control.

These issues will continue to be important in the foreseeable 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 medium term. In addition, it will be necessary to continue with cost control measures and capital strengthening in order to achieve success in the future. The rapid developments in the economic and competitive frameworks, first and foremost the necessary transformation into a joint-stock company, add further factors of uncertainty, calling for increasingly prompt decision-making processes.

In its new post-merger structure, 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.

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 – and eventually eliminating – 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 profitability for the shareholders.

The reform of cooperative banks, introduced by Italian Law Decree 3/2015, converted to Law 33/2015 and integrated by secondary implementing rules ([4]) is changing the operational structures. As an effect of the reform, the push to consolidate within the system is further strengthened, constantly seeking to recover efficiency. The rationalisation of networks and changes in the overall operational structure of central offices could encourage the recoveries in profitability required by the market. The greater benefits could come from operating cost reductions and more efficient risk management. The improvement in revenues appears to be mostly associated with developments in market conditions, also taking into account the strong degree of bank presence in Italy.

Therefore, there is no evidence of negative effects on credit supply.

The consolidation will also aim to ensure more stable governance structures, typical of joint-stock companies with widely-distributed share capital. The greater options to open up capital could facilitate the entry of foreign entities, attracted by the stronger competitiveness deriving from the transformation. The maximum threshold in the number of shares possessed, valid only for a limited period of time, could allow a more stable transition to the new ownership structure.

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4 In the 9th update of 9 June 2015 to the Supervisory Instructions for banks, pursuant to Circular no. 285 of 17 December 2013, the Bank of Italy introduced a new Chapter 4 "Cooperative banks" to Part 3 of the instructions. The Chapter implements the cooperative banks reform with amendments to Chapter V, Section I of the Consolidated Banking Act introduced by Italian Law Decree no. 3 of 24 January 2015, converted to Law no. 33 of 24 March 2015.

1.5. LONG TERM TRENDS

1.5.1. 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, in turn 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. Lastly, 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, signs of a gradual improvement have already been seen 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 system 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.

However, 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.

1.5.2. REGULATION AND CAPITAL MANAGEMENT

The capitalisation measures introduced from 2014, determined in accordance with rules that best represent actual capital adequacy, will be increasingly treated as an essential step towards ensuring sound, prudent management.
The Capital Requirements Regulation and Directive (CRR/CRD) 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. The European Banking Authority introduced harmonised default definitions for prudential purposes in Europe.
The ability to allocate capital as efficiently as possible to the various activities will have a decisive impact on development of Banca Popolare · Volksbank business.
The new regulations require further improvement of the risk-weighted 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.

1.5.3 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.

1.6 THE BUSINESS PLAN

In December 2015, the Board of Directors decided on the 2016 – 2020 strategic plan which identifies the guidelines and actions to take over the next few years. The plan was updated at the meeting of 5 February 2016 to take into account the balance sheet, financial position and economic result as at 31 December 2015.

The underlying guidelines for the strategic decisions were carried forward from the previous business plan.

- establishment of a culture of trust which encourages engagement and growth of the stakeholders;
- brand significance, synonymous with paying close attention to shareholders, attentiveness to customer requirements and a customised approach;
- maintenance of the profile of a bank with its roots strongly linked to the territory;
- strong links with the Province with an increasingly multi-channel distribution model aimed at providing consultancy services;
- strengthening of capital solidity to guarantee independence and future growth;
- strong risk monitoring, particularly credit risk and liquidity risk;
- balanced, sustainable growth to guarantee going concern;
- efficiency in the 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 thanks to the synergy created by integration with the BPM group.

The goals for the next five years were identified in accordance with the new operating context which has changed considerably, partly due to acquisition of the Banca Popolare di Marostica Group. This step expanded the reference market to the province of Vicenza (the traditional market of Banca Popolare di Marostica) and Padua, strengthening the presence in the province of Treviso.

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

The organisation chart has been adapted to the new entity. In particular, territorial sales duties have been defined, headed by the Alto Adige and Veneto centres. In the first few months of 2016 the sales network reorganisation will be completed according to the hub & spoke method.

Strong multi-channel development is targeted with the transformation of the virtual channels from merely operational to multi-function channels (in information, sales and dialogue tools). This will configure the branch as the preferred meeting point between consultant and customer, and to increase network productivity in the new areas. The increase in branch productivity will also be supported by the re-engineering of key production processes.

The continual, strong development of the regulatory context is expected to have a significant impact on the assets and liabilities structure. Continued development and adaptation to the regulatory framework of the business model and the range of products is planned. The prudential requirements, also in continual development because of the new European regulations, will require adaptation of the governance models. Banca Popolare · Volksbank will focus in particular on the development of an increasingly strategic approach to management of the entire funding mix and to optimisation of the overall structure of the financial statements.

The macroeconomic context in terms of taxes is forecast to see an upturn not earlier than the end of 2017 in the Eurozone. The economic recovery will show a slow expansion trend. It is necessary, therefore, to focus sales strategies on the elements capable of guaranteeing the best economic return (strong increase in the contribution from fees and commissions; focus on assets under management aided by balancing of the bank's funding; containment of interest expense; gradual recovery of the medium-term return on assets; efficiency improvements in processes and in operating cost containment).

The quality of credit positions continues to be closely monitored. NPL (Non-Performing Loans) management becomes a key skill in limiting impairment losses and the cost of risk, focusing primarily on property projects. Active management of the NPL stock will also involve simple and/or multi-originator factoring or securitisation.

The increase in loans envisaged at each sales centre, also benefiting from the potential development ensured by the positive outcome of the share capital increase, will be achieved by means of credit selection based on a fair risk-return ratio. The differentiated approach by business line, with the step-by-step implementation of capital allocation logic based on the target return (ROE), will be fundamental. The standardisation and simplification of the credit process will help the operators in correct position management.

The new Hub & Spoke distribution model currently at implementation stage will rationalise the network, leading to a decrease of 9 branches with effect from 2016, also as a result of the digital acceleration to diversified channels, with the aim of increasing productivity and – in the medium term – also a reduction in overheads.

Also envisaged are the introduction of a redundancy plan, optimisation of the use of resources through requalification and replacement plans and an ongoing training plan for all staff, also with a view to cultural integration between the two post-merger entities.

Among the plans to be carried forward to optimise the operating procedures, note the implementation of a cost accounting system, integrated management of all steps in the purchasing cycle and the development of zero-based budgeting and forecasting models.

The share capital increase of Euro 95.7 million, completed in January 2016, will offer suitable support for growth, which in any event is expected to maintain an essential balance between loans and deposits. Consequently, no further recourse to the market is envisaged in the period covered by the Plan. The development plans for the shareholder base remain active through specific action to enhance bank-shareholder relations.

The goals of setting up business lines (Corporate, Retail and Private for ordinary banking business with customers, the Discretional Portfolio with the aim of stabilising the overall economic results, Workout to maximise the potential of impaired loan revaluation and Head Office offering an approach to sustainable investments and the structural optimisation of the bank) could contribute to efficient capital allocation, optimised in terms of risk-return.

1.7. SIGNIFICANT EVENTS DURING THE YEAR

New head office

Work that began in 2013 on building the new head office has been completed. The building became operational from 9 March 2015. The new premises are at Via del Macello, 55, in the same area where the previous head office was located. The provisional office in Via Siemens had been occupied since 2009.
The official inauguration was held on 28 March 2015 at 2 pm, attended by local authority officials, corporate representatives and shareholders.
The new head office has received rewards for its internal and external solutions, which have highlighted the innovative approach adopted:

Awards	
Iconic Award 2015	Received in the Corporate Architecture and Interiors category
Best Architects Award 2016	Received in the Best Architects 16 category
German Design Award 2016	Nomination in the Communications Design category

The total cost of the work was Euro 23.6 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 of the transfer to the new offices	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 23 million, after VAT

Without recourse factoring of a portfolio of doubtful loans

In the second half of the year, Banca Popolare · Volksbank finalised the factoring of a portfolio of loans classified as "doubtful". The transaction involved positions attributed to 629 named accounts, for a GBV (gross book value) of Euro 60.3 million.
The loans mainly relate to advances on bank current accounts, on bills of exchange and on invoices and unsecured loans.
The transfer was finalised on 29 December 2015 and involved cancellation of the aforesaid accounts from the financial statements. The transaction led to recognition in the 2015 income statement of a loss on disposal of Euro 2.2 million.

Merger of the Banca Popolare di Marostica Group

Reference should be made to Chapter 1.3 in this section.

Plan to amend the articles of association

On 23 December 2015 the Bank asked the Bank of Italy to release the confirmation order, pursuant to art. 56 of the Consolidated Banking Act, on a plan to amend the articles of association, as decided by the Board of Directors at the meeting of 22 December 2015 with the aim of adapting to regulatory instructions.

1.8. RESULTS OF OPERATIONS

The merger of the Banca Popolare di Marostica Group has meant that data for 2015 is not comparable to that of the previous year. For ease of comparison, therefore, in the following tables the economic data for 2014 has been restated to take into account the aforementioned merger.

As the merger transaction became effective for legal, accounting and tax purposes from 1 April 2015, the data for 2014 of Banca Popolare · Volksbank and that of the Banca Popolare di Marostica Group have been aggregated. The most significant common items of the income statement were also netted in accordance with criteria commonly adopted in consolidation procedures. Therefore in order to provide a consistent comparison, the economic data at 31 December 2014 also include, on a like-for-like consolidation basis, the corresponding values of Banca di Treviso S.p.A., controlled by Banca Popolare di Marostica Soc. coop. p.a. and acquired by Banca Popolare · Volksbank as a result of the merger.

1.8.1 ECONOMIC RESULT

Presentation of economic results

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

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

The economic effects of allocating the acquisition costs, which net of the tax effect were returned to their own item, are also recorded. These represent the amortisation/depreciation of financial assets and liabilities, property and equipment and intangible assets subject to measurement at fair value in application of IFRS 3.

Overall development of the economic result

The 2015 operating performance was characterised by the merger of the Banca Popolare di Marostica Group, which had a significant impact on the balance sheet aggregates and on the economic result, also due to recognition of the business combination according to IFRS 3 rules.

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

The recognition and measurement process for the identifiable assets acquired, identifiable liabilities assumed and the corresponding recognition and measurement of goodwill (the PPA, Purchase Price Allocation) was completed and the annual financial statements therefore include the final effects of such recognition. The cost of the business combination, determined in reference to 1 April 2015, the effective date of the merger, was calculated as Euro 94.2 million by taking as reference the value of Banca Popolare · Volksbank shares on 1 April 2015, equal to Euro 19.55 each, as approved by the shareholders' meeting of 28 March 2015. The difference between the carrying amount and the fair value of the identifiable assets acquired and liabilities assumed was allocated to the corresponding assets and liabilities for a total of Euro 51.5 million. A total of Euro 16.5 million in deferred taxes was recognised against this amount. The residual value of the merger difference, Euro 59.2 million, was recorded as goodwill.

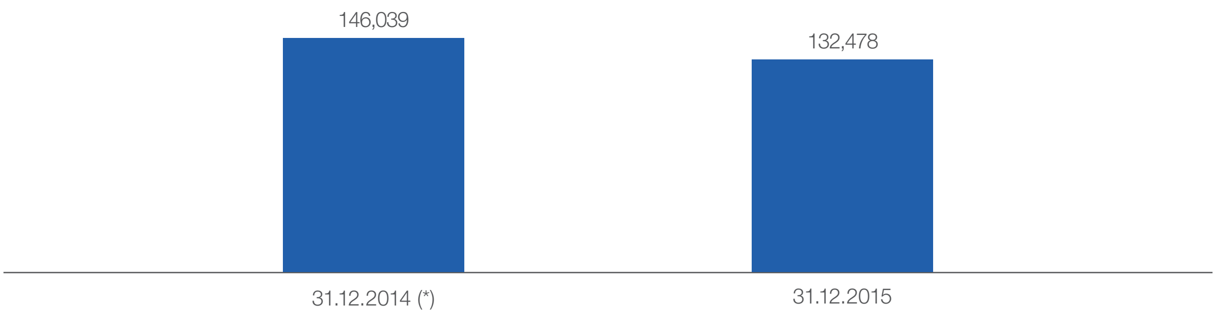
Consequently, the values recorded due to the Purchase Price Allocation action affected the balance sheet totals and the economic result for the year.

Reclassified income statement	**31.12.2015**	**31.12.2014**		**Change**
(thousands of Euro)		*Restated (*)*	**Abs.**	**%**
Net interest	132,478	146,039	(13,561)	–9.3%
Dividends and profits (losses) on investments carried at equity	8,140	2,373	5,767	243.0%
Financial margin	**140,618**	**148,413**	**(7,794)**	**–5.3%**
Net fee and commission income	77,542	85,145	(7,602)	–8.9%
Net financial result	26,454	17,563	8,891	50.6%
Other operating income/expenses	26,821	22,507	4,313	19.2%
Other operating income	**130,817**	**125,215**	**5,602**	**4.5%**
Net operating income	**271,436**	**273,628**	**(2,192)**	**–0.8%**
Personnel expenses	(97,954)	(102,459)	4,506	–4.4%
Administrative expenses	(86,811)	(77,472)	(9,338)	12.1%
Net adjustments to property and equipment and intangible assets	(8,466)	(11,000)	2,533	–23.0%
Operating expenses	**(193,231)**	**(190,932)**	**(2,299)**	**1.2%**
Operating profit (loss)	**78,205**	**82,696**	**(4,491)**	**–5.4%**
Net adjustments to loans, guarantees and commitments	(46,273)	(69,510)	23,237	–33.4%
Net adjustments to other assets	(2,404)	(1,839)	(565)	30.7%
Net provisions for risks and charges	(6,187)	(1,830)	(4,357)	238.1%
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	72	20	52	258.4%
Profit (loss) on continuing operations	**23,414**	**9,537**	**13,877**	**145.5%**
Taxes on income from continuing operations	(1,046)	(6,933)	5,887	–84.9%
Net income (loss) for the year	**22,368**	**2,604**	**19,764**	**759.0%**

(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

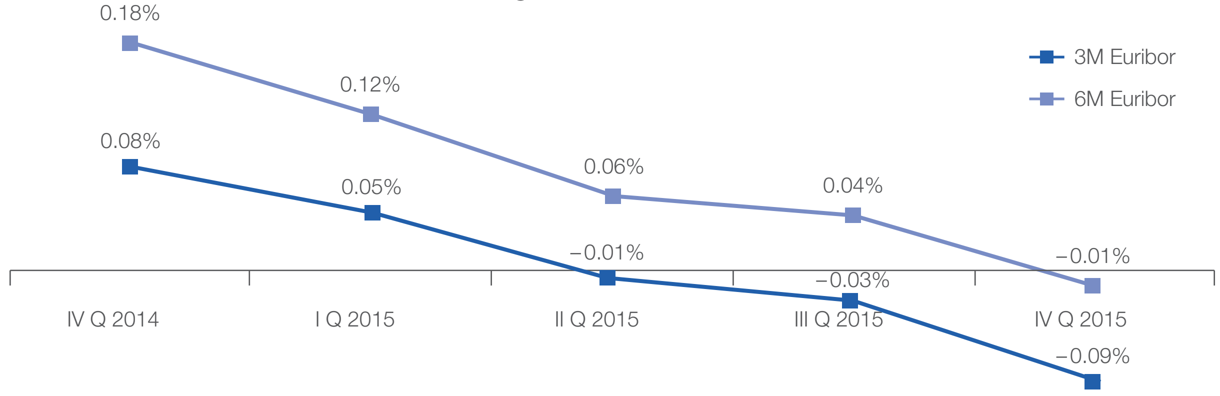
Nine months on from the effective date of the merger, Banca Popolare · Volksbank closed 2015 with a net profit of Euro 22.4 million. This result was achieved in a particularly uncertain market situation, marked by the persisting financial markets crisis as well as the merger process. The increase in profit compared to the previous year benefited from an essentially stable operating profit and from non-recurring income.
Net operating income remained largely unchanged at Euro 271.4 million (-0.8%). The operating profit was down by -5.4%, mainly due to the effect of administrative expenses (+12.1%) which rose primarily as an effect of the merger costs. The non-recurring components refer mainly to capital gains realised from the disposal of investments in Istituto Centrale delle Banche Popolari (Euro 9.4 million), Arca S.g.r. (Euro 6.3 million) and other capital gains on AFS financial instruments, also taking into account the benefits deriving from the participation exemption applying to disposals of equity interests.
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.
Operating income in 2015, essentially unchanged, was affected by two opposing trends in the components: the decline in net interest (-9.3%), which represents almost half of revenues, and net fee and commission income (-8.9%) was almost entirely absorbed by the increase in dividends and profits on investments carried at equity (+243.0%), other operating income/expenses (+19.2%) and the net financial result (+50.6%).
Net interest is down by 9.3% to Euro 132.5 million (Euro -13.6 million compared to the Euro 146.0 million restated from 2014). 2015 was again characterised by a historically minimum interest rate, also associated with 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. Interest income from customers fell by -17.4% (Euro -38.2 million) while interest expense on amounts due to customers and debt securities issued decreased by -30.3% to Euro 61.5 million, compared to Euro 88.3 million the previous year. Interest expense on fair value financial liabilities amounted to Euro 1.7 million, down by -65.3% compared to the Euro 4.9 million of the previous year.

Annual change



(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

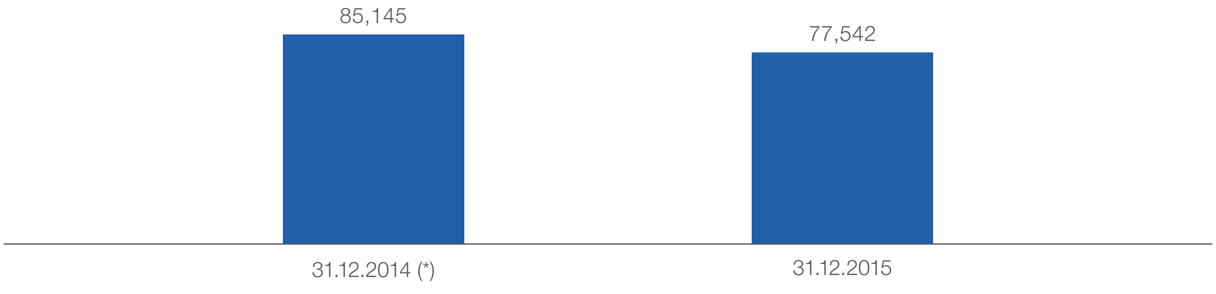
Change in 3M and 6M Euribor



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 results achieved in the year. In 2015, the dividends collected on equity investments, unconsolidated investments and profits from investments carried at equity totalled Euro 8.1 million, compared to Euro 2.4 million in 2014.

Net fees and commissions amounted to Euro 77.5 million, down by -8.9% compared to Euro 85.1 million the previous year. Net fees and commissions represent 28.6% of revenues. The most important changes include the increase in management, brokerage and consulting services, which stand at Euro 23.9 million (+9.6% compared to Euro 21.8 million in 2014), a drop of -39.5% in income from collection and payment services (Euro -4.3 million), a +2.2% increase in net income from current account holding and management and, lastly, a decline of -37.7% in commissions from other services (Euro -7.4 million).

Net fee and commissions - Annual change



(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

The net financial result was significantly positive, standing at Euro +26.5 million compared to Euro +17.6 million in the previous year.

In particular, against a loss in trading of Euro 2.0 million compared to the positive 2014 result (Euro +3.1 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 +24.1 million, up further from the Euro +14.2 million in 2014.

Maintenance of the interest rates at historically low levels in 2015 made it necessary to identify the sectors that could ensure a positive, or at least satisfactory result. In addition to the previously mentioned capital gains on disposal of investments, the best performances were achieved with stock and bond portfolios of issuers from outside the Eurozone. Adequate portfolio diversification in line with the past, albeit with a prevalence of Italian securities, meant that the performance was positive.

The diversification of the bond portfolio and investment funds with a share component 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 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 Euro 26.8 million (Euro 22.5 million in 2014) increased by +19.2%, partly due to the increase in the amounts recovered from third parties for costs incurred.

Overall, other operating income stood at Euro 130.8 million, up by +4.5% compared to the Euro 125.2 million of 2014.

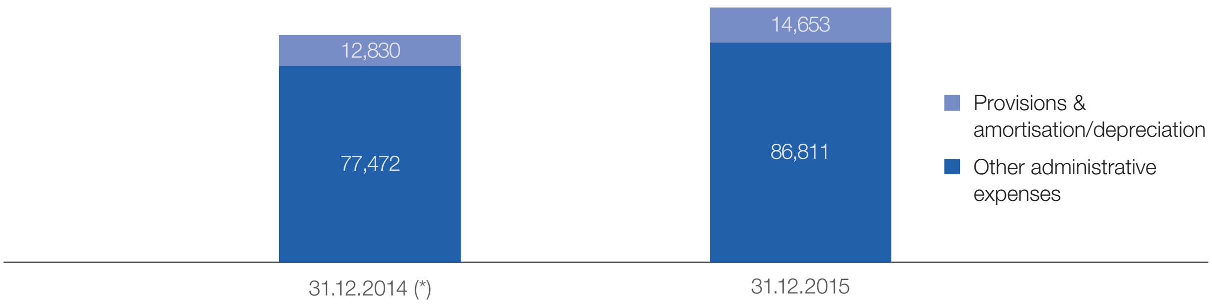
Operating charges amounted to Euro 193.2 million, up by +1.2% compared to Euro 190.9 million in the previous year. In particular, personnel expenses were Euro 98.0 million (-4.4%) compared to Euro 102.5 million in 2014. Staff-related expenses were down (-3.5%), as were expenses associated with directors and statutory auditors (-38.8%). Actuarial gains during the year, amounting to Euro 1.7 million, were recognised under a specific reserve in shareholders' equity.

Personnel expenses - Annual change

(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

Other administrative expenses stood at Euro 86.8 million, up by +12.1% compared to the Euro 77.5 million of 2014. The main changes refer in particular to the increase in remuneration to professionals, also due to expenses linked to the merger transaction, and operating expenses relating to the outsourcer's provision of IT services. The expenses associated with the introduction of Directive 2014/59/EU – Recovery and resolution of credit institutions and investment firms and Directive 2014/49/EU – Deposit Guarantee Schemes (DGS) totalled Euro 3.0 million. Expenses related to the extraordinary contribution to the crisis recovery of Banca delle Marche S.p.A., Banca Popolare dell'Etruria e del Lazio S.c.p.a., Cassa di Risparmio della provincia di Chieti S.p.A. and Cassa di Risparmio di Ferrara S.p.A. amounted to Euro 5.8 million.

Operating expenses - other costs

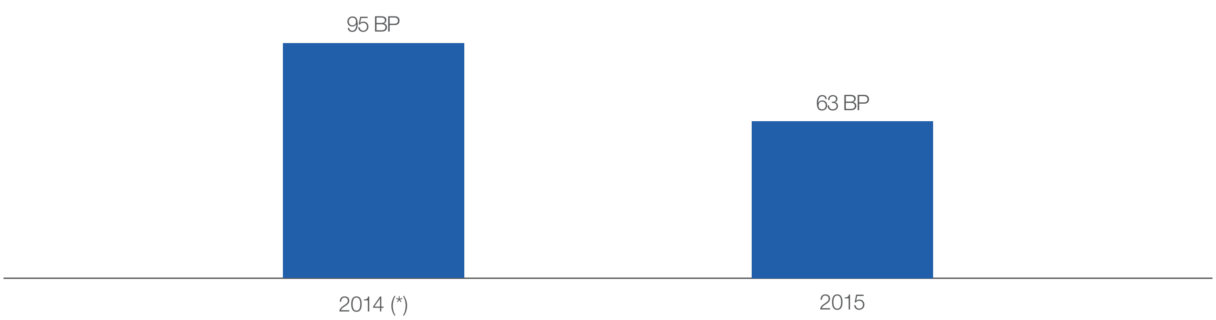


(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

Net adjustments to/recoveries on property and equipment and intangible assets were down by 23.0% to Euro 8.5 million.

Net losses on impairment of loans or other financial activities stood at Euro 46.3 million, down by -33.4% compared to the Euro 69.5 million of the previous year. The decrease recorded for the year is mainly attributable to the significant adjustments by the Banca Popolare di Marostica Group in 2014, amounting to Euro 41.2 million. As part of the constant monitoring of risk assumption and of the persisting economic stagnation recorded during the year, Banca Popolare · Volksbank continued to strengthen its valuation controls, confirmed by the degree of hedging of non-performing loans reached for the year, as better described below.

Cost of credit (annualised BPS)



(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

The cost of credit (net adjustments to loans/gross loans to customers) stood at 63 bps.

The total adjustment provisions amount to 6.6% of gross loans (5.9% in 2014). The hedging of doubtful loans is 50.9% (52.2% in 2014), decreasing mainly as a result of the factoring in December of a portfolio of unsecured loans on 629 named accounts for a gross value of Euro 60.3, already significantly written down. The hedging of unlikely to pay loans is 23.0% (18.6% in 2014), whilst for performing loans the percentage write-down stands at 0.65%, up on the 0.61% recorded at the end of 2014.

Hedging of doubtful loans	31.12.2015	31.12.2014
		Restated (*)
Hedging of non-performing loans	50.89%	52.24%
Hedging of unlikely to pay loans	22.97%	18.63%
Hedging of past due loans	7.74%	8.34%
Hedging of performing loans	0.65%	0.61%

(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

With reference to the other components of this item, the result includes Euro 2.2 million in losses related to the aforementioned factoring of a portfolio of loans classified as doubtful. The loans were cancelled from the financial statements after their transfer.

The adjustments to other assets for Euro 2.4 million entirely relate to the impairment of an AFS security which no longer satisfies the recoverability requirements.

Net provisions for risks and charges amounted to Euro 6.2 million (Euro 1.8 million in 2014).

Gross profit for the year rose by +145.5% to Euro 23.4 million (Euro 9.5 million in 2014).

Taxes amounted to Euro 1.0 million (Euro 6.9 million in 2014). The tax rate was affected by significant non-recurring components, particularly the participation exemption applying to capital gains on the disposal of equity investments and the effects of release of the fair value of loans recognised in application of IFRS 3.

Net profit for the year amounted to Euro 22.4 million, up 759.0% compared to the Euro 2.6 million of 2014.

1.8.2 FINANCIAL POSITION

Presentation of the financial position

A restated balance sheet was also prepared to facilitate understanding of the data. The restatement exclusively involved aggregate items of the balance sheet. More specifically, note the following:

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

Reclassified assets	31.12.2015	31.12.2014	Change	
(thousands of Euro)		*Restated (*)*	**Abs.**	**%**
Cash and cash equivalents	62,622	64,051	(1,428)	–2.2%
Financial assets and investments	1,601,475	1,435,675	165,800	11.5%
Due from banks	44,804	176,801	(131,998)	–74.7%
Loans to customers	6,447,871	6,383,064	64,807	1.0%
Property and equipment	145,591	131,918	13,673	10.4%
Intangible assets	121,937	73,231	48,705	66.5%
Other assets	291,025	218,059	72,966	33.5%
Total assets	**8,715,324**	**8,482,799**	**232,525**	**2.7%**

(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

Reclassified liabilities	31.12.2015	31.12.2014	Change	
(thousands of Euro)		*Restated (*)*	**Abs.**	**%**
Due to banks	838,463	760,556	77,906	10.2%
Due to customers, debt securities issued and liabilities designated at fair value	6,788,369	6,711,506	76,863	1.1%
Financial liabilities held for trading	3,130	3,553	(424)	–11.9%
Other liabilities	308,209	252,280	55,929	22.2%
Shareholders' equity				
– Share capital and reserves	754,786	752,299	2,487	0.3%
– Net income (loss)	22,368	2,604	19,764	759.0%
Total liabilities and shareholders' equity	**8,715,324**	**8,482,799**	**232,525**	**2.7%**

(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

Bank Payables and Receivables

Interbank relations	31.12.2015	31.12.2014	Change	
(thousands of Euro)		*Restated (*)*	**Abs.**	**%**
Due from banks	44,804	176,801	(131,998)	–74.7%
Due to banks	838,463	760,556	77,906	10.2%
Net banking position	**(793,659)**	**(583,755)**	**(209,904)**	**36.0%**

(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

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 Euro 793.7 million, up on the Euro 583.8 million at the end of 2014.

Direct funding

Direct funding from customers amounted to Euro 6,788.4 million, a rise of Euro 76.8 million (+1.1%) over the figure at 31 December 2014 (Euro 6,711.5 million).

Direct funding	31.12.2015	31.12.2014		Change
(thousands of Euro)		*Restated (*)*	**Abs.**	**%**
Savings and current accounts, certificates of deposit	4,735,012	4,164,009	571,003	13.7%
Debt securities issued	1,580,379	2,019,701	(439,322)	–21.8%
Other payables	394,009	417,908	(23,899)	–5.7%
Reverse repurchase agreements on securities	78,969	109,888	(30,919)	–28.1%
Total	**6,788,369**	**6,711,506**	**76,863**	**1.1%**

(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

Breaking down the figure there was an increase in demand deposits, comprising current accounts and demand deposits (Euro +571.0 million and +13.7%), which make up 69.8% of direct funding, against a decrease in time deposits (-21.8% and Euro -439.3 million), largely comprising debt securities issued.
A decrease in other payables to Euro 394.0 million was recorded (-5.7%). Repurchase agreements, which amounted to Euro 79.0 million, were down by -28.1% compared to the end of 2014 (Euro -30.9 million).

Indirect funding

At 31 December 2015, indirect funding from private customers amounted to about Euro 3,039.2 million, up by +12.4% compared to Euro 2,703.7 million in the previous year (+335.6 million).

Indirect funding – technical form	**31.12.2015**	**31.12.2014**		**Change**
(thousands of Euro)		*Restated (*)*	**Abs.**	**%**
Administered indirect funding	1,436,766	1,309,969	126,797	9.68%
Investment funds	1,261,284	1,134,822	126,462	11.14%
Insurance products	341,199	258,891	82,308	31.79%
Total	**3,039,249**	**2,703,682**	**335,567**	**12.41%**

(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

Administered indirect funding amounted to Euro 1,436.8 million, an increase of +9.7% compared to the previous year. Assets under management, standing at Euro 1,261.3 million, were up by 11.1% compared to Euro 1,134.8 million at the end of 2014 (Euro +126.5 million).

Loans to Customers

Customer lending amounted to Euro 6,447.9 million, up by 1.0% compared to 31 December 2014, when the item stood at Euro 6,383.1 million (Euro +64.8 million).

Financing	**31.12.2015**	**31.12.2014**		**Change**
(thousands of Euro)		*Restated (*)*	**Abs.**	**%**
Current accounts	1,562,486	1,688,844	(126,358)	–7.48%
Repurchase agreements	3,288	–	3,288	–
Mortgages	4,067,604	3,822,838	244,766	6.40%
Credit cards, personal loans and loans on salary	110,862	103,059	7,803	7.57%
Other transactions	553,181	622,234	(69,053)	–11.10%
Debt securities	150,450	146,089	4,361	2.98%
Total	**6,447,871**	**6,383,064**	**64,807**	**1.02%**

(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

Short-term loans amounted to Euro 2,119.0 million, down -8.3% (Euro -192.1 million) compared to the Euro 2,311.1 million at the end of the previous year; the medium and long term loans, mainly represented by mortgages and personal loans, showed an increase of Euro 252.6 million (+6.4%) to Euro 4,178.5 million.
Concerning loans to customers, the mortgage loans comprise 63.1% of net loans, up compared to the 60.33% at 31 December 2014.
Current accounts comprise 24.2% of net customer lending, down from last year's 26.5%.

Gross impaired loans at 31 December 2015 amounted to Euro 1,048 million, up by 2.8% compared to Euro 1,027 million in the previous year. This improvement is mainly due to the aforementioned factoring of a portfolio of doubtful loans for a gross total value of Euro 15.7 million. The percentage of net non-performing loans on the total of net customer lending was 9.73%, up from 9.53% the previous year.

Loans and receivables	**31.12.2015**	**31.12.2014**		**Changes**
(thousands of Euro)		*Restated (*)*	**Abs.**	**%**
A) Doubtful loans				
gross amounts	667,320	593,440	57,063	9.62%
of which: default interest	41,082	17,459	23,623	135.30%
minus specific adjustments	(339,626)	(310,023)	(25,327)	8.17%
net amounts recognised	327,694	283,417	31,736	11.20%
% hedging	*−50.9%*	*−52.2%*		
B) Unlikely to pay				
gross amounts	339,011	357,436	(1,966)	−0.55%
minus specific adjustments	(77,880)	(66,592)	(15,564)	23.37%
net amounts recognised	261,131	290,844	−17,530	−6.03%
% hedging	*−23.0%*	*−18.6%*		
C) Past due exposures				
gross amounts	42,076	75,768	(33,694)	−44.47%
minus specific adjustments	(3,257)	(6,319)	3,062	−48.46%
net amounts recognised	38,819	69,449	−30,632	−44.11%
% hedging	*−7.7%*	*−8.3%*		
Subtotal of non-performing exposures				
gross amounts	1,048,048	1,026,644	21,404	2.08%
minus specific adjustments	(420,763)	(382,934)	(37,829)	9.88%
net amounts recognised	627,285	643,710	−16,425	−2.55%
% hedging	*−40.15%*	*−37.30%*		
D) Performing exposures				
gross amounts	5,858,455	6,147,974	(289,519)	−4.71%
minus specific adjustments	–	–	–	-
minus lump sum adjustments	(37,869)	(37,566)	(303)	0.81%
net amounts recognised	5,820,586	6,110,408	−289,822	−4.74%
% hedging	*−0.65%*	*−0.61%*		
Total exposures				
gross amounts	6,906,503	7,174,618	(268,115)	−3.74%
minus specific adjustments	(420,763)	(382,934)	(37,829)	9.88%
minus lump sum adjustments	(37,869)	(37,566)	(303)	0.81%
Total net amounts recognised	6,447,871	6,754,118	−306,247	−4.53%
% hedging	*−6.64%*	*−5.86%*		

(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

Net doubtful loans rose by +15.6% to Euro 327.7 million, compared to Euro 283.4 million of the previous year. The degree of hedging was 50.9% compared to last year's 52.2%. The percentage of net doubtful loans to the total of net lending was 5.08%, up from the 4.2% of the previous year.

Net unlikely to pay loans amounted to Euro 261.1 million, down -10.2% on the Euro 290.8 million recorded last year. The percentage of hedging stood at 23.0%, up significantly from the 18.6% of the previous year. The percentage of net unlikely to pay loans over net lending stood at 4.0%, down slightly compared to 4.3% in the previous year.

Net past due loans amounted to Euro 38.8 million, a marked decrease on the Euro 69.4 million of the previous year. The percentage of write-downs stood at 7.7%, a decrease compared to the 8.3% the previous year. Net non-performing loans totalled Euro 627.3 million, down 2.6% on the Euro 643.7 million recorded at the end of 2014.

The percentage of write-downs stood at 40.2%, up from the 37.3% of the previous year. The percentage of net non-performing loans over net lending stood at 9.7%, up slightly compared to 9.5% in the previous year.
Net performing loans amounted to Euro 5,820.6 million, a 4.7% decline from the Euro 6,110.4 million of the previous year. The estimated collective impairment of performing loans led to a Euro 37.9 million adjustment, up from the Euro 37.6 million of 2014. The percentage of collective write-downs stood at 0.65%, up slightly on the 0.61% the previous year.
The main asset quality indicators are shown below:

Asset quality	**31.12.2015**	**31.12.2014**
		Restated (*)
Gross impaired loans / gross loans	15.17%	14.31%
Net impaired loans / net loans	9.73%	9.53%
Gross doubtful loans / gross loans	9.66%	8.27%
Net doubtful loans / net loans	5.08%	4.20%
Gross unlikely to pay loans / gross loans	4.91%	4.98%
Net unlikely to pay loans / net loans	4.05%	4.31%

(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

Financial assets

Treasury securities portfolio	**31.12.2015**	**31.12.2014**	**Change**	
(thousands of Euro)		*Restated (*)*	**Abs.**	**%**
Financial assets held for trading (HFT)	39,094	332,165	(293,072)	−88.23%
Financial assets available for sale (AFS)	1,387,186	1,043,843	343,342	32.89%
Financial assets held to maturity (HTM)	170,426	54,757	115,669	211.24%
Investments	4,769	4,626	144	3.10%
Total	**1,601,475**	**1,435,392**	**166,083**	**11.57%**

(*) Data restated on a like-for-like basis to take into account the merger of the Banca Popolare di Marostica Group.

This segment showed the following trends:
- financial assets held for trading, consisting of Euro 34.7 million in debt securities and Euro 3.1 million in financial trading derivatives (of which Euro 2.8 million pertaining to the fair value option), amounted to Euro 39.1 million, down by 88.2% compared to Euro 332.2 million at the end of 2014;
- financial assets available-for-sale, consisting of Euro 1,180.2 million in debt securities, Euro 23.7 million in equity instruments and Euro 183.3 million in UCITs, amounted to Euro 1,387.2 million, a considerable increase compared to Euro 1,043.8 million at the end of 2014 (+32.9%);
- financial assets that the Company can and intends to hold to maturity amounted to Euro 170.4 million, a significant increase on the Euro 54.7 million of 2014.

Investments

The following equity investments were held as at 31 December 2015:

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.

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 corporate purpose is to provide excellent health services, with the main aim of protecting health. It does this in accordance with the following:

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

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

Quartiere Brizzi S.r.l.

The business purpose of the Company, with registered office in Chienes (BZ), is property dealings, including the purchase, sale, exchange, renovation and leasing of land, buildings, prefabricated structures, infrastructures and property in general. The company is currently developing a property initiative which involves the demolition of a dilapidated property complex and building of a new residential building in the centre of Verona.
Banca Popolare · Volksbank acquired a 48.5% interest in the share capital of the company in 2012 in addition to a shareholder loan for an original amount of Euro 1 million in order to strengthen the capital base of the company. The amount paid was fully attributed to the equity investment which is therefore recorded in the financial statements of 31 December 2015 for a total value of Euro 0.9 million.

Tre S.r.l.

The business purpose of the Company, with registered office in Trento, is property dealings, including the purchase, sale, exchange, renovation and leasing of land, buildings, prefabricated structures, infrastructures and property in general. The company is currently developing a property project in Cles (TN).
Banca Popolare · Volksbank hold a 30.00% interest in the share capital.

Property and equipment

Property and equipment amounted to Euro 145.6 million, a Euro 13.7 million increase compared to Euro 131.9 million at the end of 2014 (+10.4%). The increase is mainly due to the action taken to enhance the Bank's property portfolio. In particular, capitalised improvement expenses were recorded for a total of Euro 9.3 million and increases amounting to Euro 6.0 million deriving from the fair value recognition of properties owned by the Banca Popolare di Marostica Group in application of IFRS 3. Other increases for Euro 5.4 million can be attributed to the purchase of movable assets and electronic systems. Depreciation recorded amounted to a total of Euro 6.6 million.

Intangible assets

Intangible assets increased as a result of the merger of the Banca Popolare di Marostica Group.
As part of the merger of the Banca Popolare di Marostica Group, during the year intangible assets associated with customers were identified as "client relationships", linked to the valuation of AUM-related activities, including the placement of insurance contracts and funding through core deposit management. At year end this item totalled Euro 21.4 million, after amortisation of Euro 0.7 million.
At the end of the Group's Purchase Price Allocation procedure of assets and liabilities acquired, a further Euro 59.2 million was recognised as goodwill. Goodwill is not subject to amortisation and impairment tests are performed when preparing the financial statements. For further information concerning impairment tests on goodwill see "Section 12 – Intangible Assets" in the notes to the accounts.
There were no significant investments in intangible assets during the year. Amortisation amounted to Euro 1.9 million.

Shareholders' equity

At the end of the year the share capital amounted to Euro 179.5 million, divided into 44,883,933 ordinary shares at a par value of Euro 4.00 each. A total of 6,756,823 shares were issued during the year, of which 6,656,253 as a result of the Banca Popolare di Marostica merger and 100,570 as a result of the Banca di Treviso merger.
Shareholders' Equity at 31 December 2015, including year-end profit of Euro 22.4 million, amounted to Euro 777.2 million. Own funds stood at Euro 641.9 million.

Total own funds	**31.12.2015**
(thousands of Euro)	
Common Equity Tier 1 (CET 1)	641,949
Transitory regime – Impact on T2	–
Deductible elements	–
Total own funds	**641,949**

The ratio between tier 1 capital and total risk-weighted assets (Common Equity Tier 1 Ratio; CET1) was 11.15% compared to 13.32% as at 31 December 2014. The ratio between regulatory capital and total weighted assets (Total Capital Ratio) also stood at 11.15%, down compared to last year's 13.35%.

Capital ratios	**31.12.2015**
(thousands of Euro)	
Common Equity Tier 1 Ratio	11.15%
Total capital ratio	11.15%
Risk-weighted assets (RWA)	5,755,747

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

1.9 RATING

On 17 June 2015, the rating agency DBRS gave a BBB (low) rating to Banca Popolare · Volksbank, compared to the previous BBB rating with a negative outlook, citing the impairment of assets and the weakening of capital following the merger with Banca Popolare di Marostica.

In its study of Banca Popolare · Volksbank, published on 2 July 2015, the rating agency in any event saw the merger of Banca Popolare di Marostica to be in line with the Bank's expansion strategy in the north-east of Italy and the resulting strengthening of its market share in the Veneto region. With the addition of 55,000 new customers and 61 branches, Banca Popolare · Volksbank – again according to the agency – is now the seventh largest bank in the Veneto region in terms of the number of branches. The merger could also offer a limited geographic overlap and, at the same time, the chance to generate synergies, access to new markets and lower funding costs, and likewise a reduction in costs deriving from the simplification of governance, from digitalisation of the merged bank's processes and from consolidation of the IT systems.

On 23 July 2015, the rating agency Standard & Poor's confirmed the BB rating assigned to Banca Popolare · Volksbank, at the same time confirming the stable outlook.

In its study of Banca Popolare · Volksbank, the agency comments on the prospects for the Italian economy, with a slight upturn in the short term, albeit to a lesser extent than the other countries of reference. Again according to the agency, the serious and extended economic crisis suffered by Italy will affect the banking system for a long time yet, in terms of the consistent amount of accumulated non-performing loans.

Consequently, the agency believes that the risk profile of Banca Popolare · Volksbank has been weakened by the increased economic risk of Italy and the lower loan quality of Banca Popolare di Marostica. The stable outlook is instead justified by the fact that the rating assigned to Banca Popolare · Volksbank already incorporates most of the risks that the agency sees in relation to the Italian economic situation and to the merger with Banca Popolare di Marostica, as well as the planned share capital increase of Euro 95.8 million.

1.10. 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 and confidence that its business plan is suitable for the economic environment. In this context, the Bank of Italy sets guidelines and general standards for governance systems, especially with regard to rules on:

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

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

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).

Then on 21 December 2015 the European Banking Authority (EBA) published the update to the Guidelines on remuneration, to be integrated into the revised version of Banca Popolare · Volksbank's Remuneration Policies and Incentives and submitted to the shareholders' meeting for approval.

Management of Conflict of Interest and Transactions with Related Parties

The rules on "Risk assets and conflict of interest with respect to related parties" decided by the Board of Directors on 22 June 2012 were amended into the version approved by the Board of Directors on 25 October 2013 which summarises the following into a single set 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 with the prudential limits that apply to the underlying Risk Assets. 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 potentially 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:

- 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 procedures for authorisation, disclosure and reporting to supervisory authorities, the Bank implemented IT systems for automatic capture and reporting of agreements and transactions undertaken with any counterparties identified the company rules “Risky operations and conflicts of interest with related parties”.

Adoption of Organisation and Management Model

After full review and approval by the Board of Directors at the meeting of 21 December 2010, and since then continuously updated to take into account new regulatory measures – the most recent on 7 August 2015 – the Organisation Model meets the specifications of 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 consists in identifying activities exposed to risk (i.e., those involving offences under Italian Legislative Decree no. 231/01) and implementing a group of organisation measures and rules for all parties working in the interest, to the benefit or on behalf of the Bank, in order to:

- raise awareness that if the rules in question are violated then this may constitute an offence and result in sanctions both against the person committing the offence and the Company;

- reiterate that illicit conduct of any kind or for any purpose shall not be tolerated and such conduct (even when apparently to the Company's benefit) is against the ethics and principles that the Company has adopted and intends to abide by without exception;
- strengthen and improve mechanisms for oversight, monitoring and discipline in order to prevent such offences from being committed.
- The Organisation Model is an internal framework of rules for the Company and it is considered binding. It ensures that offences predicate to administrative liability of entities as identified under prevailing law will be monitored. For each of the offences resulting in administrative liability, the Organisation Model:
- specifies the sanctions laid down by lawmakers (pecuniary and prohibitory where applicable);
- identifies conduct considered open to risk;
- specifies the obligations and/or prohibitions for 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 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 Organisation Model, including compliance and revisions. The Supervisory Board was set up by the Board of Directors. It exercises its duties and powers independently from all Company management and departments. The Supervisory Board must act on a completely independent basis without being subject to the will of other bodies in the Company and whose individual members will meet the necessary professional competence and reputation requirements.

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

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

In 2015 the Supervisory Board confirmed the adequacy of the information flows that allowed it to perform its supervisory tasks in full compliance with the Organisation Model, assess its effectiveness and handle its revision. The Supervisory Board found no breaches in 2015 of the Organisation Model of Banca Popolare · Volksbank.

Note that under the terms of Italian Legislative Decree 231/2001, Banca Popolare · Volksbank is also liable for offences committed previously by the merged entities. In 2015 the Supervisory Board reported to the Board of Directors on aspects related to the merger of the Banca Popolare di Marostica Group.

1.11 THE DISTRIBUTION MODEL

1.11.1 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.

In 2015 the segmentation of operations was fine-tuned further with a view to concentrating resources on consulting for higher-potential customers.

The retail 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 specially-selected consultants operating in a number of branch head offices.

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

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

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 mix.

Banca Popolare · Volksbank aims to constantly strengthen its territorial roots as a regional bank through a close involvement by the locals as shareholders and as stakeholders of the Bank. It has therefore established itself as a bank that can ensure an important contribution to development of the local economy.

BRANCHES	**31.12.2015**	**31.12.2014**
Territorial distribution of branches		
Trentino-Alto Adige	**83**	**83**
– Bolzano	63	63
– Trento	20	20
Veneto	**102**	**47**
– Belluno	20	21
– Treviso	23	13
– Venice	15	13
– Vicenza	38	–
– Padua	6	–
Friuli Venezia Giulia	**3**	**3**
– Pordenone	3	3
Total	**188**	**133**

1.11.2 THE TERRITORIAL NETWORK AND SALES ACTIVITIES

With the merger of the Banca Popolare di Marostica Group the reference market was extended to the provinces of Padua and Vicenza, significantly increasing the number of customers and branches.
Two sales centres with related commercial development offices have been set up to better satisfy the specific needs of the local markets.

SALES NETWORK	31.12.2015	31.12.2014
Traditional branches	188	133
of which: bank4fun branches	*0*	*1*
Total branches	188	133
Corporate consultancy centres	7	7
Private consultancy centres	7	7
ATMs	218	156
POS	7,172	4,942

The first of these centres covers the provinces of Bolzano, Trento and Belluno and is based in Bolzano.
The second, based in Marostica and known as the "Veneto sales centre" covers the provinces of Vicenza, Treviso, Pordenone, Venice and Padua and also includes the traditional branches of Banca Popolare · Volksbank in those areas. Both sales managers are members of the management team.
The sales network is organised into geographical areas with specific segmentation of the customers:

- the areas are divided into individual markets by province (except Alto Adige which is divided into 3 areas, and Vicenza currently divided into 2 areas);
- within each area the traditional geographic market of Banca Popolare · Volksbank (Bolzano, Trento, Belluno, Treviso, Pordenone and Venice) is subdivided into market areas (Head Office) and branches/agencies with outlying sub-branches as necessary;
- in each area, the traditional geographic market attributable to the Banca Popolare di Marostica Group is organised according to the customary approach of branches directly located in the area. As part of the sales integration process, extension of the head office model also to these areas is planned in the short term;
- in the traditional areas covered by Banca Popolare · Volksbank there are two consulting centres for Private and high-standing Corporate customers for each area, which provide support in the form of specialist functions to the sales structure. As part of the sales merger plan, for the Veneto centre it is planned to set up a Corporate consulting centre headed directly by the sales manager, who will oversee the entire geographic area of reference.

As part of the merger and our continual efficiency improvement processes for the distribution network, in 2015 the following branch openings and closures took place:

- opening of two new branches in the province of Venice (Jesolo and Venice – Campo SS Apostoli);
- closure of the bank4fun branch in Belluno;
- closure of 7 former Banca Popolare di Marostica and Banca di Treviso branches in the province of Treviso, which overlapped with the Banca Popolare · Volksbank network.

1.11.3 LOANS TO CUSTOMERS

Private customers

The Banca Popolare · Volksbank consultant continuously monitors customer relations and follows the customer during the entire relationship cycle, with a section dedicated specially to young people, who are accompanied

through their induction process to the job market and lastly with adult customers who are offered many different solutions to meet their specific requirements.
The Bank 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 225,000 private customers are followed in the branches and consultancy centres of Banca Popolare · Volksbank. About 20,000 private banking customers are followed by specialised consultants with a wealth management approach.

CUSTOMERS	31.12.2015	31.12.2014
Number of customers		
Private (incl. young customers)	224,408	172,607
Businesses	28,073	17,390
Other (public administration, associations, etc.)	6,190	4,616
Total	**258,671**	**194,613**

The commercial dealings of Banca Popolare · Volksbank revolve around “constructive dialogue” whereby the consultant can “discover” the customer’s financial requirements and provides them with added value by proposing the most appropriate solutions.
The financial needs range from the building up of assets and life and non-life insurance, to mortgages for first home purchases and pension requirements.
The integrated multi-channel approach is a fundamental part of the sales strategy. The customers can use their computers to carry out most of their banking transactions. The Bank offers its customers a number of solutions: from the mobile solutions (for smartphones and tablets) to direct b@nking and stands at 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 confirm that 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 periodically with each company in order to discover not only their short-term requirements, but also their medium and long-term requirements.
Based on criteria well-defined at Bank level, around 2,850 corporate customers were identified that are followed with a more targeted approach with greater frequency. At least once a year these customers are invited to a meeting with their consultant. During this meeting the customer’s current position is analysed and some time is dedicated to discussing future plans. The Rating Report is also discussed with and handed to the customer, and both consultant and customer decide on measures to improve the rating.
The aim of this meeting is to get a comprehensive picture of the financial requirements of the business.
A number of information evenings were organised in 2015 called “Banca Popolare · Volksbank meets business people”. At these events, the Bank seeks open, transparent dialogue with existing and potential customers. In the traditional areas of operation, the focus was on the latest issues affecting the business world and partnerships between the businesses and the Bank.

Young customers

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

On of these activities is the “Geo-Challenge”, an educational quiz in which the pupils of one class test their geography knowledge against other classes. Over 320 classes from the entire catchment area of the Bank took part in the game in the 2015/2016 school year, with more than 25 events held involving about 6,400 schoolchildren. The success of the event, which has increased constantly year after year in terms of the number of classes participating and in the acceptance by teachers supporting the initiative, who contribute not only to the Euro 300 class trip award for the winning class, but also to the educational content.

2015 saw the introduction of a new orientation that revolves mostly around the financial education of young people. Knowing the Bank, this topic could not lack an alternative and likewise innovative approach. Along with the Austrian company “Three Coins”, specialised in the development of educational system to sensitise people to money usage, the “CURE Runners” app for smart phones was introduced. Through a real “jump’n’run” game a new way was designed to hook up to a topic normally seen by young people as boring and of little interest. Based on the decisions that players have to make during the adventure game and during later workshops held at the schools, more thoughtful consideration by the participations is achieved as regards their day-to-day spending. “CURE Runners”, currently available on Android and iOS, has not only won numerous awards, but in 2015 was also presented to the OECD (Organisation for Economic Cooperation and Development) as a best practice. The programme met with considerable interest from schools in its pilot stage. In 2015, 12 workshops were held by 27 staff who had received prior tuition on how to be official trainers.

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

The branches in particular are expected to contribute towards increasing the visibility local services with the traditional “Cagesoccer” and “Soap-soccer” tournaments which are supported enthusiastically any time they are organised during town festivals or the summer camps.

To join any of the various initiatives proposed and designed for customers, Banca Popolare · Volksbank offers banking products such as the Orange savings book, Conto Orange (“Orange current account”), Conto Uni or Conto Start, all of which created according to age and the needs of the customer’s current stage of life. The online services associated with products for young people – direct b@nking or sms b@nking – are popular with young people and are used to carry out all their banking transactions online.

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

Also available now is the new website dedicated to young people – http://giovani.bancapopolare.it/ – which brings together all the useful information and new ideas associated with the world of Banca Popolare · Volksbank’s young customers.

Children

Banca Popolare · Volksbank has developed specific initiatives and offers for younger children.
The “Baby pass” has been available since 2012. A free Polaroid camera and birth congratulations cards are given to the maternity wards of hospitals in the catchment area of Banca Popolare · Volksbank. Newborns can also have savings books opened in their own names, with an initial contribution of 35 euros and a gift from the bank.
Six-year-olds receive a birthday card on their birthday and a nice present they can collect from their local branch, along with an invitation to the “Blue” game initiative, an educational game for children aged 6 to 10 designed to sensitise them to savings. The annual game accessories contain information on different aspects related to saving and the current school programme. The title of the 2015/2016 Blue game is “Che tempo fa” (What’s the weather like). Every participant receives a comic book containing information about the weather, designed for the child’s age. Then every month thereafter the participant receives an instructions booklet with interesting experiments on this topic to try out at home. In addition, with every deposit on the savings book, the young customer receives a small gift, always associated with the game’s topics. At the end of the game the child has the chance to participate in a draw for a final prize. 3,500 children took part in 2015. Comic books were also distributed to elementary schools with educational content on this topic, and they were given the option of taking part in a competition where they could win a class trip to a weather station. 17,000 copies of the comic book were printed in 2015 and 265 classes took part in the competition.
Lastly, Banca Popolare · Volksbank offers “Bank visits” to children. The visit helps to understand how a bank works and what purpose it serves. The schoolchildren and their teachers are always enthusiastic about this opportunity and willingly take up.
The much-loved calendars and elementary school timetables are also provided to the children and young people.

1.12 BANKING ACTIVITIES

1.12.1 BANK PRODUCTS

Product Management

During 2015, greater focus was dedicated to the migration of the two merged banks' products as they had operated on an IT system different from that used by Banca Popolare · Volksbank.
The approach to the migration of Banca Popolare di Marostica Group products was marked by the principle of minimising risk and the impact on customers.
The product migration was characterised by the following three steps:
- migration to Banca Popolare · Volksbank products already existing and marketed;
- migration to newly-designed products to guarantee the same function, but destined for discontinuation of marketing;
- migration to newly-designed products to guarantee the same function and destined to continue marketing also in the future.

In addition to migration-related activities, the task of constant analysis and action on the product range continued in order to achieve the desired incisiveness in sales network operations. The guiding principle for 2015 was support to consultants, provided through the introduction of new measures to rationalise, simplify and improve the current product range. The updated products facilitate branch management and give the consultants more time and space to offer excellent consulting services to customers.
In addition, the product management service has added to the product mix by enhancing the multi-channel approach in order to give greater value to the customer information, instruction and communication functions. The radical changes taking place in the banking products market, the ever growing demands of customers and the current technological challenges required a thorough analysis of marketing strategies and the current commercial structures of Banca Popolare · Volksbank.

Core products – Current accounts and savings books

The first few months of 2015 were dedicated to reviewing the mix of products offered to corporate customers, particularly the "Conto Business Forfait" line, with the aim of making them more transparent for customers and to facilitate internal bank management.
Specific welcome packages were 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.
The optimisation of banking contracts also continued in 2015 with the aim of streamlining and shortening the sale process, simplifying contracts by decreasing the number of signatures which in turn offers a consistent reduction of the paper used in printing. The updating of contract management procedures will also allow easier future technical management of the product at the point of service.
Even the core product range called for a thorough analysis prior to the migration, the focus of which was on minimising risk and the impact on customers.

Insurance and pension funds

Intensive work was carried out in 2015 on the individual insurance requirements of customers. This confirms the positive trend in placing insurance products. The good performance of the pensions and life savings/investment policies was consolidated. The unfavourable economic situation and low rates of return on many low-risk financial products steered customers towards alternative solutions, particularly to insurance products.

An important new aspect of the non-life segment is the introduction of direct indemnity in the health policy. An agreement signed with three major hospitals located in Banca Popolare · Volksbank's area of operations has offered customers insured with an "H" or "H Family" policy to plan medical treatment at the participating hospitals without worry, safe in the knowledge that the costs incurred will be paid directly to the hospital by the insurance company. Through this innovative action, the customer also finds that expense no longer needs to be paid up front, so saving the time necessary for managing the claim paperwork.

As with all the product services segments, insurance was also subject to in-depth study as part of the merger of the Banca Popolare di Marostica Group. The insurance segment was involved in transferring all agreements associated with the over 20,000 existing policies with the merged banks and in implementing the IT links to the insurance companies with which they operated. The merger was also an opportunity to verify the quality of insurance products offered, resulting in a further improvement in terms of the product mix available to customers.

There was a special focus on consultant training to provide them with effective tools for use in their dialogue with customers and for providing excellent consulting services.

Training on insurance products guaranteed that staff providing insurance-related advice have the certification required by law.

Loans

Action focused on the migration of products of the two merged banks. The staff were particularly involved in managing the product migration, ensuring the minimising of risks and the impact on customers.

The migration was an opportunity for expanding the existing range with products and arrangements of the merged banks that could give added value to all customers, for example in the leasing sector.

The Provincial Government of Bolzano has launched the new savings model for the building industry, which allows members of a recognised supplementary pension fund access to a preferential-rate loan for the purchase or restructuring of their first home. This is an innovative model that combines a pension fund with savings in the building industry. Banca Popolare · Volksbank promotes this model among its products both through the pension fund product and its first home mortgage loan.

On-line banking

In 2015 the main activities focused on the technological migration of existing products at the acquired banks. In this context, measures were taken to minimise any unpleasant impact on customers during the transformation process. The preliminary activities, for payment cards and online services, ensured the smooth continuation of customers' use of the payment instruments they already held.

Targeted initiatives for multi-channel enhancement also continued with the aim of offering customers online services increasingly more complete and convergent in an “Omnichannel” approach.
Priority was given to the enhancement of apps for smart phones and tablets, personal tools used “on the go” that can no longer be disregarded. Through the “Volksbank” apps for smart phones and tablets the options to display products held by the customers and the various payment functions were expanded.
The web platform was also reviewed to improve not only its usability but also the service graphics.
A major experiment in the new contactless technology was conducted with AEW, the power grid operator for the province of Bolzano, on infrastructures for recharging electric cars.
Banca Popolare · Volksbank was one of the first banks to enhance the product CoB@ web (Internet banking for corporate customers) with an e-billing function, which is indispensable to Public Administration provider companies. With this new function, corporate customers can manage the entire electronic invoicing cycle, from preparation to regulatory storage, including routing to the public entity.
Furthermore, in partnership with the Court of Treviso and the IT company Zucchetti Giuridica, a new service was introduced for the management of electronic mandates as part of insolvency proceedings, which has eased the operating process and related bureaucratic handling.

1.12.2 PROVISION OF INVESTMENT SERVICES

As regards investment services, the strongest impact of the Banca Popolare di Marostica Group merger was in the integration of the acquired customers. In addition to aligning the customer profiles, the Business Model adopted by Banca Popolare · Volksbank was immediately extended to the merged entities and numerous staff training courses and meeting helped to disseminate the culture of “financial consulting”.
To date, the bank has 188 branches and 7 consulting centres able to offer services with different degrees of complexity (light, full and plus).
The process for providing investment services remains unchanged. This always begin from the customer’s financial requirements and risk profile, then finalised into an investment plan commensurate with the global needs (portfolio) or specific needs (individual goals).
2015 also saw the continued partnership with Istituto centrale Banche Popolari, which periodically audits the composition of the model portfolios proposed to our customers and constantly monitors individual financial products included in the portfolios.
Consequently, this enhances the primary objective of accompanying our customers in all the investment decisions necessary in producing a sustainable lifetime plan offering peace of mind.

1.12.3 OWN PORTFOLIO MANAGEMENT

In 2015 the financial markets were marked by a number of significant historic factors. GDP growth in the EU countries was moderately positive and unemployment continued to fall, but in Europe the inflation at an all-time low is worrying. Inflation is used by the ECB as a benchmark for aiding constant, sustainable growth for the member states. The financial year saw a persisting weakness of the Euro against all major world currencies, also due to the cash injections extended by the ECB and, at the same time, the end of the Fed’s restrictive monetary policy. In December the Fed increased rates for the first time since 2006. Interest rates in Europe fell to historic lows, with the 36-month Euribor rate and short-term Italian Government securities recording negative rates.

The equity markets performance recorded swings, with a highly positive phase in the first part of the year. A market downturn became evident from August onwards with sales on Asian markets and emerging markets in general. Despite all of this, the year closed with a positive performance, Italy proving to be the best performer in the European market. However, uncertain geopolitical factors continue to have an impact, and especially the minimum levels of commodity prices.

During the year, Banca Popolare · Volksbank's own portfolio increased considerably, also as an effect of acquisition of the Banca Popolare di Marostica Group portfolio.

A prudent and increasingly diversified approach was taken in Asset Allocation, introducing new asset classes such as investments in real estate funds, corporate bonds and especially investments with a view to environmental and social sustainability as envisaged in the new 2016-2020 strategic plan.

1.13 GOVERNANCE ACTIVITIES

1.13.1 LIQUIDITY MANAGEMENT AND FUNDING

The Strategic Plan and the Liquidity Management and Funding Plan for 2015 considered the timetable for all forms of refinancing from institutional investors, the development of owned portfolios and the planning of expected customer movements, which were adjusted during the year. The plans in question help to define the liquidity requirements for the year and consequently guide decisions on carrying out market transactions. The increase in direct customer deposits was further strengthened by the merger of the Banca Popolare di Marostica Group and by the use of the final tranche of an EIB loan for Euro 20 million.

Securities underlying securitisations placed on the market were redeemed during the year in accordance with the amortisation plan and maturities for smaller “Schuldscheine” loans and institutional bonds, without the need for recourse to other forms of refinancing. The subsequent increase in owned portfolios for around Euro 250 million and the cash outflows following payment of the amount due on year-end taxes were refinanced from available funds and from the partial use of the ECB’s TLTRO proposal. For 2015, the EMTN programme was extended solely to ensure an additional cash reserve, which was never used as the liquidity position constantly remained at levels of absolute surplus.

The amount of “eligible securities” which had not yet been pledged to secure funding stayed the same, added to mostly by purchases of securities issued or guaranteed by the Italian State and by other asset-backed securities.

The market environment was complex yet again in 2015. The tried and tested system of hedging maturities and the solid financial position of Banca Popolare · Volksbank guaranteed easy access to the interbank market. The net interbank position stood at Euro 793.6 million, up on the Euro 546.3 million of the previous year.

1.13.2 CREDIT DEPARTMENT

The global slowing of the economy has made its presence felt also in the Eurozone and will be a potential risk to growth recovery. On multiple occasions the ECB has said it is determined to support economic activities and credit recovery, also through recourse to “unconventional means”.

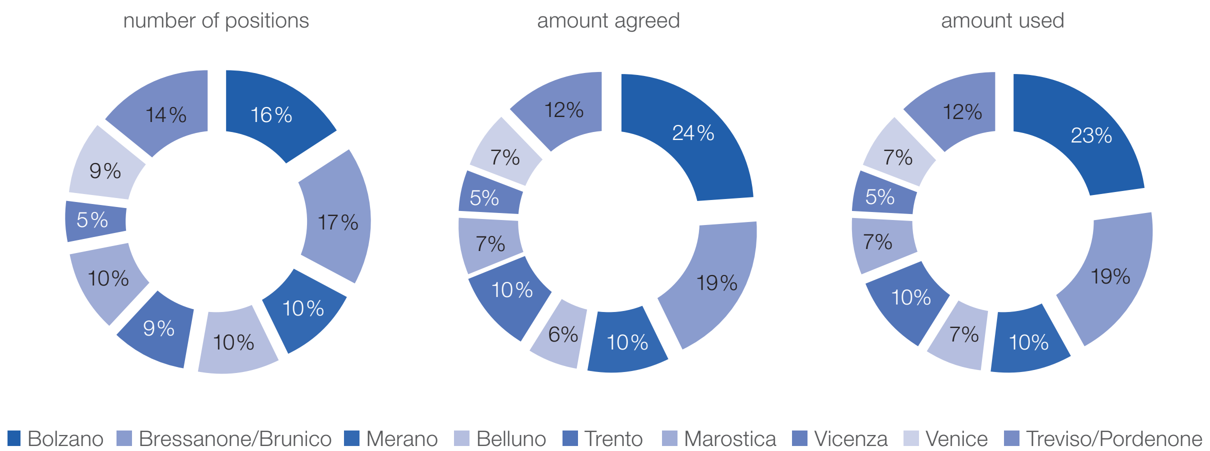
In this macroeconomic scenario, Italy has seen an upturn with growth at a rate of just under 1%. A strengthening of the faith of households and businesses was recorded, along with a gradual recovery in private consumption and investments in production capital. A major sector marking the pace is the building industry, where production and investment trends remain negative, despite the positive signs coming from home sales and purchases. According to some studies, the recovery should begin in 2016.

The credit market stabilised with a decisive slowing of the drop in loans to businesses and with loans to households once again on the increase in terms of consistency, especially home mortgages which are aided by the low interest rates and declining property prices. Also at system level, Italy’s volume of doubtful loans remains high and credit risk will continue to condition the customer margin, eroding a significant portion. In June the extent of the banks’ gross non-performing loans represented 18% of loans to customers (16.8% in June 2014). For doubtful loans only, the gross percentage was 10.3%. At regional level, an economic recovery of the entire north-east macro area is forecast; more marked in Trentino-Alto Adige, less so in Veneto.

By far the most important event in 2015 was successfully overcoming the major challenge of the merger of Banca Popolare di Marostica and Banca di Treviso into Banca Popolare · Volksbank. Numerous measures were adopted by the Credit Department in support of these activities, including:

- introduction into the former Banca Popolare di Marostica Group of risk management guidelines (from disbursement to monitoring) according to Banca Popolare · Volksbank standards;
- definition and operational start-up of two organisation/decision-making structures (Veneto SB/private credit analysis service and Veneto CIC credit analysis service);
- detailed analysis of the entire credit portfolio (with reference to the risk profiles, position support guarantees, any customers in common, analysis of provisions) and its segmentation in terms of credit facility range limits and risk;
- implementation of procedures to identify/manage non-performing positions;
- training of Banca Popolare di Marostica and Banca di Treviso staff on the new procedures;
- training of internal services staff with one-on-one training from colleagues;
- periodic meetings at the head offices between the various Credit Analysis Services and the network, with the aim of informing participants of the Bank's strategic position.

As mentioned previously, this was not merely the integration of IT systems and of credit access and management procedures, but more importantly a reorganisation into 9 strategic areas headed by two operations centres, with extreme care in retaining the concept of a one unique Bank.
The Bank's lending activities in each of the 9 strategic geographic areas are reported below:



The traditional areas in the province of Bolzano constitute a little over half the authorised portfolio. If reference is made to the newly established Alto Adige centre (which covers the Trentino-Alto Adige and Belluno offices) the utilisation accounts for almost three quarters of the total. The new offices in Veneto (Vicenza and Marostica) constitute around 12% of utilisation, whilst the remainder relates to other offices in the Veneto centre's area (Venice and Treviso/Pordenone).
The primary reference target remains small and medium-sized customers. This segment mainly comprises SMEs, but also private customers, for which it is hoped to assume the role of reference bank.
With a view to the Bank retaining its local roots, a "special credit" segment was set up to allow businesses improved and easier access to credit by exploiting opportunities relating to low-interest loans offered by the Sabatini-bis Law or loans through circulating funds. In this context, the economic development partnerships with financial companies were strengthened (e.g. Veneto Sviluppo) and with the various Confidi and guarantee consortia (e.g. Finimpresa, Sviluppo Artigiano, Fidimpresa, Garfidi, Confidimpresa) with which the related agreements have been signed. These organisations manage a series of subsidised instruments for the development of regional companies. In this

respect, 2015 saw the launch of the “Minibond” product in partnership with Finanziaria Internazionale, which manages the Trentino-Alto Adige Strategic Fund. The Minibonds expanded the range of products offered in order to become a partner of reference even for the most complex SMEs.
In the 2016-2020 Strategic Plan the bank envisages that in 2016 the total volume of loans will increase to 6.54%. As regards local distribution, the strongest potential for growth and higher volumes is expected from the Veneto centre, in that our market share is incremental with considerable sales development margins. This stronger growth of the Veneto centre is also necessary to adapt its productivity, throughout the period of the Strategic Plan, to that of the Alto Adige centre.

1.13.3 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 which correspond with the strategy and with the career development of individual members of staff. 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 of leading workers to cover roles with increasingly more responsibility.
Following the merger of Banca Popolare di Marostica and Banca di Treviso into Banca Popolare · Volksbank, at the end of 2015 there were 1,418 workers (1,042 at the end of 2014.
Given the reduced working hours of workers with a part-time contract (209 – up compared to 182 in 2014 after the merger of the 2 banks referred to above) and absences due to maternity leave and unpaid leave, the number of full-time equivalent (FTE) workers in 2015 was 1,294, also up on 2014 (937). The Company focused its reorganisation activities on internal services, with the transfer of activities from the head office in Bolzano to the head office in Marostica, in compliance with the structural integration process defined at pre-merger stage. The table below shows the breakdown of internal service and branch workers by province compared to the previous financial year and takes into account the expansion of the user base following the merger.

Figures by Province	**31.12.2015**		**31.12.2014**	
	No. Workers	**%**	**No. Workers**	**%**
Bolzano – internal services and branches	703	49.6%	715	68.7%
Trento	89	6.3%	90	8.5%
Belluno	86	6.1%	87	8.4%
Venice	80	5.6%	74	7.1%
Treviso	128	9.0%	65	6.2%
Vicenza	303	21.4%	–	–
Padua	18	1.3%	–	–
Pordenone	11	0.8%	11	1.1%

Even after the merger, Banca Popolare · Volksbank has a young workforce: the average age of its employees is a little over 44.
It has always placed great importance on hiring and creating mixed work teams. Currently, 41% of the workforce is female. Of these, 29 hold managerial positions in the Company (six at the head office, 23 in the network).
In Italy, the employment of disabled persons is governed by the law. Banca Popolare · Volksbank believes it is important to ensure that disabled persons are given an opportunity to work and that it has a responsibility in its local area to give these workers the chance to provide a real contribution, and not simply to fulfil legal obligations. About 3.6% of the employees in 2015 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 over a three-year period to obtain confirmation of the Company's certification as a family-friendly company. A new family representative was appointed in 2015 and the agreement with psychologists in support of the project was confirmed. Additional measures are planned for 2016.
The Company agreed new part-time contracts in 2015, 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 domestic care responsibilities for family members.
There were 33 employees on maternity or paternity leave as at the end of 2015; another 23 employees were on unpaid expectant mother leave. In addition, one employee was on leave to assist family members with disabilities (Law 151/2001).
The percentage of graduates employed is 25.6% while 67.9% have a secondary school diploma.
The objective of Banca Popolare · Volksbank is to ensure all employees are adequately motivated, including through training programs, in order to ensure that the relationship is fruitful and long-lasting. An adequate generational mix helps reinforce the skill set in the Company, and maintain it. The percentage of workers over 50 was 26% in 2015. The significant increase compared to 2015 (when it was 23.9%) is partly due to the change in the retirement age.
The Company organises a meeting every year with its retired employees to update them on action taken and planned. The last meeting was held in the autumn, when retired members of Banca Popolare di Marostica and Banca di Treviso also took part for the first time.

Remuneration

In 2015 the Bank paid, and therefore contributed to the local community, a total of 98.0 million in wages in 2015, which represents about 44.0% of the added value created during the year.
The Company compares its salary structure with that 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 market values. However, its variable remuneration is particularly competitive, and is above the market average.
Banca Popolare · Volksbank uses set salary ranges for the different categories of employment which are applied equally to both men and women.

Human Resources Management Policy

With respect to Bank of Italy Circular 263 of 27 December 2006, as amended (Title V, Chapter 7, Section I), the policies and procedures used to manage human resources were set out 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

Overall, more than 47,500 training hours were given to employees in 2015.
Specifically, action was taken regarding the pre-migration phase for the IT system, offering separate instruction on operational procedures such as the credit and investment strategies. On-the-job training was the focus for the next phase of the IT system migration. The optimisation and efficiency improvements for training were again at the forefront of development planning in 2015.

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 2015. At a joint “open space” workshop held in Mestre in July, all Company managers were involved for the first time. The aim was to facilitate cultural integration and to gather first impressions and needs from post-merger participants.

The Company will continue to process and harmonise the basic skills of managers (feedback, coaching) and the role of leader who is acting as the instructor of his/her associates. The subject matter “Manage with vitality” will be examined in more detail and developed as an essential distinguishing factor in 2016.
The increased training hours were provided by internal trainers with respect to the development of technical-specialist skills also in 2015. 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 10 internal trainers were involved who completed the training sessions in their respective areas of competence in 2015.

Yearly Staff Interview

Staff interviews are held on a yearly basis and represent an important tool for management. A new appraisal form was introduced in 2015. The new form made it possible to assess the work performance and potential of the individual workers with greater objectivity. The dialogue between the leader and the staff member will continue to be of fundamental importance within the scope of the process. All the activities assigned will be discussed and commented on, including everything that could be improved. The annual interview with the staff member is an important instrument to define the reciprocal expectations, develop the strong points and counterbalance the weak points. It requires a personal commitment by both parties. It is also 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 Working Hours

An agreement was signed in September 2014 with the Company trade union representatives to introduce flexible working hours 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 a manner compatible with service requirements. The pilot test period for the arrangement was from 1 October 2014 to 31 January 2015. The pilot stage proved a success and consequently this new working model was introduced for staff at the new head office in Bolzano.

1.13.4. LEGAL SERVICE

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

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

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

This is why the Bank signed an agreement with leading law offices for most ordinary debt collection. Credit that is minimal, irrecoverable or difficult to collect is generally treated en masse and 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 in progress. The provisions are constantly being estimated in accordance with prudential criteria and the accounting standards, also applying time-discounting principles.

In 2015 the Service for Doubtful Loans recovered around Euro 22 million, settling 709 doubtful loan positions. A without recourse factoring to Banca IFIS was also finalised on a portfolio of non-performing loans with a total nominal value of over Euro 60 million and relating to around 600 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, these 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. The Office provides support in the choice of strategies to follow with respect to bad loans and particularly sensitive complaints.

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

The Office manages the administrative and accounting disputes 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.

1.13.5 TECHNOLOGICAL AND ADMINISTRATIVE SERVICES

Banca Popolare · Volksbank makes use of support from the IT outsourcer SEC Servizi S.C.p.A. from Padua for the management, development and innovation of the entire IT system supporting all bank processes, both internal and at branch level.

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

IT Integration of Banca Popolare di Marostica and Banca di Treviso

In 2015, activities relating to the systems and organisation focused strongly on the migration and IT integration of Banca Popolare di Marostica and Banca di Treviso.

Preparation for the IT migration began at the end of 2014 and continued until October 2015. Banca Popolare di Marostica was integrated on the systems and processes of Banca Popolare · Volksbank by the first weekend in July. Banca di Treviso was integrated the first weekend in October.

In the preparatory phase for Banca Popolare di Marostica, 2 test cycles were completed with several thousand case histories tracked in detail. Following the positive outcome of the tests, the migration was arranged at the beginning of July. The migration was completed successfully, guaranteeing full IT system availability to staff from the first business day following migration, including full availability of queries and execution of transactions.

A similar approach was adopted for Banca di Treviso, the only difference being that just one test cycle was performed. Overall, migration of the Banca Popolare di Marostica Group involved the integration of more than 50,000 current accounts, 61 branches and over 400 staff. During this operation, staff affected by the migration received support from a dedicated helpdesk regarding use of the systems.
Completion of the migration tasks was followed by the integration of two Banca Popolare di Marostica branches and 5 Banca di Treviso branches which, in order to limit area overlaps, were transferred to Banca Popolare · Volksbank branches already operating in the same areas.
The migration called for close collaboration between SEC and Banca Popolare · Volksbank. At the height of the project activities a team of 200 was involved, coordinated by a central PMO office and supported by external consulting companies.

Head Office Transfer to Via del Macello, Bolzano

The transfer of the Head Office in Bolzano from Via Siemens to Via del Macello took place in March. In this case, too, the IT infrastructure activities were prepared months in advance to ensure undisrupted performance.
During the transfer weekend, more than 400 workstations were moved and reinstalled, including all support devices (phones, printers, etc.). The transfer caused no disruption to operations.

Stand e-posts

The availability of banking documents at the stands (e-posts) introduced in autumn 2014 received an excellent response from customers. At the end of 2015, of the customers that do not use internet banking and have an ATM card over half had waived the postal issue of printed documents (e.g. account statements). The display of documents at the stand is, for customers, more convenient and more immediate, given that post office delivery times are deteriorating.

Expansion of Next Generation ATMs

The installation of Next Generation ATMs continued throughout 2015, which accept banknote and cheque deposits. This service is of increasing appeal to customers, and were available at 53 locations at year end. Where installed, an average 55% of deposits are performed on these machines. Banca Popolare · Volksbank will continue making these investments to improve the efficiency of the resources used and automate the banking services.

Regulatory Amendments

Again in 2015, most of the application developments involved amendments which had to be made in accordance with numerous regulations. The regulations included repeated innovations and amendments on “anti money laundering” and “adequate controls”, fiscal monitoring and communications on balances and movements of customers, reporting and financial statements, the USA-Italy FATCA and CRS regulations for the prevention of international tax evasion.
As a whole, in 2015, about 40% of the application amendments made by the SEC on behalf of the banks referred to new regulatory obligations or related changes.

1.13.6 PROCESS INNOVATION

Tablets

From May 2013 branch transactions can be signed on tablets. Unlike in previous years, at Banca Popolare · Volksbank branches over 90% of accounting signatures are now on tablets. This percentage is considerably lower at former Marostica branches and there is consequently the potential for greater efficiency.
Lastly, tests were carried out for contract signing on tablets with a view to making this available in 2016.

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

The rationalisation of branch counters began in 2013 and continued throughout 2015, increasing the number of branches with this level of automation to 32. These machines are suitable for small and medium-sized branches with few operations in cash.
The allow staff to focus on consulting, in any event offering the option of serving customers who do not intend to make independent use of the Next Generation ATMs.
Tablets, Next Generation ATMs, Stand e-posts and Cash Recyclers with Touchscreen form the basis for the “paper-free branch”, no longer just a slogan for Banca Popolare · Volksbank but a tangible reality.

Payment Systems

In 2015 this service was intensely involved in the IT migration of Banca Popolare di Marostica Group branches to the IT system of Banca Popolare · Volksbank. The migrations were completed on 6 July and 5 October, respectively.
During the year there was a significant increase in operations from developments in the payments market, also as a result of the major disclosure and communications targeting our corporate customers, accompanied by suitably trained consultants, at the time of the migration to SEPA completed in 2014.
A constant increase was seen in the POS/e-commerce services segment in 2015.
Particular attention was given to the development of innovative solutions as part of the international payments system, which is one of the faster developing segments.

1.14 MUTUAL NATURE AND INITIATIVES FOR SHAREHOLDERS

1.14.1 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 stock broking transactions and services, including the activities recognised as mutually beneficial, and carry out any other transaction geared towards or in any case related to achieving the corporate purpose. The Company may belong to associations and consortiums and enter into agreements in Italy and abroad in order to achieve its corporate purpose". In accordance with the cooperative nature of the Company, management is focused on its main objective of establishing long-lasting relations with shareholders and customers, favouring the household and small and medium-sized enterprise segments, 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.

1.14.2 SHAREHOLDERS

As at 31 December 2015 the shareholding structure comprised 56,445 shareholders and 1,833 Banca Popolare · Volksbank shareholders not listed on the shareholders' register.

The 2015 shareholders' meeting, which involved the participation of 1,300 shareholders, set the issue price of shares at Euro 19.55, which includes Euro 4.00 nominal value, and Euro 0.30 per share as the dividend paid in 2015 for 2014.

A total of 1,513,540 shares were traded in 2015 for a value of over Euro 29.1 million, corresponding to about 3.37% 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 platform of Istituto Centrale delle Banche Popolari Italiane S.p.A. (ICBPI)

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

With Volksbank-Lounge, Banca Popolare · Volksbank wishes to strengthen local economic cycles, networks of relations and dialogue between shareholders in our catchment area of Northeast Italy.

The online community, launched in November 2013, had further functions and services added in 2015 and recorded a successful year. 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.

News for Shareholders

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.

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.

1.14.3 SPONSORSHIPS AND DONATIONS

Sponsorships

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

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

In 2015 Banca Popolare · Volksbank invested a total of Euro 655,462 in sponsorships.

The sectors that have benefited 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 145 associations in 2015. About 72.5% of the investment was related to sporting activities, while the remaining 27.5% benefited cultural, social and environmental associations.

The amounts managed directly by the branches to support local initiatives of small/medium sized entities should also be added to this amount. This amount came to a total of Euro 350,000 in 2015.

Sponsorship activities 2015	**Amount**	**% of total**
(in euro)		
Sport	475,002	72.47%
Culture	126,424	19.29%
Social	54,036	8.24%
Total	**655,462**	**100.00%**

Donations

Banca Popolare · Volksbank supports the area through donations also, supporting worthy causes. Generally, the donations are for public benefit, and can also be given to cultural institutions. Traditionally, the Company contacts local structures receiving such donations directly within their catchment area. There were about Euro 342,000 as a whole given in 2015. The beneficiaries included parishes, lay voluntary associations and local institutions.

1.15. OTHER INFORMATION

1.15.1. 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 inclusion 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 going concern, in the bank's operations and financial development the directors did not detect any situations that would raise 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 2015 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 a result of the acceleration clause or due to default of the liability's underlying contractual clauses.

1.15.2 DISCLOSURE ON 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 2015 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 (SPVs), 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, specifically guaranteed by portfolios of identified assets that are segregated from the issuer's assets. These assets are sold by the issuer to a specially established SPV.

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

Lastly, note that as set out in table "C.1.3 Exposures from main third party securitisations according to securitised asset type and exposure type", the Company holds a portion of senior tranches of HIPOCAT 15.1.50 TV, registered under held to maturity instruments (HTM) for Euro 0.8 million and regarding a securitisation of receivables.

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

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

Exposures to structured products

The main positions in structured credit securities issued by third parties as at 31 December 2015 are represented by corporate bonds, mainly from credit institutions, all in EU countries.

The overall exposure to covered bonds and structured securities, in terms of amounts recorded in the financial statements, is Euro 67.8 million, limited exposure with respect to the overall portfolio represented by debt securities (equal to about 3.9% in percentage terms). Of these, Euro 66.8 million were classified as available for sale ("AFS") while Euro 1.0 million were classified as held for trading ("HFT").

As previously mentioned, 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 due from the Italian State.

The structured securities total Euro 26.0 million on the financial statements, with the available for sale (AFS) portfolio amounting to Euro 25.0 million and the held for trading (HFT) portfolio amounting to Euro 1.0 million All these instruments have remaining maturity equal to or less than five years.

As regards the covered bonds (ABS), these amount to a total of Euro 41.8 million as at 31 December 2015, and are entirely classified as available for sale. All these instruments have remaining maturity equal to or less than ten years.

Please refer to the tables under assets, sections 2 and 4 of the notes to the accounts for further details on the financial instruments held for trading and the financial instruments classified as available-for-sale.

1.15.3 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)							
	2016	**2017**	**2018**	**2019**	**2020**	**After 2020**	**Total**
HFT	–		–	–	–	–	
AFS	187,444	142,418	84,690	116,948	127,386	100,491	759,377
HTM	–	25,273	15,672	–	10,501	98,496	149,942
LRO	–	–	–	–	–	–	–
Total	**187,444**	**167,691**	**100,361**	**116,948**	**137,886**	**198,987**	**909,318**

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

Exposure to sovereign debt – by issuing country					
(thousands of Euro)					
	HFT	**AFS**	**HTM**	**LRO**	**31.12.2015**
EU countries					
– Italy	–	753,523	149,942	–	903,464
– Spain	–	5,854	–	–	5,854
Non-EU countries	**–**	**–**	**–**	**–**	**–**
Total portfolio	**–**	**759,377**	**149,942**	–	**909,318**

There are no other exposures to sovereign debt. 50.1% of the total exposure held has a residual maturity of less than 3 years.

As at 31 December 2015, 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 -191,662, with an implicit spread duration of 2.49 years. There were no government securities classified as "Financial assets held for trading".

1.15.4 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 2015, 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.

1.16 BUSINESS OUTLOOK

Italy is gradually recovering. Exports, the component that has supported the economy in the last 4 years, are feeling the effects of problems on the non-EU markets. Domestic demand is gradually taking over from exports, particularly as regards consumption and stock replenishment. The building industry is stabilising after a lengthy decline. Signs of expansion are also coming from services and manufacturing. The uncertainty of foreign demand is noticeable in the investment prospects.

According to Bank of Italy data, GDP should rise by 0.2% in the fourth quarter, similar to the growth expected in the third quarter.

According to prospective analysis of the first quarter of this year, the recovery should strengthen also on the basis of stimuli for capital goods spending covered by the 2016 Stability Law, which should translate to an increase in investments.

Among the significant risks is the chance of slowdowns in the emerging economies, which could prove more incisive and longer than forecast thus far, and have strong repercussions on the financial and foreign exchange markets.

The monetary policy's task is to decisively overcome the risks of a drop in inflation, which could happen if the growth in demand is weaker than expected. This if the unused production capacity margins remain at their current extensive levels for a longer period, or if commodity prices should fall further and trigger retroactive effects on salary trends.

The ECB has confirmed its intention of continuing its monetary stimulus for growth. Action is therefore expected to continue as regards the purchase programme for covered bank bonds and securities issued against loans to businesses and households.

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 from the financial systems and reduce costs. Low exchange rates would also facilitate recovery.

1.17 SIGNIFICANT EVENTS AFTER YEAR END

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

REPORT BY THE BOARD OF STATUTORY AUDITORS

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REPORT BY THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2015 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 2015, 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 (Consolidated Law on Finance; T.U.F.).

With regard to the activities performed in 2015, we specifically inform the shareholders' meeting that:

- to the extent of our responsibility, we oversaw compliance with the law, regulations and the articles of association and compliance with the principles of proper management;
- the directors and head office provided us with significant information on management, its development and on transactions of significant equity, economic and financial impact;
- in 2015 we took part in the shareholders' meeting of 28 March 2015, all meetings of the Board of Directors and meetings of the Risk Committee and the Supervisory Board established by the Bank pursuant to Italian Legislative Decree 231/2001, and we confirmed validity of the management through periodic checks (23 meetings);
- the minutes of our inspections were made available to the Board of Directors and to Management, and we presented verbal and written reports to the Board of Directors on our activities;
- resolutions carried and implemented by the Board of Directors complied with law and the articles of association and did not appear to be clearly imprudent, reckless or risky, or involve any potential conflict of interest with resolutions passed by the shareholders' meeting, and they do not compromise the integrity of the bank's equity;
- we monitored the adequacy and function of the organisational structure, the system of internal controls, the risk management system, audits and accounting-administration of the Bank, and the reliability of the latter to correctly represent the affairs of the company. More specifically, meetings with the heads of the main corporate departments, the Independent Auditors, the manager responsible for the preparation of corporate accounting documents and the Internal Audit Department, did not reveal any critical issues relating to the adequacy or reliability of the administrative-accounting system in correctly representing the affairs of the company and providing proper financial disclosure;
- during the meetings with heads of the main corporate departments we acquired information required to carry out the institutional supervisory duties. Specifically, we earnestly interacted with the heads of the corporate control

departments (Risk Management, Compliance and Internal Audit), also on the basis of the results of activities and audits they performed, as well the reports they prepared;

- we oversaw the Bank's internal processes, especially with regard to procedures to grant credit, assess loans and manage non-performing positions;
- we met with members of the Independent Auditors, BDO Italia S.p.A., Milan, as required by art. 2409-septies of the Italian Civil Code and in no case has any divergence of opinion or assessment emerged, nor have any significant data or information emerged which should be mentioned in this report; we evaluated the independence of the Independent Auditors 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 Auditors. No critical issues emerged relating to the independence of the Independent Auditors;
- we checked the transactions falling within the scope of article 136 of the Consolidated Banking Act, and monitored compliance with the obligation, under art. 2391-bis of the Italian Civil Code, to adopt rules ensuring transparency and substantive and procedural correctness of transactions with related parties. No significant issues emerged from these checks. The disclosure on transactions with related parties is illustrated in Section H of the Notes to the accounts;
- we met with the Manager responsible for the preparation of corporate accounting documents who confirmed the adequacy and actual application of procedures pertaining to the financial reporting of the bank;
- 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 third parties and no facts emerged which warranted reporting or mention in this Report.

Significant economic, financial and equity transactions performed by the Bank

Based on information made available, the Board of Statutory Auditors reasonably considers that the most significant economic, financial and equity transactions performed by the Bank complied with the principles of proper management, laws and the articles of association, were not clearly imprudent, reckless or risky, or in conflict with resolutions or such as to compromise the integrity of the Bank's equity.

The following is reported:

- the merger of the Banca Popolare di Marostica Group into Banca Popolare dell'Alto Adige was finalised in 2015. The merger plan for Banca Popolare di Marostica, decided upon by the Boards of Directors of Banca Popolare dell'Alto Adige and Banca Popolare di Marostica on 24 October 2014, was approved by the Bank of Italy on 13January 2015. The shareholders' meetings of Banca Popolare dell'Alto Adige and Banca Popolare di Marostica approved the merger plan on 22 and 23 February 2015. The merger deed was signed on 23 March 2015, with legal, accounting and tax effects from 1 April 2015;
- The merger plan for Banca di Treviso, a subsidiary as at the acquisition date with 86.7% held, was decided upon by the Boards of Directors of Banca Popolare dell'Alto Adige and Banca di Treviso on 18 May 2015. It was approved by the Bank of Italy on 22 July 2015. In simple format, the merger was approved by the Board of Directors of Banca Popolare dell'Alto Adige on 28 August 2015 and by the shareholders' meeting of Banca di Treviso on 1 September 2015. It became legally effective on 5 October 2015. The accounting and tax effects were backdated to 1 April 2015, the date on which Banca Popolare dell'Alto Adige acquired control of Banca di Treviso;

- On 28 August 2015 and with powers assigned by the shareholders' meeting, the Board of Directors resolved upon a divisible share capital increase for a maximum nominal amount of Euro 20 million, through the issue of a maximum 5 million new ordinary shares with a par value of Euro 4.00 each. The issue price was set at Euro 19.20. The subscription period ended on 22 January 2016 with full subscription of the total offered. The transaction involved the issue of 4,987,103 shares for a total value of Euro 95.8 million, of which Euro 19.9 million as share capital and Euro 75.8 million as share premium. The transaction served to strengthen capital in the mid-term and to support the investment and development programme envisaged in the 2016-2020 Business Plan.

With reference to the integration of the Banca Popolare di Marostica Group, completed in 2015 and based on an itemised migration plan, the IT systems of Banca Popolare di Marostica and Banca di Treviso were fully integrated. Such action was necessary to maintain the efficiency of the organisation model and internal control.

Plan to amend the articles of association

On exceeding the threshold of Euro 8 billion in balance sheet assets, as introduced by Law Decree 03/2015, converted with amendments to Italian Law 33/2015, Banca Popolare dell'Alto Adige is required to arrange transformation into a joint stock company by 31 December 2016. On 5 February 2016, after the aforementioned threshold was exceeded, the Board of Directors assigned the General Manager the task of arranging the transformation.

On 22 December 2015, after obtaining opinion in favour from the Board of Statutory Auditors, the Board of Directors decided to amend the articles of association, to be submitted for approval by the shareholders' meeting called to approve the 2015 financial statements. The amendments to the articles of association form part of the plan to transform the Bank's legal format from a cooperative to a joint stock company pursuant to the aforementioned Italian Law Decree 3/2015 and also envisage the introduction of certain improvements to the overall governance structure of the Bank.

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 2015, we report the following:

- pursuant to art. 2409-bis of the Italian Civil Code, legal audits of Banca Popolare dell'Alto Adige accounts were performed by Independent Auditors BDO Italia S.p.A., as appointed by the shareholders' meeting;
- on 24 March 2016 the Independent Auditors released their report on the financial statements at 31 December 2015 pursuant to articles 14 and 16 of Italian Legislative Decree 39/2010. Note in this respect that it does not report any irregularities or inconsistencies with regard to the financial statements or the Directors' Report;
- at meetings with the Independent Auditors the application of the accounting standards, the recognition and representation in the financial statements of significant economic, financial and equity items were discussed. During these discussions the Auditors detected no anomalies, critical issues or omissions;
- we obtained the draft financial statements as at 31 December 2015, approved by the Board of Directors on 5 February 2016, and acquired information on the presentation format of the financial statements, their general

compliance with regulations in terms of format and structure, also taking into consideration IAS/IFRS international accounting standards and the provisions issued by the Bank of Italy in Circular no. 262 of 22 December 2005 and later updates;

- the notes to the accounts contain detailed information on the items of the balance sheet – concerning goodwill and other assets that underwent impairment tests also with the support of the Independent Auditors – and the income statement, together with other information required to provide a true and fair representation of the Bank's equity, economic and financial position;
- the Directors' Report describes the company performance during the financial year and contains an analysis of the Bank's situation and of the performance and results of operations. There is nothing that needs reporting on this point;
- none of the directors made recourse to the exceptions provided by art. 2423(4) of the Italian Civil Code;
- the Chairman of the Board of Directors, Otmar Michaeler and the Manager responsible for the preparation of corporate accounting documents, Alberto Caltroni, issued the certification on the financial statements pursuant to art. 154-bis, par. 5, of Italian Legislative Decree 58/98 on 5 February 2016, with no critical issues;

With reference to the proposed dividend distribution, taking account of the Supervisory Authorities' recommendations and the Bank's capitalisation, the Board of Statutory Auditors hereby approves the proposal made by the Board of Directors.

In accordance with art. 19 of Italian Legislative Decree 39/2010, auditing allowed us to monitor the administrative-accounting procedures related to financial disclosure, the effectiveness of the internal control systems and risk management, the efficiency of the auditing activities and the independence of the Independent Auditors.
Given all of the above, to the extent of its responsibilities the Board of Statutory Auditors raises no objections regarding the proposals of the Board of Directors for items on the agenda, including the proposed allocation of profit for the year.

Bolzano, 24 March 2016

THE BOARD OF STATUTORY AUDITORS

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

CERTIFICATION ON THE FINANCIAL STATEMENTS

CERTIFICATION ON THE FINANCIAL STATEMENTS

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 2015.

2. It is further certified that:

   2.1. the financial statements as at 31 December 2015:

   a) were drawn up in compliance with the applicable international accounting standards accepted within the European Community pursuant to (EC) regulations no. 1606/2002 of the European Parliament and 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, 5 February 2016

The Chairman of the Board of Directors

Otmar Michaeler

The Manager responsible for the preparation of corporate accounting documents

Alberto Caltroni

INDEPENDENT AUDITORS' REPORT

BDO

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INDEPENDENT AUDITORS' REPORT PURSUANT TO ARTICLES 14 AND 16 OF ITALIAN LEG. DECREE NO. 39/2010

To the shareholders of
Banca Popolare dell'Alto Adige società cooperativa per azioni (joint-stock cooperative)

Report on the financial statements

We have audited the annual financial statements of Banca Popolare dell'Alto Adige società cooperativa per azioni (joint-stock cooperative), comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and the cash flow statement as of and for the year ended 31 December 2015, a summary of the main significant accounting standards and other explanatory notes.

Responsibility of directors for the financial statements

The Directors are responsible for the report accompanying the financial statements which provides a true and fair view in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in accordance with Article 9 of Italian Leg. Decree No. 38/05.

Responsibility of the Independent Auditors

It is our responsibility to express a judgment on the financial statements based on our audit. We performed the audit in compliance with the international auditing standards (ISA Italia) drawn up in accordance with art. 11, paragraph 3 of Italian Legislative Decree 39/2010. These standards require compliance with the ethical principles, as well as the planning and performance of the audit in order to be reasonably certain that the financial statements do not contain significant errors.

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

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

Opinion

In our opinion, the financial statements provide a true and fair view of the equity and financial position, the economic result and cash flows of Banca Popolare dell'Alto Adige cooperativa per azioni (joint-stock cooperative) as of and for the year ended 31 December 2015, in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in accordance with Article 9 of Italian Leg. Decree No. 38/05.

Disclosure

We draw your attention to the details indicated by the directors in the directors' report and in the explanatory notes regarding the merger by incorporation of Banca Popolare di Marostica and Banca di Treviso completed in the year, highlighting the associated effects.

Report on other legal and regulatory provisions

Judgment of consistency of the directors' report with the financial statements

We performed the procedures indicated in auditing standard (SA Italia) no. 720B in order to express, as required by the legal provisions, an opinion on the consistency of the directors' report with the financial statements of the company Banca Popolare dell'Alto Adige società cooperativa per azioni (joint-stock cooperative) as of and for the year ended 31 December 2015. In our opinion, the directors' report is consistent with the financial statements of Banca Popolare dell'Alto Adige cooperativa per azioni (joint-stock cooperative) as of and for the year ended 31 December 2015.

Other aspects

The financial statements of Banca Popolare dell'Alto Adige cooperativa per azioni (joint-stock cooperative) as of and for the year ended 31 December 2014 were audited by the auditor in office at the time who, on 11 February 2015, expressed an unmodified opinion on these financial statements.

Milan, 24 March 2016

BDO Italia S.p.A.

Francesca Scelsi

Francesca Scelsi
Shareholder

FINANCIAL STATEMENTS

Balance Sheet

Assets		31.12.2015	31.12.2014(*)
(in euro)			
10.	Cash and cash equivalents	62,622,180	51,172,669
20.	Financial assets held for trading	39,093,738	46,982,315
40.	Financial assets available for sale	1,387,185,925	919,419,468
50.	Investments held to maturity	170,425,794	54,757,201
60.	Due from banks	44,803,704	39,420,360
70.	Loans to customers	6,447,870,911	5,124,169,380
100.	Investments	4,769,334	4,625,766
110.	Property and equipment	145,591,338	118,497,064
120.	Intangible assets	121,936,848	41,841,841
	of which:		
	– goodwill	*99,601,776*	*40,392,116*
130.	Tax assets	164,480,147	61,635,277
	a) current	*65,970,087*	*33,865,805*
	b) deferred	*98,510,060*	*27,769,472*
	of which: Law 214/2011	*86,611,064*	*25,054,972*
150.	Other assets	126,544,475	63,602,440
	Total assets	**8,715,324,394**	**6,526,123,781**

Liabilities and shareholders' equity		31.12.2015	31.12.2014(*)
(in euro)			
10.	Due to banks	838,462,663	585,675,436
20.	Due to customers	5,207,990,000	3,507,308,773
30.	Debt securities issued	1,570,686,783	1,435,639,039
40.	Financial liabilities held for trading	3,129,718	3,402,446
50.	Financial liabilities designated at fair value through profit or loss	9,692,320	158,578,508
80.	Tax liabilities	51,475,184	45,798,167
	a) current	*15,335,514*	*19,696,983*
	b) deferred	*36,139,670*	*26,101,184*
100.	Other liabilities	214,845,363	126,901,880
110.	Employee termination indemnities	21,260,432	20,188,914
120.	Provisions for risks and charges:	20,628,487	2,809,104
	a) pensions and similar commitments	–	–
	b) other provisions	*20,628,487*	*2,809,104*
130.	Valuation reserves	(15,302)	1,750,639
160.	Reserves	267,738,225	262,856,546
170.	Share premium reserve	307,527,281	202,458,684
180.	Share capital	179,535,732	152,508,440
200.	Profit (Loss) for the year (+/–)	22,367,508	20,247,205
	Total liabilities and shareholders' equity	**8,715,324,394**	**6,526,123,781**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Income Statement

Income Statement		31.12.2015	31.12.2014(*)
(in euro)			
10.	Interest and similar income	197,878,147	176,732,399
20.	Interest and similar expense	(65,400,300)	(65,374,324)
30.	**Interest margin**	**132,477,847**	**111,358,075**
40.	Fee and commission income	86,154,885	69,278,072
50.	Fee and commission expense	(8,612,504)	(8,240,210)
60.	**Net fee and commission income**	**77,542,381**	**61,037,862**
70.	Dividends and similar income	7,996,901	1,803,942
80.	Profits (losses) on trading	2,025,039	(1,836,509)
100.	Profits (losses) on disposal or repurchase of:	22,124,216	11,203,516
	a) receivables	*(2,190,918)*	*(1,236,059)*
	b) financial assets available for sale	*24,097,779*	*12,169,807*
	c) financial assets held to maturity	*161*	*2,465*
	d) financial liabilities	*217,194*	*267,303*
110.	Profits (losses) on financial assets and liabilities designated at fair value through profit or loss	114,180	18,173
120.	**Net interest and other banking income**	**242,280,564**	**183,585,059**
130.	Net losses/recoveries on impairment of:	(46,485,762)	(28,938,894)
	a) receivables	*(43,661,500)*	*(27,047,993)*
	b) financial assets available for sale	*(2,403,672)*	*(1,838,500)*
	c) financial assets held to maturity	–	–
	d) other financial transactions	*(420,590)*	*(52,401)*
140.	**Net income from financial activities**	**195,794,802**	**154,646,165**
150.	Administrative expenses:	(184,764,382)	(128,345,932)
	a) personnel expenses	*(97,953,754)*	*(73,898,465)*
	b) other administrative expenses	*(86,810,628)*	*(54,447,467)*
160.	Net provisions for risks and charges	(6,186,708)	(1,794,861)
170.	Net adjustments to /recoveries on property and equipment	(6,583,809)	(5,395,955)
180.	Net adjustments to /recoveries on intangible assets	(1,882,549)	(1,104,875)
190.	Other operating income/expenses	26,820,734	17,032,407
200.	**Operating costs**	**(172,596,714)**	**(119,609,216)**
210.	Profits (losses) on investments in associates and companies subject to joint control	143,568	(661,474)
240.	Profits (losses) on disposal of investments	71,979	17,664
250.	Income (loss) before tax from continuing operations	23,413,635	34,393,139
260.	Taxes on income from continuing operations	(1,046,127)	(14,145,934)
270.	**Net current operating profit (loss) after tax**	**22,367,508**	**20,247,205**
290.	**Net income (loss) for the year**	**22,367,508**	**20,247,205**

Statement of Comprehensive Income

Items		31.12.2015	31.12.2014(*)
(in euro)			
10.	**Net income (loss) for the year**	**22,367,508**	**20,247,205**
	Other comprehensive income after tax without reclassification to profit or loss		
40.	Defined benefit plans	1,219,482	(1,216,402)
	Other comprehensive income after tax without reclassification to profit or loss		
100.	Financial assets available for sale	(2,985,423)	3,442,687
130.	**Total comprehensive income after tax**	**(1,765,941)**	**2,226,285**
140.	**Comprehensive income (Item 10+130)**	**20,601,567**	**22,473,490**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Statement of Changes in Shareholders' Equity

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

(in euro)	Balance at 31.12.2014	Adjustment to opening balances	Balance at 01.01.2015	Allocation of result from previous year		Changes during the year								Shareholders' equity at 31.12.2015
				Reserves	Dividends and other allocations	Changes to reserves	Equity Transactions					Stock Options	Comprehensive income for 2015	
							Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares			
Share capital	**152,508,440**	**–**	**152,508,440**	**–**	**–**	**–**	**27,027,292**	**–**	**–**	**–**	**–**	**–**	**–**	**179,535,732**
a) ordinary shares	152,508,440	–	152,508,440	–	–	–	27,027,292	–	–	–	–	–	–	179,535,732
b) other shares	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Share premium reserve	**202,458,684**	**–**	**202,458,684**	**–**	**–**	**–**	**105,068,597**	**–**	**–**	**–**	**–**	**–**	**–**	**307,527,281**
Reserves	**262,856,546**	**–**	**262,856,546**	**8,809,072**	**–**	**(3,927,393)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**267,738,225**
a) retained earnings	262,856,546	–	262,856,546	8,809,072	–	(3,927,393)	–	–	–	–	–	–	–	267,738,225
b) other	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Valuation reserves	**1,750,639**	**–**	**1,750,639**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,765,941)**	**(15,302)**
Equity instruments	**–**	**–**	**–**	**–**	**–**		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Treasury shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit/(Loss) for the year	**20,247,205**	**–**	**20,247,205**	**(8,809,072)**	**(11,438,133)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**22,367,508**	**22,367,508**
Shareholders' equity	**639,821,514**	**–**	**639,821,514**	**–**	**(11,438,133)**	**(3,927,393)**	**132,095,889**	**–**	**–**	**–**	**–**	**–**	**20,601,567**	**777,153,444**

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
				Reserves	Dividends and other allocations	Changes to reserves	Equity Transactions					Stock Options	Comprehensive income for 2014	
							Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares			
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**

Cash Flow Statement

A. OPERATING ACTIVITIES	31.12.2015	31.12.2014
(in euro)		
1. Operations	**59,027,354**	**48,740,420**
– interest received (+)	197,878,147	176,732,399
– interest paid (-)	(65,400,300)	(65,374,324)
– dividends and similar income (+)	7,996,901	1,803,942
– net fee and commission income (+/-)	77,542,381	61,037,862
– personnel expenses (-)	(97,953,754)	(73,898,465)
– other costs (-)	(88,271,106)	(56,865,570)
– other revenues (+)	28,281,212	19,450,510
– taxes and duties (-)	(1,046,127)	(14,145,934)
– costs/revenues after tax from discontinued operations (+/-)	–	–
2. Cash flows generated by/absorbed by financial assets	**(81,520,002)**	**(415,187,170)**
– financial assets held for trading	313,910,245	30,019,216
– financial assets designated at fair value through profit or loss	–	–
– available-for-sale financial assets	(320,761,631)	(303,548,446)
– loans to customers	(177,079,482)	(231,805,373)
– due from banks: on demand	155,751,788	1,378,789
– due from banks: other receivables	10,558,655	78,425,726
– other assets	(63,899,577)	10,342,918
3. Cash flows generated/absorbed by financial liabilities	**166,374,616**	**390,940,964**
– due to banks: on demand	(24,407,625)	(40,729,351)
– due to banks: other amounts due	147,071,876	(19,470,235)
– due to customers	506,192,469	482,273,086
– debt securities issued	(253,413,139)	140,735,108
– financial liabilities held for trading	(46,377,304)	(24,904,862)
– financial liabilities designated at fair value through profit or loss	(148,772,008)	(139,027,388)
– other liabilities	(13,919,653)	(7,935,394)
Net cash flow generated/absorbed by operating activities	**143,881,968**	**24,494,214**

B. INVESTMENT ACTIVITIES		
1. Cash flows generated by	**81,734**	**1,753,650**
– sales of investments in associates and companies subject to joint control	–	531,473
– dividends from investments in associates and companies subject to joint control	–	–
– sale/redemption of financial assets held to maturity	–	370,799
– sale of property and equipment	81,734	17,664
– sale of intangible assets	–	–
– sale of business branches	–	833,714
2. Cash flows absorbed by	**(130,872,992)**	**(20,523,944)**
– purchase of investments in associates and companies subject to joint control	–	(661,474)
– purchase of investments held to maturity	(115,668,432)	–
– purchase of property and equipment	(14,532,572)	(19,496,454)
– purchase of intangible assets	(671,988)	(366,016)
– purchase of business branches	–	–
Net cash flow generated/absorbed by investment activities	**(130,791,258)**	**(18,770,294)**

C. FINANCING ACTIVITIES		
– issue/purchase of treasury shares	–	–
– issue/purchase of equity instruments	(1,762,870)	2,566,452
– dividend distribution and other allocations	(11,441,205)	(11,438,133)
Net cash flow generated/absorbed by financing activities	**(13,204,075)**	**(8,871,681)**
NET CASH FLOW FROM/ABSORBED BY ACTIVITIES DURING THE YEAR	**(113,364)**	**(3,147,761)**

RECONCILIATION	31.12.2015	31.12.2014
Cash and cash equivalents at the beginning of the year	51,172,669	54,320,430
Cash from the merger of Banca Popolare di Marostica and Banca di Treviso	11,562,875	–
Net cash flow from/used in activities during the year	(113,364)	(3,147,761)
Cash and cash equivalents: impact of exchange differences	–	–
Cash and cash equivalents at year end	**62,622,180**	**51,172,669**

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 2015 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 2015 or those approved in previous financial years, whose application is prescribed or permitted for 2015, 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 2015 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.

The directors confirm explicitly and without reservations that the statement of compliance with the international accounting standards, as stated in IAS 1, integrates the prerequisite for the exemption of Banca Popolare · Volksbank from compulsory filing of the financial statements in XBRL format envisaged in the Prime Minister's Office Decree of 10 December 2008.

Section 2 BASIS OF PREPARATION

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

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

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

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

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

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

- *Going concern:* the financial statements are drafted assuming that the bank will continue as a going concern;
- *Accrual basis accounting:* the financial statements are drafted according to the accrual principle, irrespective of the date of settlement;
- *Consistency of presentation:* the presentation and classification of the items in the financial statements is constant from one financial year to the next, except when a principle or an interpretation requires a change in the presentation or in which another presentation or classification is deemed more appropriate making allowance for the provisions of IAS 8. In the latter case, the disclosure regarding the changes made with respect to the previous year is provided in the notes to the accounts;
- *Materiality and aggregation:* the balance sheet and income statement formats consist of items (marked by Arabic numerals), of sub-items (marked by letters), and of further details for information purposes (the "of which" entries of the items and of sub-items). The items, the sub-items and added details make up the financial statement accounts. The formats comply with those defined by the Bank of Italy in the cited Circular No. 262 of 22 December 2005 and subsequent updates. New items may be added to the above-mentioned formats if their content cannot be attributable to any of the items already envisaged by the formats and only if significant amounts are involved. The sub-items envisaged by the formats may be grouped together when one of the following two conditions are met:
  a. the amount of the sub-items is negligible;
  b. this grouping helps clarify the financial statements; in this case, the notes to the accounts distinctly contain the sub-items subject to grouping.

  Accounts that have no associated sums for the current and previous financial years are not indicated in the balance sheet or in the income statement.
- *Principle of substance over form:* transactions and other events are recorded and represented in conformity with their substance and economic reality and not only in accordance with their legal form;
- *Offsetting:* assets and liabilities, and income and costs are not offset unless this is allowed or required by an international accounting standard or by an interpretation thereof or prescribed by the aforementioned Bank of Italy Circular;
- *Comparative information:* for each balance sheet and income statement item, comparative information relative to the previous financial year is provided, unless an accounting standard or an interpretation does not allow it or prescribes otherwise. The data relative to the previous financial year may be appropriately adapted, where necessary, to guarantee comparability of the information relative to the current financial year. Any non-comparability, adaptation or the impossibility to adapt the information are indicated and commented on in the notes to the accounts.

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

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

Uncertainties associated with the use of estimates

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

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

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

- quantifying impairment of financial assets, especially for loans and financial assets available for sale;
- determining the fairness of the value of equity investments;
- determining the fair value of the financial instruments to be used for reporting purposes in the financial statements and the use of valuation models for determining the fair value of financial instruments not listed in active markets;
- determining the fair value of financial assets and liabilities when it is not readily available on capital markets. In this case, the discretionary elements lie in the choice of valuation models or input parameters which might not be observable on the market;
- determination of the impairment of property and equipment and intangible assets, including goodwill;
- quantifying the provisions for risks and charges, pension funds, petitum uncertainty, contingency timeframes and actuarial assumptions used;
- estimates of the recoverability of deferred tax assets.

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

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

Section 3 SUBSEQUENT EVENTS

Share capital increase

On 28 August 2015 and implementing the powers assigned, the Board of Directors resolved upon a divisible share capital increase for a maximum nominal amount of Euro 20 million, through the issue of a maximum 5 million new ordinary shares with a par value of Euro 4.00 each and the same characteristics as the shares outstanding at the opening date of the offer. The newly issued shares must be fully paid up in cash, both nominal value and share premium, at the time of subscription, with option right pursuant to art. 2441 of the Italian Civil Code for Banca Popolare · Volksbank shareholders as at the date of placement. The Board of Directors also established that the pre-emption right is fully negotiable and transferable to third parties, and that the shares for which shareholders do not exercise the option and pre-emption rights pursuant to art. 2441 of the Italian Civil Code can be offered to the general public up to the share capital investment limits established by art. 30, paragraph 2 of the Consolidated Banking Law.

On 9 October 2015 the Board of Directors set the unit subscription price for the newly issued shares at Euro 19.20 and the option ratio as 1 (one) newly issued share for every 9 (nine) shares held.
The Offer Period opened on 30 November 2015. Governed by the Prospectus, the Offer closed on 22 January 2016 with all the shares subscribed. The summary results of the Offer were as follows:

	No. Applicants	No. Recipients	No. Shares assigned	Nominal amount placed Euro	%
Shareholders (offered under option)	26,828	26,828	4,904,795	19,619,180	98.35
Public (offered to the general public)	1,268	347	82,308	329,232	1.65
Total	**28,096**	**27,175**	**4,987,103**	**19,948,412**	**100.00**

The share capital increase involved the issue of 4,987,103 shares for a total value of Euro 95,752,377.60, of which Euro 19,948,412 as share capital and Euro 75,803,965.60 as share premium.

Cooperative banks reform – Italian Law no. 33 of 24 March 2015

Italian Law Decree no. 3 of 24 January 2015, converted with amendments to Law no. 33 of 24 March 2015, supplemented by Bank of Italy implementing provisions issued on 9 June 2015 with the 9th update to Circular no. 285 of 17 December 2013, introduced into Italian law the obligation for cooperative banks with assets of more than Euro 8 billion to transform into joint stock companies within 12 months of exceeding the threshold.
After verifying from the financial statements as at 31 December 2015 that the threshold had been exceeded, Banca Popolare · Volksbank initiated the procedure for transformation into a joint stock company. At the meeting of 5 February 2016, after obtaining an opinion from the Board of Statutory Auditors, the Board of Directors approved the plan for initiatives it intends to take to comply with the legislation.
The Plan contains general instructions which – without prejudice in any event to strict compliance with legal terms – could if necessary be better defined as progress is made, to take into account amongst other things of any new aspects that could emerge in the reference framework.

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 5 February 2016.

Independent Audit

The financial statements are subject to audit by the company BDO Italia S.p.A. in accordance with Italian Legislative Decree 58/98, in fulfilment of the mandate conferred upon said company for the 2010-2018 period by means of shareholder's resolution dated 20 April 2010. The full audit report is published together with the annual financial report, pursuant to 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 2015 or subsequently.

Approval Regulation	**Title**
EU Reg. no. 634 of 14 June 2014 Applicable to the first financial year starting on 17 June 2014	IFRIC 21 Interpretation of IFRIC no. 21 Levies – The document deals with the issue of the moment in which to recognise, from an accounting perspective, a liability to pay a levy recorded in compliance with IAS 37 "Provisions, contingent liabilities and contingent assets", as well as the recognition of a liability relating to the payment of a levy whose timescale and amount are uncertain. In particular, the interpretation clarifies that the obligating event for the recognition of a liability to pay a levy is the activity that triggers payment of the same, as defined by the legislation. It is also clarified that: a) an entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period; b) the preparation of the financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period; c) the liability to pay a levy is recognised progressively if the obligating event occurs over a period of time, i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time; Lastly, it is clarified that the same recognition principles applied for the annual financial statements are applied to the interim financial statements; therefore, a liability to pay a levy is only recorded if there is a present obligation to the pay the levy at the end of the reference year of the interim financial statements.
(EU) Regulation no. 1361/2014 of 18 December 2014 Applicable prospectively from the year starting on 1 July 2014	Annual cycle of improvements to IFRS 2011–2013 – the document is incorporated in the context of the ordinary activities of rationalising and clarifying the international accounting standards. The objective of the annual improvements is to deal with the necessary matters relating to the inconsistencies identified in the International Financial Reporting Standards (IFRS) or clarifications of terminology, which are not of an urgent nature.

In relation to the above, no significant impacts have been noted for the purpose of drafting this Financial Report.
Detailed below are the new international accounting standards, or amendments to standards already in force, for which application became mandatory from 1 January 2015. The option of early application was not adopted for these.

Approval Regulation	**Title**
EU Reg. no. 28 of 17 December 2014 Applicable to the first financial year starting on or after 1 February 2015	Annual cycle of improvements to IFRS 2010–2012 – the document is incorporated in the context of the ordinary activities of rationalising and clarifying the international accounting standards. The objective of the annual improvements is to deal with the necessary matters relating to the inconsistencies identified in the International Financial Reporting Standards (IFRS) or clarifications of terminology, which are not of an urgent nature.
EU Reg. no. 29 of 14 June 2015 Applicable to the first financial year starting on or after 1 February 2015	Defined benefit plans: employee contributions (Amendments to IAS 19) – The amendment aims to facilitate, in observance of given conditions, the accounting of defined benefit plans which envisage contributions from employees or third parties. If certain conditions are not respected, the recognition of these contributions is more complex given that they must be attributed to single periods of the plan through an actuarial calculation of the associated liability.

New definitions of “Non-performing exposures (NPE)” and “Forbearance (FBE)”

On 20 January 2015 the Bank of Italy published the 3rd update to Circular no. 272/2008 which amended the definitions for impaired financial assets to align them to the new concepts of “non-performing exposures” and “forbearance” introduced by the Implementing Technical Standards on Supervisory Reporting (ITS) to standardise the definition of exposures for supervisory purposes.

The supervisory regulations classify non-performing financial assets into the following categories:

- doubtful;
- unlikely to pay;
- past due.

The sum of these categories corresponds with the aggregate “non-performing exposures” pursuant to the ITS. The concepts of substandard and restructured exposures have been suppressed. The category of “forbearance exposures” was also introduced. Falling under the scope of application of the new categories for non-performing financial assets are cash assets (loans and debt securities) and “off-balance sheet” assets (guarantees issued, irrevocable and revocable commitments to disburse funds), other than financial instruments allocated to the trading book such as “financial assets held for trading” and derivative contracts. Financial assets can be classified as non-performing regardless of the existence of any guarantees (secured or personal) against the assets in question.

In particular, non-performing exposures are identified as one of the following situations:

- *past due:* material exposures past due by more than 90 days. A materiality threshold establishes the level of materiality;
- *unlikely to pay:* where it is considered unlikely that the debtor will fully satisfy all credit commitments without enforcement of the guarantees, regardless of the existence of past due amounts or the number of days past due.

Forbearance exposures are divided into:

- non-performing exposures with forbearance measures: depending on the individual case, such exposures can be included under doubtful, unlikely to pay or past due;
- other forbearance exposures corresponding to “forborne performing exposures”.

The presence of forbearance measures, therefore, does not constitute a separate exposure category, but rather a feature of the exposures, whether performing or non-performing.

Forbearance consists in a measure of tolerance granted to a debtor who is in (or about to be in) difficulty in complying with his financial commitments (“financial difficulty”).

The term “forbearance” refers to one of the following actions:

- a change in the previous terms and conditions of a contract that the debtor is considered to be unable to satisfy due to financial difficulty (a “problem debt”) resulting in insufficient capacity to service the debt, and which would not have been granted if the debtor had not found himself in financial difficulty;
- the total or partial refinancing of a problem debt contract, which would not have been granted if the debtor had not found himself in financial difficulty.

Forbearance can result in a loss for the lender.

Forbearance is present in any of the following situations:

a) difference in favour of the debtor between the amended contractual terms and the previous contractual terms;
b) inclusion in the amended contract of terms more favourable than those that other debtors with a similar risk profile would have obtained from the same entity at that time.

Contributions to deposit guarantee schemes and to resolution mechanisms

By Directives 2014/49/EU of 16 April 2014 and 2014/59/EU of 15 May 2014, respectively known as the "Deposit Guarantee Schemes Directive (DGS)" and "Bank Recovery and Resolution Directive (BRRD)", and the establishment of the Single Resolution Mechanism (SRM; EU Regulation 806/2014 of 15 July 2014), the European legislator imposed significant changes upon the bank crisis regulations, with the strategic aim of strengthening the single market and system stability. As better illustrated below, these newly introduced regulations have a significant impact on the financial position in relation to the mandatory setup of specific funds from financial resources which, from 2015, must be provided in the form of contributions paid by the credit institutions.

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

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

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

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

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

The new aspect for Italian banks, introduced by Directive 2014/49, is the new fund financing system. In fact, this changes from an ex-post contribution system in which the funds are requested when needed, to a hybrid system envisaging that funds must be contributed in advance until a target minimum level, equal to 0.8% of deposits covered, is reached, and this within 10 years of entry into force of the Directive (so by 3 July 2024).

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

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

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

On 9 July 2015 the Italian Parliament approved Law no. 114 of the 2014 European Delegation, which assigned the Government with the task of adopting all regulatory measures necessary to implement the aforementioned Directives (2014/49/EU and 2014/59/EU) into national law.

On 3 December 2015, in relation to the launch of the new funding mechanism, the Interbank Fund for Deposit Protection disclosed the amount of the ex-ante contribution for 2015 as 50% of the annual amount – calculated in reference to the June 2015 date – and established the total amount of Euro 205,972,064, to be divided among the participating banks and with a potential later balance of to be requested triggered by the risk-based adjustment. The amount payable by Banca Popolare · Volksbank was Euro 1.1 million.

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

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

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

Among the new aspects introduced by the Directive is the expectation that bail-outs of banks in difficulty, previously borne by the state budget, is now the responsibility of their shareholders, bondholders and creditors (so "bail-ins").

Crisis prevention is based on the setup, by the bank and the supervisory authority respectively, of a recovery plan and a resolution plan, and on the authority's assessment of the bank's "resolvibility".

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

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

The contributions of each entity are calculated as a ratio between the entity's total liabilities (net of own funds and protected deposits) and the total liabilities of all authorised credit institutions in that Member State. As for the DGSs, in order to achieve the target level the financial means provided by the credit institutions can include up to a maxim 30% of payment commitments with low-risk asset-backed guarantees, free from encumbrance.

Italian Legislative Decrees 180 and 181 of 16 November 2015 provided the rules for the implementation of Directive 2014/59/EU into Italian law.

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

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

On 24 November 2015, following set up of the National Resolution Fund, the Bank of Italy defined the calculation methods for the annual contribution due from each bank. In particular, the annual percentage contributions were calculated on the basis of total liabilities net of own funds and protected deposits. The baseline contribution was adjusted according to the risk profile of the intermediaries. The risk adjustment can result in a discount (of a maximum 20%) or a penalty (of up to 50%) to be applied to the baseline contribution. The amount payable by Banca Popolare · Volksbank for 2015 was Euro 1.9 million.

In addition, on 27 November 2015 the Bank of Italy announced that, taking into consideration the need for immediate recourse to the Fund's resources as part of the well-known Crisis Resolution Programme for Banca delle Marche S.p.A., Banca Popolare dell'Etruria e del Lazio S.c.p.a., Cassa di Risparmio della provincia di Chieti S.p.A. and Cassa di Risparmio di Ferrara S.p.A. (all already under extraordinary administration), it became necessary to arrange collection of the extraordinary contribution, in accordance with the provisions of art. 83 of Italian Legislative Decree 180/2015 and art. 4 of the Deed of Establishment of the Resolution Fund.

The extraordinary contribution requested was equal to three years of the ordinary contribution, amounting to a total for the overall Italian banking system of Euro 2,350 million, against total injection from the National Resolution Fund of Euro 3.6 billion. The difference was financed by means of a bridge loan provided by a pool of leading Italian banks. The amount payable for the year by Banca Popolare · Volksbank was Euro 5.8 million.

Domestic tax consolidation option

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

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

This tax regime permits individual subsidiaries taking part in the tax consolidation, after calculating the tax owed, to transfer the corresponding taxable income (or tax loss) to the parent company, who will calculate – adjusting the intercompany interest expense as envisaged for 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 participating in the consolidation, with identification of the tax credit or tax payable to the Inland Revenue.

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

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

The financial statements as at 31 December 2015 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 2015 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

Recognition criteria

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

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 from the underlying structured financial instrument when the unbundling requirements have been met.
A derivative contract is a financial instrument whose value is related to the progression of an interest rate, the performance of a financial instrument, the price of a good, a currency exchange rate, a price or rate index or other indexes; it is settled on maturity and requires a limited initial net investment.
Derivative contracts embedded in complex financial instruments must be separately recognised when the following conditions are met:
- their economic characteristics and risks are not strictly correlated with the characteristics of the underlying contract;
- the embedded instruments, even if separate, satisfy the definition of a derivative;
- the hybrid instruments of which they are part are not carried at fair value with the relevant variations recognised in the income statement.

Reclassifications to other financial asset categories are not allowed unless other unusual events occur and it is very unlikely they will reoccur, 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 financial assets held to maturity, financial assets available for sale, loans).
The transfer value is represented by the fair value at the time of reclassification. During reclassification, checks are performed to detect the presence of any embedded derivative contracts to be separated.

Valuation criteria

Following initial recognition, financial assets held for trading are recorded at fair value at the reference date. The effects of the valuation are recorded in the income statement.
To determine the fair value of the financial instruments listed on an active market, reference is made to 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. Such impairment losses cannot be subsequently reversed.

Derecognition criteria

Financial assets are derecognised when the contractual rights to cash flows deriving from the assets themselves expire or when the financial assets are transferred, with the substantial transfer of all related risks and rewards.
On the other hand, whenever a significant portion of the risks and rewards relevant to the financial assets sold have been retained, they continue to be recorded in the financial statements, even though legally the ownership of said assets has actually been transferred.
If it is impossible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised in the financial statements whenever no control of any type has been retained over them. Otherwise, the preservation, even partial, of control entails retention of the assets in the financial statements by a measure equal to its residual interest, measured by the exposure to changes of value of the assets sold and changes in their cash flows.
Lastly, the financial assets sold are derecognised from the financial statements if the contractual rights to receive the related cash flows have been retained, with the simultaneous assumption of an obligation to pay said flows, and only them, to other third parties.

Income recognition criteria

The profits and losses from trading and the capital gains and losses from valuation of the trading portfolio are recorded in the income statement under item "80. Profits (losses) on trading", with the exception of those relative to derivative instruments associated with the fair value option 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.

2. *Financial assets available for sale*

Recognition criteria

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.
Financial assets recognised in this category after reclassification of financial assets held to maturity are recorded at their fair value as at the date of reclassification.

Classification criteria

This category includes the non-derivative financial assets not classified as loans, financial assets held for trading, financial assets held to maturity or assets designated at fair value through profit or loss.
In particular, this item includes debt securities not subject to trading and not classified in the other portfolios cited above, equity investments not managed for trading purposes and not qualifiable as investments in subsidiaries, associates and joint ventures, including private equity investments, the shares of the subscribed syndicated bank facilities which, from the beginning, are meant to be sold.
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 as financial assets held to maturity and loans and receivables, when there is the ability and intent to hold the instrument for the foreseeable future and when the conditions for recognition provided under IAS 39 have been met. The transfer value is represented by the fair value at the time of reclassification. The fair value of the instrument at the reclassification date becomes the new cost or amortised cost depending on the situation.

Valuation criteria

Following initial recognition, financial assets available for sale continue to be designated at fair value with the change in value resulting from application of the original effective interest rate (known as “amortised cost”) recognised in profit or loss, whereas any gains or losses resulting from a change in fair value are recognised in a specific reserve under shareholder’s equity until the financial asset is derecognised or an impairment loss is recorded.
Fair value is determined based on the criteria already illustrated for financial assets held for trading.
Equity securities and UCIT units for which there is no price available on an active market and for which the fair value may not be measured reliably, and related derivatives that must be paid by delivery of the aforesaid instrument, are kept at cost and written down in the event of impairment.
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 that reserve and charged to the income statement.

As regards equity securities, a significant or prolonged reduction of fair value below the carrying amount is evidence of impairment.
If there is a difference between the fair value and the carrying amount, this in itself is insufficient reason for recognition of an impairment loss. This evidence is simply a first sign of a possible impairment, which must however be supplemented by a qualitative analysis, aimed at identifying possible negative events, that might imply the assets' carrying amount is not fully recoverable.
If the reasons that led to recognition of the impairment loss cease to apply following an event occurring after the recognition, a write-back is recorded in the income statement if it refers to debt securities or loans, or to a specific reserve under shareholder's equity for equity securities. For debt securities and loans, this reversal of the impairment loss does not in any case result in a carrying amount greater than what the amortised cost would have been had the loss not been recognised.

Derecognition criteria

The available-for-sale financial assets are derecognised in the financial statements when the contractual rights to the cash flows resulting from the assets expire or if the sale leads to the substantial transfer of all risks and rewards associated with the assets themselves.
On the other hand, if a significant portion of the risks and rewards relevant to the financial assets sold has been retained, they continue to be recorded in the financial statements, even though legally the ownership of said assets could have been transferred to third parties.
If it is impossible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised in the financial statements whenever no control of any type has been retained over them. Otherwise, the preservation, even partial, of control entails retention of the assets in the financial statements by a measure equal to its residual interest, measured by the exposure to changes of value of the assets sold and changes in their cash flows.
Lastly, the financial assets sold are derecognised from the financial statements regardless of whether the contractual rights to receive the related cash flows have been retained, with the simultaneous assumption of an obligation to pay said flows, and only them, to other third parties.

Income recognition criteria

Interest, calculated using the original effective interest rate, which considers the amortisation/depreciation, the transaction costs and the differences between the cost and the redemption value, are recognised on the income statement.
Gains and losses from changes in fair value are recognised in a specific equity reserve until the asset is derecognised. On derecognition of the asset, the equity reserve is recognised to the income statement for the period.
Dividends on an available-for-sale equity instrument are recognised in the income statement when the right to receive payment arises.

3. *Financial assets held to maturity*

Recognition criteria

The financial asset is initially recognised on the settlement date. At the date of initial recognition, the financial assets classified in this category are recognised at fair value, which normally corresponds to the consideration paid, including any directly attributable costs and income.
If recognition in this category takes place due to reclassification from financial assets available for sale or from financial assets held for trading, the fair value of the assets on the reclassification date is assumed to be the amortised cost of the asset.

Classification criteria

This category includes debt securities with a fixed term and fixed or calculable payments which the Company has the intent and capacity to hold until maturity.
If, during a financial year, prior to maturity, a non-insignificant amount of the instruments classified in this category is sold or reclassified, the remaining financial assets classified as held to maturity are reclassified as financial assets available for sale and the portfolio in question may not be used for the following two financial periods (known as the "tainting rule") unless the sales or reclassifications:

- are so close to maturity or to the instrument option exercise date that the fluctuations of market interest rates would not have a significant effect on the fair value of the financial asset;
- occurred after payment of substantially all the original capital of the financial asset through ordinary programmed or prepaid payments; or
- can be attributed to an uncontrollable isolated event, that is non recurring and therefore cannot not be reasonably predicted.

Valuation criteria

After initial recognition, the financial assets held to maturity are valued at amortised cost using the original effective interest rate method. Gains or losses in reference to fair value changes are recognised in the income statement at the time the assets are derecognised.
At the close of the year and of the infra-annual reporting periods, impairment testing is performed to detect objective evidence of impairment. If such evidence exists, the amount of the loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate recognised at the date of initial recognition). The impairment loss is recognised in the income statement.
If the reasons for impairment cease to apply following an event occurring after recognition of the impairment loss, write-backs are made to the income statement. The write-back may not result in a carrying amount of the instrument that exceeds what would have been the amortised cost of the instrument if the impairment had not been recognised.

Derecognition criteria

The aforesaid financial assets are derecognised from the financial statements when the contractual rights to cash flows deriving from the assets themselves expire or when the financial assets are sold, with the substantial transfer of all related risks and rewards.
Similarly, whenever a significant portion of the risks and rewards relevant to the financial assets sold continue to be recorded in the financial statements even though legally the ownership of said assets has actually been transferred.
If it is impossible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised in the financial statements whenever no control of any type has been retained over them. Otherwise, the preservation, even partial, of control entails retention of the assets in the financial statements by a measure equal to its residual interest, measured by the exposure to changes of value of the assets sold and changes in their cash flows.
Lastly, the financial assets sold are derecognised from the financial statements where, despite retention of the contractual rights to receive the related cash flows, there is the simultaneous assumption of an obligation to pay said flows, and only them, to other third parties.

Income recognition criteria

Profits or losses are recognised in the income statement at the time the assets are derecognised. Interest is recognised according to the amortised cost criterion, using the original effective interest rate method.
If objective evidence of impairment exists at the reporting date, the amount of the loss recognised in the income statement is the difference between the asset carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.
If the reasons for impairment cease to apply following an event occurring after recognition of the impairment loss, write-backs are made to the income statement. The write-back cannot result in a carrying amount higher than what would be the amortised cost value of the financial asset had the impairment loss never been recognised.

4. Loans

Recognition criteria

Loans are initially recognised on the date they were disbursed or, in case of a debt security, on the settlement date, based on the fair value of the financial instrument. The latter is normally equal to the amount disbursed, or to the subscription price, including costs/income directly attributable to the individual loan and calculable since the start of the transaction, even if paid at a later date. Costs which, despite having the aforesaid characteristics, will be repaid by the debtor or can be considered as standard internal administrative costs are excluded.
If recognition in this category takes place due to reclassification from financial assets available for sale or from financial assets held for trading, the carrying amount corresponds with the fair value of the assets as at the date the transfer was decided and is assumed to be its new amortised cost. For further details, refer to the subsequent paragraph “Other information, Reclassifications between financial asset portfolios (IAS 39 amendment)”.

The initial recognition value of any loans disbursed at conditions other than those of the market is at the fair value of such loans, calculated using measurement techniques. The difference between the fair value and the amount disbursed or subscription price is recognised in the income statement.

Classification criteria

Loans include loan commitments with customers and with banks that anticipate fixed or in any case calculable payments, not listed in an active market. The “loans” item also included trade receivables, loans originating from financial leasing transactions, repurchase agreements with forward sellback obligations, securities purchased through subscription or private placement, with calculated or calculable payments, not listed in active markets.
Reclassifications from the Loans category to other categories of financial assets provided by IAS 39 are not allowed.
As regards loans acquired without recourse, these are included under the item loans and receivables, subject to verifying that no contractual clauses exist that significantly alter the transferee company’s risk exposure.

Valuation criteria

After initial recognition, loans are valued at amortised cost, equal to the initial recognition value reduced/increased by capital repayments, by any value adjustments/reversals and by amortisation – calculated using the original effective interest rate method – of the difference between the sum disbursed and that repayable on maturity, usually the cost/income directly attributed to the individual loan. The effective interest rate is identified by calculating the rate at which the present value of future flows of the loan, for capital and interest, is equal to the amount disbursed, including costs/income attributed to the loan.
The estimation of cash flows must factor in all the contractual clauses that may influence the amounts and the maturity dates, without however considering the expected losses on the loan. This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the loan.
The amortised cost method is not used for loans whose short duration makes this effect negligible or in any case where the effect resulting from application of the original effective interest rate method is insignificant, regardless of the duration. Such loans are valued at historical cost. The same valuation criterion is adopted in the case of loans with no fixed maturity or good till cancelled.
At the end of each year or infra-annual reporting period, loans are tested to identify those which, as a result of events occurring after recognition, show objective evidence of impairment. Included in this category are loans assigned the status of unlikely to pay or doubtful, in compliance with current regulatory provisions.
These non-performing loans are subject to an analytical measurement process or a process to calculate expected losses by similar categories and analytical allocation to each position. The amount of write-down of each loan is equal to the difference between the carrying amount at the time of measurement – amortised cost – and the present value of expected future cash flows, calculated by applying the original effective interest rate method. The write-down is recorded in the income statement.
The expected cash flows take into account the expected recovery times, the estimated realisable value of any guarantees, as well as the expected costs incurred to recover the credit exposure.
The effective original rate of each loan remains unchanged over time even if there has been a restructuring of the relationship that entailed the change in contractual rate and even if the relationship becomes interest free.

The original value of the loan is written back in subsequent financial years to the extent 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. The write-back is recorded in the income statement and in any case may not exceed the amortised cost which the loan would have had in the absence of previous adjustments.
The list of impaired loans also includes past due exposures, i.e. loans continuously overdue or show repeated delayed payments, according to the current rules established by regulatory provisions. The adjustments of said loans, though determined in accordance with a lump-sum/statistical-type calculation method, are represented as "Specific value adjustments", in observance of instructions contained in the Bank of Italy's Circular no. 262.
Performing loans for which no objective evidence of impairment loss has been individually identified, including those to counterparties in countries at risk, are valued on a collective basis. This valuation takes place for loan categories homogeneous in terms of credit risk and the relevant percent impairments are estimated taking time series data into account, based on facts observable on the date of the valuation, that allow the value of latent impairment to be estimated in each loan category. The collectively determined value adjustments are charged to the income statement. At the end of each year and each infra-annual reporting period, any additional adjustments or write-backs are recalculated differently in relation to the entire portfolio of performing loans on the same date.

Derecognition criteria

The loans sold are derecognised in the financial statements only if the disposal led to the substantial transfer of all risks and rewards associated with the loans. However, whenever the risks and rewards relative to the loans transferred have been retained, the loans continue to be recorded among assets, even though legally the ownership of the loan has actually been transferred.
If it is impossible to ascertain the substantial transfer of the risks and rewards, the loans are derecognised whenever no control of any type has been retained over them. Otherwise, the retention, even partial, of control entails retention of the loans by a measure equal to the residual interest, measured by the exposure to changes of value of the loans sold and changes in their cash flows. Lastly, the loans sold are derecognised if the contractual rights to receive the related cash flows have been retained, with the simultaneous assumption of an obligation to pay said flows, and only them, to other third parties.

Income recognition criteria

Impairment losses, as defined in the previous paragraph on loan valuation, are recognised in the income statement.
If the reasons underlying the impairment cease to apply following an event occurring after recognition of the impairment loss, write-backs are made to the income statement. The write-back cannot result in a carrying amount higher than what would be the amortised cost value of the loan had the impairment loss never been recognised.
Write-backs associated with the passing of time, corresponding to interest accrued during the year based on the original effective interest rate previously used to calculate the analytical impairment losses, are recorded under "net losses/recoveries on impairment".

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

Recognition criteria

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

Classification criteria

Any financial asset defined as such at the time of purchase can be classified under financial instruments measured at fair value with a contra entry in the income statement, in accordance with the international accounting standards. If the financial instruments are classified in this category, they cannot be reclassified in any other financial asset category.
A financial asset is designated at fair value during initial recognition, with the effects of said designation recorded in the income statement, only when:

1. it involves a hybrid contract containing one or more embedded derivatives and the embedded derivative significantly modifies the cash flows that would otherwise be anticipated by the contract;
2. the designation at fair value through profit or loss allows better disclosure insofar as:
   i. it eliminates or considerably 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 related profits and losses on a different basis;
   ii. a group of financial assets, financial liabilities, or both is managed and its performance is valued at fair value according to a documented risk management or investment strategy, and the information on the group is provided internally on that basis to the key management personnel.

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

Valuation criteria

Following initial recognition, the financial assets in question are recorded at fair value. 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.
On the other hand, whenever a significant portion of the risks and rewards relevant to the financial assets sold have been retained, they continue to be recorded in the financial statements, even if their ownership is transferred.

Income recognition criteria

The valuation results are recorded in the income statement.

6. *Hedging Transactions*

Recognition criteria

Hedging transactions are recognised in the balance sheet at their fair value.

Classification criteria

Risk hedging transactions seek to neutralise potential recognisable losses on a specific component or group of components attributable to a specific risk, in case that particular risk actually materialises.
IAS 39 envisages the following types of hedges:

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

Valuation criteria

After initial recognition, hedging derivatives are carried at fair value. In case of fair value hedging, the change in fair value of the hedged component is offset by the change in fair value of the hedging instrument. This offsetting is recognised by recording the changes in value in the income statement, referring both to the hedged item (as regards the variations produced by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect.
The derivative instrument is designated as a hedge if formalised documentation of the relationship between the hedged instrument and the hedging instrument exists and if it is in effect when the hedge begins and, prospectively, throughout the duration of the hedge. The hedge's effectiveness depends on the measure to which the changes in fair value of the hedged instrument are offset by those of the hedging instrument.
Therefore the effectiveness is appraised by comparing the aforesaid changes, taking into account the intent pursued by the company at the time the hedge was implemented. Effectiveness is achieved when the changes in fair value of the hedged financial instrument neutralise, i.e. in the 80-125% range, the changes in the fair value of the risk being hedged with reference to the hedged instrument. The effectiveness assessment is conducted at the end of each financial year or infra-annual reporting period by means of:

- forward testing, that justifies the application of hedge accounting, in that testing demonstrates its expected effectiveness;
- back testing, that show the degree of hedge effectiveness attained during the reference period. In other words, they measure how much the actual results diverge from perfect hedging.

If the tests do not confirm the effectiveness of the hedge, from that point on, the accounting of hedging transactions, according to that stated above, is interrupted, the derivative hedging contract is reclassified among trading instruments, and the hedged financial instrument reacquires the valuation criteria corresponding to its classification in the financial statements.
As at the balance sheet date, the Company has no hedging transactions in place.

Derecognition criteria

Hedging derivatives are derecognised from the balance sheet on expiry. If the tests do not confirm the effectiveness of the hedge, the hedge accounting is interrupted and the derivative hedging contract is reclassified among trading instruments.
If a hedge is terminated for reasons other than disposal of the hedged component, changes in the value of the component recognised in the financial statements whilst the hedge remains effective are instead recorded in the income statement on an amortised cost basis for interest-bearing financial instruments, or in a lump sum in other cases.

Income recognition criteria

If hedging is effective, the change in fair value of the hedged components is offset against the change in fair value of the hedging instrument. This offsetting is recognised by recording the changes in value in the income statement, referring both to the hedged item and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect.

7. Investments

Recognition criteria

The financial asset is initially recognised on the settlement date. At the time of initial recognition, the financial assets classified in this category are recognised at cost, including any directly attributable accessory charges.

Classification criteria

This item includes interests in wholly-owned subsidiaries, in associates or in companies subject to joint control that are recorded on the basis of the equity method.
Entities in which the power is held to determine the financial and management policies 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 power to appoint of the majority of 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 jointly controlled.

Associates are considered to be non-subsidiaries in which the Company exercises significant influence. 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.

Valuation criteria

If evidence exists that the value of an investment may have been impaired, the recoverable value of the investment, which represents the greater value between the fair value, net of selling costs, and the value in use, is estimated. Value in use is determined by discounting the future cash flows that the investment may generate, including the final disposal value of the investment. If the recovery value is less than the carrying amount, the corresponding difference is recognised in the income statement.
If the reasons for impairment cease to apply following an event occurring after recognition of the impairment loss, write-backs are made to the income statement.

Derecognition criteria

Investments are derecognised when the contractual rights to the cash flows resulting from the assets expire or if the financial asset is sold with substantial transfer of all related risks and rewards.
If there is a loss of control, association or joint control, as a result of partial disposal of the investment, the residual interest held is recorded in the financial statements at fair value and the profits and losses with respect to the previous carrying amount are charged to the income statement.

Income recognition criteria

The carrying amount is subsequently increased or reduced to 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.
The last validly approved financial statements of the investee are used as reference.
If value adjustments have to be made due to changes in the shareholders’ equity of the investee company that have not been recorded in their income statement, the amount of those changes pertaining to the Company is recorded directly in the equity reserve items.

8. Property and equipment

Recognition criteria

Property and equipment are initially recognised at cost which, in addition to the acquisition cost, includes all accessory costs directly attributable to the acquisition and the commissioning of the asset.
The extraordinary maintenance expenses that result in an increase in the future economic rewards, are allocated to increase the value of the assets, whereas other ordinary maintenance costs are charged to the income statement in the financial year in which they are incurred.

Classification criteria

Property and equipment include land, operating properties, investment property, technical systems, fixtures, fittings, furnishings and equipment of any type.
These are tangible assets held for use in production or in the supply of goods and services, to be leased to third parties, and that are expected to be used for more than one period. Properties are classed as investment property if they are held for the purpose of achieving rental revenues or an increase in value or both. Properties for mixed use are classified according to their main use (operating or investment).
Assets used under the terms of finance leases, even if the lessor has retained legal ownership, are also recorded under this item.

Valuation criteria

Property and equipment, including non-operating properties, are valued at cost, less any depreciation expense and impairment losses. Property and equipment are depreciated every year throughout their useful life on a straight line basis.
Property is depreciated at a rate considered to be reasonable to represent the depreciation of the assets over time following their use, considering the residual useful life and the extraordinary maintenance expenses that increase the depreciable amount.
The following are not depreciated:

- land, since it has an infinite useful life. If its value is incorporated in the building value, due to application of the component approach, it is considered an asset separable from the building; the value of the land and of the building are subdivided based on independent expert opinions;
- assets qualifying as artistic heritage, since the useful life of a work of art cannot be estimated and its value is normally destined to increase over time.

Derecognition criteria

Property and equipment are derecognised from the balance sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Income recognition criteria

Depreciation is recognised in the income statement. If any evidence exists that an asset may have suffered an impairment loss, a comparison is made between its carrying amount and its recoverable amount, equal to the higher between the fair value, net of selling costs, and the value in use of the asset, understood to be the actual value of future cash flows expected from the asset. Any adjustments are recognised in the income statement.
If the reasons that led to recognition of the impairment loss cease to apply, a write-back, 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.

9. *Intangible assets*

Recognition criteria

Intangible assets are recognised 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 the asset's cost can be reliably determined. Otherwise, the cost of the intangible asset is recognised in the income statement in the financial year in which it is incurred.

Classification criteria

Intangible assets are identifiable non-monetary assets, without physical substance, originating from legal or contractual rights, and possessed for use in a multiyear period.
In particular, intangible assets include:
- technology-based intangible assets, such as application software, which are amortised as a function of the assets' obsolescence and over a maximum period of five years;
- costs incurred internally for the development of software projects are intangible assets and are recorded under assets only if all the following conditions are fulfilled: i) the cost attributable to the development can be reliably calculated, ii) there is the intention, availability of financial resources and technical capacity to make the asset available for use or sale, iii) it can be proven that the asset can produce future economic benefits. Capitalised software development costs only include the costs incurred that can be directly attributed to the development process. Capitalised software development costs are systematically amortised over the estimated life of the relative product/service so as to reflect the way that the future economic benefits deriving from the asset are expected to be consumed by the entity from the beginning of production and throughout the estimated life of the product;
- intangible assets associated with customers represented by the valuation, when aggregating, of the asset management relations, the insurance portfolio and the core deposits. These assets, all with finite lives, are originally valued, using a rate that represents the time value of money and the specific risks of the asset, by time-discounting the flows representing the income margins over a period that expresses the residual contractual or estimated lifetime of the relations in place at the time of aggregation;
- goodwill, which represents the positive difference between the acquisition cost and the fair value of the assets and liabilities owned by an acquired 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

For assets with finite useful lives, the cost is amortised on a straight-line basis or through accelerated amortisation with allowances determined as a function of the inflow of economic rewards expected from the asset.
Intangible assets with infinite useful lives are not subject to systematic amortisation, but to periodic impairment tests.

Every year – and any time evidence of an impairment loss exists – a test is performed to verify the adequacy 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.

Income recognition criteria

Amortisation is recognised in the income statement. If there is any evidence demonstrating that an asset with a finite useful life may have suffered an impairment loss, the recovery value of the asset will be estimated. The amount of the impairment loss, recognised in the income statement, is equal to the difference between the asset carrying amount and the recoverable value. The recoverable value is represented by the greater of the fair value, net of selling costs, and the recovery value. If the reasons that led to the write-down of an intangible asset component other than goodwill, a write-back is recognised in the income statement. The write-back cannot exceed the value the asset would have had, net of amortisation, if calculated in the absence of previous impairment losses.

10. Non-current assets and groups of assets discontinued and related liabilities

Recognition and classification criteria

Non-current assets and groups of assets and liabilities that are discontinued are classified under these items.
Classification under this item is possible when the disposal is deemed highly probable. In this case these assets and liabilities are valued at the lesser value between the carrying amount and their fair value net of selling or divestiture costs.

Valuation and income recognition criteria

If the assets being disposed of are depreciable, the depreciation process ceases from the financial year in which they are classified among discontinued assets. The related income and expenses are shown in the income statement under separate items, net of the tax effect when they refer to discontinued operations. In this case, the same economic information is also presented under separate items for the comparative periods shown in the financial statements.

11. Current and deferred taxes

Recognition criteria

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

They therefore represent the balance of current and deferred taxes related to the income for the year.

If the deferred tax assets and liabilities regard transactions that involved the shareholders' equity on a direct basis but with no effect on the income statement (such as adjustments due to the first time application of IAS/IFRS or the measurement of available-for-sale financial instruments), they are recorded as a contra entry in shareholders' equity, involving specific reserves where provided for (usually the valuation reserves).

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

The latent taxation referring to the "taxable only if distributed" items in equity is not recorded in the financial statements since the amount of the available reserves already subject to taxation means that it can be considered that no taxable transactions will be made.

Classification criteria

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

Deferred tax assets and liabilities are recognised in the balance sheet with open balances and no offsetting, recorded under "Tax assets" and "Tax liabilities" respectively.

When the results of transactions are recognised directly in shareholders' equity, current taxes, deferred tax assets and deferred tax liabilities are also recorded in shareholders' equity.

Tax liabilities include the allocations, made based on IAS 37, to manage the expenses that could result from already announced audits or in any case from ongoing disputes with the tax authorities.

Subsequent to adoption of the domestic tax consolidation with reference to the investment in VOBA Invest S.r.l. in liquidation, 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 items 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 and determined based on 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 against taxes of later financial years. The current tax assets also include 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 balances offset, whenever settlement will take place based on the net balance, due to the existence of a legal right to offsetting.

Deferred tax assets and liabilities

Deferred taxes are determined based on the so-called balance sheet liability method, making allowance for the tax effect associated with 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, “taxable temporary differences“ are understood to be those differences that will result in taxable income in future years, and “deductible temporary differences” those that will result in deductible income in future years.
Deferred taxes are calculated applying the tax rates established by the statutory provisions in force to the taxable temporary differences for which taxes are likely to be incurred and to the deductible temporary differences for which it is reasonably certain that future taxable income will result when the corresponding tax deductions are made (the “probability test”).
Deferred tax assets and liabilities relative to the same tax and falling due in the same period are offset.
Whenever the deferred tax assets and liabilities refer to components that affect the income statement, the corresponding entry is represented by the income taxes.

Valuation criteria

Deferred tax assets and liabilities are periodically assessed to take into account any regulatory or tax rate changes.

Derecognition criteria

Deferred tax assets and liabilities are derecognised in the year in which:
- the originating temporary difference becomes taxable in reference to deferred tax liabilities or becomes deductible in reference to deferred tax assets;
- the originating temporary difference is no longer relevant for tax purposes.

Valuation and income recognition criteria

Income taxes are recognised in the income statement, except for those relating to items debited or credited directly in shareholders’ equity. Current income taxes are calculated on the taxable income for the period. Income tax payables and receivables are recognised at the value it is expected will be paid to/recovered from the tax authorities, applying the tax rates and regulations in force.

12. Provisions for risks and charges

Recognition and classification criteria

Retirement benefits and similar commitments

The provisions for retirement benefits were set up to implement company agreements and can be classified as defined benefit plans. The liabilities relating to these plans and the related social security contribution costs are calculated on the basis of actuarial assumptions by applying the "Projected Unit Credit" method, which involves projecting future payments on the basis of time series statistical analyses and the demographic curve and the financial 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 obligation at the date of the financial statements is also adjusted by the fair value of any assets serving the plan.
The actuarial gains and losses are recognised in a specific equity reserve.

Other provisions

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 recognised if and only if:

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

The amount recognised as a provision represents the best estimate of the expense required to fulfil the obligation existing as at the reporting date and reflects risks and uncertainties that inevitably characterise a large number of facts and circumstances.
When the financial effect associated with the passing of time is significant and the payment dates of obligations can be reliably estimated, the provision is time discounted at the market rates in force as at the reporting date.
The item "Provisions for risks and charges" includes the provisions relative to long term services and to services subsequent to the termination of employment dealt with by IAS 19 and the provisions for risks and charges dealt with by IAS 37.
The item provisions for risks and charges does not include write-downs due to the impairment of guarantees issued and of similar credit derivatives in accordance with IAS 39, which are recorded in the financial statements under the item "Other liabilities".
The sub-item "other provisions for risks and charges" includes the allocations against presumed losses for petitions and lawsuits, including revocatory action, the estimated disbursement for customer claims regarding stock broking activity, as well as a reliable estimate of other disbursements against any other legal or implicit obligations existing as at the close of the financial year.

Derecognition criteria

Provisions are only utilised against the charges for which they were originally recognised. If it is considered no longer probable that the obligation will require the use of resources, the provision is reversed by reallocation to the income statement.

Valuation and income recognition criteria

Amounts recognised as provisions are reviewed at every reporting date and are adjusted to reflect the best estimate of the expense required to fulfil obligations existing as at the close of the period.
The effect of time discounting, the effect of the passing of time and that relating to changes in interest rates are recorded in the income statement under net provisions for the period.

13. Payables and debt securities issued

Recognition criteria

Initial recognition is based on the fair value of the liabilities, usually equal to the amount received or to the issue price plus any additional costs/income directly attributable to the individual funding or issue transaction and that have not been reimbursed by the creditor. Internal administrative costs are excluded. Such financial liabilities are recorded on receiving the deposits or on issue of the debt securities.
Reverse repurchase agreements are recorded in the financial statements as deposits for the amount paid in the spot transaction.

Classification criteria

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

Valuation and income recognition criteria

After initial recognition, the financial liabilities are valued at amortised cost using the original effective interest rate method. Exceptions to this are short-term liabilities, where the time factor proves to be negligible, that remain recorded at the collected value and where any charges are recognised in full in the income statement.

Derecognition criteria

Financial liabilities recorded under these items are derecognised from the balance sheet following the repurchase of previously issued securities, as well as at the time of settlement or maturity. In this case, the difference between the carrying amount of the liability and the amount paid for its purchase is recorded in the income statement.
Any re-placement of own liabilities on the market subsequent to their repurchase is considered a new issue with recognition of the liability on the basis of the new placement price, without any effect on the income statement.

14. Financial liabilities held for trading

Recognition criteria

The initial recognition of financial liabilities occurs on the settlement date for debt securities and equity instruments and on the date of subscription for derivative contracts.
Initial recognition is made based on the fair value of the liability, normally equal to the amount collected, without considering the transaction costs or income directly attributable to the instrument that are charged directly to the income statement.

Classification criteria

This item includes the negative value of the trading derivative contracts carried at fair value and the cash financial liabilities held for trading.
Also included are the negative values of derivatives associated with assets and liabilities carried at fair value, the embedded derivatives that pursuant to IAS 39 have been separated from the host composite financial instruments, as well as any liabilities deriving from technical losses generated by securities trading.

Valuation criteria

Following initial recognition, financial liabilities held for trading are recorded at fair value. With regard to the fair value measurement criteria, reference should be made to the previous paragraph on the valuation of financial assets held for trading.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or infra-annual reports when they expire or are extinguished. Derecognition also occurs when previously issued liabilities are repurchased. The difference between the carrying amount of the liability and the amount paid for its purchase is recorded in the income statement.

Income recognition criteria

The profits and losses from trading and the capital gains and losses from valuation of the trading portfolio are recorded in the income statement under “Profits (losses) on trading”, except those relating to derivatives associated with the fair value option which are instead classified under “Profits (losses) on financial assets/liabilities designated at fair value through profit or loss”.

15. Financial liabilities designated at fair value

Recognition criteria

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

Classification criteria

A financial liability is designated at fair value through profit or loss in the following cases only:

1. when it 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; or
2. the designation at fair value through profit or loss allows better disclosure insofar as:
   i. it eliminates or considerably 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 related profits and losses on a different basis;
   ii. a group of financial assets, financial liabilities, or both is managed and its performance is valued at fair value according to 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 liabilities in question are carried at fair value from the time of initial recognition. The initial income and expenses are immediately charged to the income statement.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or infra-annual reports when they expire or are extinguished.
Where financial liabilities are represented by shares issued, they can also be cancelled if repurchased: the difference between the carrying amount of the liability and the amount paid for its purchase is recorded in the income statement.
Any re-placement of own securities on the market subsequent to their repurchase is considered a new issue with recognition at the new placement price, without any effect on the income statement.
Please refer to paragraph “17 – Other information, method used to calculate the fair value of financial instruments” for further information on the framework of the liabilities in fair value option, the methods used to calculate the fair value and the quantification of own creditworthiness.

Income recognition criteria

The valuation results are recorded in the income statement.

16. Currency transactions

Recognition criteria

Foreign currency transactions are recorded, at the time of initial recognition, in the reporting currency, applying the exchange rate in effect on the date of the transaction to the amount in foreign currency.

Valuation criteria

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

- the monetary items are translated at the exchange rate recorded as at the closing date;
- the non-monetary items measured at historical cost are translated at the exchange rate in effect on the date of the transaction;
- the non-monetary items measured at fair value are translated at the exchange rate in effect on the closing date.

A monetary component is the right to receive, or the obligation to deliver, a fixed or determinable number of monetary units. Conversely, the fundamental characteristic of 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.

Derecognition criteria

The criteria indicated for the corresponding financial statement items are applied. The exchange rate used is that in effect at the date of settlement.

Income recognition criteria

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

When a profit or a loss relative to a non-monetary component is recorded in shareholders’ equity, the exchange difference relative to said component is also recognised in shareholders’ equity. Similarly, when a profit or a loss is recognised in the income statement, the relative exchange difference is also recognised in the income statement.

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

Other assets

Assets than cannot be attributed to other balance-sheet asset items are recorded here. Amongst others, the item includes:

a) gold, silver, and precious metals;
b) accrued income other than that capitalised on the relevant financial assets;
c) any inventories in accordance with the definition of IAS 2;
d) improvements and incremental expenses incurred on third-party assets other than those attributable to the item "property and equipment". The renovation costs of unowned properties are capitalised considering the fact that, for the duration of the lease contract, the user company has control over the assets and may draw future economic benefits therefrom. The aforesaid costs classified under "Other assets" as provided in the Bank of Italy Instructions are depreciated for a period not greater than the duration of the lease contract;
e) receivables related to the supply of non-financial goods or services;
f) tax receivables other than those recognised under Item 130 "Tax assets".

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

Other liabilities

Liabilities that cannot be attributed to other balance sheet liabilities appear in this item.
The item includes, by way of example:

a) the payment arrangements that must be classified as liabilities in accordance with IFRS 2;
b) the initial recognition value of guarantees issued and similar credit derivatives in accordance with IAS 39, as well as subsequent write-downs due to their impairment;
c) liabilities associated with payment for supplies of non-financial goods and services;
d) accrued expenses other than those to be capitalised on the relevant financial liabilities;
e) tax liabilities other than those recognised under Item 80 "Tax liabilities".

Employee termination indemnities

Subsequent to the entry into force of the 2007 Finance Act, that brought forward the supplementary pension reform under Italian Legislative Decree no. 252 of 5 December 2005 to 1 January 2007, the employee termination indemnities are considered to be a "post employment benefit" classified as follows:

- “defined contribution plan” for the portions of employee termination indemnities maturing from 1 January 2007 (date of entry into force of the supplementary pension reform pursuant to Italian Legislative Decree no. 252 of 5 December 2005), both for cases in which the employee chooses a supplementary pension plan and in cases of allocation to the INPS Treasury fund. The amount accounted for these portions as personnel expenses is calculated on the basis of the contributions due without the application of actuarial calculation methods;
- “defined benefit plan” and therefore recorded on the basis of the actuarial value calculated using the “Projected Unit Credit” method for the portion of employee termination indemnities accrued up to 31 December 2006.

The amounts relating to “defined benefit plans” are recorded on the basis of their actuarial value calculated using the “Projected Unit Credit” method, without pro-rata application of the service provided since it is a current service cost of the employee severance indemnity and almost entirely accrued, and its revaluation for coming years is not expected to provide significant benefits for the employees.
For 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 due date, with respect to the total to pay and advance until the entire obligation has been paid.
The service costs for the plan are recorded as personnel expenses, whilst actuarial gains/losses are immediately included in the calculation of net payables to employees as a contra-entry to a shareholders’ equity item (OCI, Other comprehensive income) in the statement of comprehensive income for the period.

Provisions for guarantees and commitments

The provisions on an analytical and collective basis, regarding the estimation of any payments associated with credit risk relating to guarantees and commitments, calculated by applying the same criteria previously reported with reference to loans, are recognised under “Other liabilities”, as provided in Bank of Italy Instructions.

Valuation reserves

This item includes valuation reserves relating to available-for-sale financial assets, foreign investment hedges, cash flow hedges, translation differences, “individual assets” and groups of discontinued assets, and to actuarial gains (losses) on defined benefit plans. Valuation reserves recognised in application of special revaluation laws are also included, even if subject to special-rate taxation.

Share capital and treasury shares

The item share capital includes the amount of the shares, both ordinary and preference, issued net of any subscribed capital not yet paid in. The item is presented gross of any treasury shares held by the Company. The latter are presented with a negative sign under “treasury shares” among the balance sheet liabilities.
The historical cost of treasury shares repurchased and the profits or losses from their subsequent sale are recognised as changes in shareholders’ equity.
Any direct transaction costs relative to a share capital transaction, such as for example a share capital increase, are recorded as reduction of shareholders’ equity, net of any related tax benefit.

Securitisations

All outstanding securitisations were performed after 1 January 2004.

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

Consequently, the loans appear in the financial statements as “Assets sold and not derecognised” with respect to the loan received from the special purpose vehicle, net of securities issued by the SPV and subscribed by the originator Company. Similar presentation criteria, based on substance over form, are applied for recognition on an accrual basis.

b) Recognition of revenues and costs

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

- interest amounts are recognised on an accruals basis according to the contractual interest rate, or effective interest rate if the amortised cost method is applied; The item interest income (interest expense) also includes the positive (negative) spreads or margins, accrued up to the reporting date with respect to financial derivative contracts:
  a) classified under trading portfolio in the balance sheet, but related to financial assets and/or liabilities measured at fair value (“fair value option”);
  b) related to the assets and liabilities classified in the trading portfolio and which envisage the payment of spreads or margins with more than one due date;
- default interest, if envisaged by contract, is recorded in the income statement only when actually collected;
- dividends are recognised in the income statement during the year in which their distribution was decided;
- commissions for service revenues are recorded, on the basis of contractual arrangements, in the period in which the services were provided. The commissions considered in the amortised cost in order to calculate the effective interest rate are recorded under interest;
- revenues or costs resulting from the sale of financial instruments, calculated as the difference between the amount paid or received from the transaction and the fair value of the instrument, are charged to the income statement when recording the transaction if the fair value can be calculated with reference to official prices available on active markets, or for assets and liabilities on the basis of measurement techniques that use market-observable reference benchmarks other than listed prices for the financial instrument level 1 that are observable for the asset or liability (level 1 and level 2 of the fair value hierarchy). If the reference benchmarks used for the measurement are not observable on the market or the instruments show reduced liquidity (level 3), the financial instrument is recorded at an amount equal to the transaction price; the difference compared to the fair value is recorded in the income statement for the duration of the transaction;
- profits and losses from financial instruments trading are recognised in the income statement when the sale is concluded, on the basis of the difference between the amount paid or received and the carrying amount of the instrument;

– revenues received from the sale of non-financial assets are recorded when the sale is concluded, unless most of the risks and benefits related to the asset have been retained.

Costs are recognised in the income statement in the periods in which the related revenues were recorded. If the correlation between costs and revenues is only possible in a generic and indirect way, the costs are recognised systematically and logically over several periods.

Costs that cannot be associated with the income are recognised immediately in the income statement.

c) Reclassifications among financial asset portfolios (IAS 39 amendment)

On 13 October 2008, the IASB approved an amendment to IAS 39 and IFRS 7, approved with emergency procedures by the European Commission on 15 October 2008 with Regulation no. 1004/2008.

Based on this amendment, under specific conditions, financial instruments recorded at the time of acquisition among “Financial assets held for trading” or “Financial assets available for sale” may be reclassified to another accounting category. Before this amendment, the general rule anticipated that category transfers were not allowed, except for transfers between the “Financial assets available for sale” and “Financial assets held to maturity” categories.

Based on the instructions in paragraphs 50D and 50E of the new version of IAS 39, the following reclassifications may be made:

– financial instruments, other than derivatives, previously classified as financial instruments held for trading. However, it is not possible to reclassify financial instruments in the category “Financial assets designated at fair value through profit or loss” after adoption of the “fair value option”. The new accounting category of destination is “Loans and receivables”. The condition to qualify for reclassification is that, on the transfer date, the financial instrument complies with the requirements anticipated for classification in the “Loans and receivables” portfolio and that the company no longer intends to trade the securities subject to reclassification, having achieved its intention of holding the financial instrument for the foreseeable future or until maturity;
– the non-derivative financial instruments classified in the category “Financial assets available for sale” to the accounting category “Loans and receivables”, if the corresponding financial instrument, on the reclassification date, met the definition for the “Loans and receivables” category and the company now has the intention and capacity to hold it for the foreseeable future or until maturity.

Any other non-derivative debt or equity instrument may be reclassified from the category “Financial assets held for trading” to the category “Assets available for sale” or from the category “Assets held for trading” to “Assets held to maturity” (only for debt instruments), whenever said instruments are no longer held for trading in the short term; however this is admissible in accordance with paragraph 50B in rare cases only.

The reclassified financial asset is recorded in the new category (“Loans and receivables”, “Financial assets held to maturity” or “Financial assets available for sale”) at its fair value, which represents the new cost or amortised cost as at its reclassification date.

Once transferred, the financial instruments follow the accounting valuation and recognition rules characteristic of the destination category, except in the cases specified below; therefore, for assets valued at amortised cost, the effective rate of return to be used starting from the date of the reclassification must be determined.

For the reclassified assets, every subsequent positive change in the expected cash flow helps determine the effective interest rate as at the reclassification date and will be recorded throughout the remaining residual life of the instrument instead of modifying the asset’s carrying amount with a contra-entry in the income statement, as anticipated for assets not subject to reclassification.

Vice versa, any subsequent decrease in the estimated cash flows from the reclassification date will follow the rules previously in force, i.e. they will be immediately recorded in the income statement if they present an impairment loss.
The profits and losses previously suspended in the shareholders' equity reserve for financial assets available for sale, if referring to an instrument with a predetermined maturity, are amortised throughout the investment's life, according to the amortised cost criterion; 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 settlement.
In case of reclassification of the financial asset and until its settlement, it is necessary to provide an illustration of the consequential effects and of those that would have occurred in the absence of reclassification.

d) Business Combinations and Goodwill

A business combination consists in the joining of separate companies or business activities into a single entity required to prepare financial statements.
A combination may give rise to a participatory relationship between the Parent Company acquirer and the subsidiary acquired. Under these circumstances, the acquirer applies IFRS 3 in the consolidated financial statements, whereas in the separate financial statements it recognizes the interest acquired as an investment in subsidiaries applying accounting standard IAS 27 "Consolidated and Separate Financial Statements".
A combination may also anticipate acquisition of the net assets of another entity, including any goodwill, or also the acquisition of another entity's capital (mergers, business transfers and acquisitions of business branches). A combination of this type does not translate into an investment relationship similar to that between a parent company and a subsidiary and therefore, in this case, accounting standard IFRS 3 also applies in the acquirer's separate financial statements.
Business combinations are recorded using the acquisition method, based on which the identifiable assets acquired, the identifiable liabilities assumed, including potential liabilities, must be recognised at their respective fair values as at the acquisition date.
The excess consideration transferred with respect to the fair value of the identifiable net assets is recognised as goodwill and is allocated, as at the acquisition date, to the individual cash generating units, or to the groups of cash generating units which should benefit from the synergies of the combination, regardless of the fact that other assets or liabilities of the acquiree are assigned to said units or groups of units.
If the consideration of the transfer is less than the fair value of the identifiable net assets, the difference is immediately recognised in the income statement as revenue under item "Other operating income", after having made a new measurement to ascertain the correct identification process for all the assets acquired and liabilities assumed.
The consideration transferred in a business combination is equal to the fair value, as at the acquisition date, of the assets disposed, the liabilities incurred and the equity instruments issued by the acquirer in exchange for obtaining control over the acquiree. The consideration that the acquirer transfers in exchange for the acquiree includes any assets and liabilities resulting from an agreement on the potential consideration, to be recognised as at the acquisition date based on fair value. Modifications may be made to the consideration transferred if they derive from additional information on facts and circumstances that existed as at the acquisition date and are recognisable within the measurement period of the business combination (that is within twelve months from the date of acquisition, as specified below). Every other change deriving from events or circumstances subsequent to the acquisition, such as, for example, that recognised to the seller associated with the attainment of specific income performance, must be recognised in the income statement.

The identification of the fair value of the assets and liabilities must be finalised within a maximum twelve months from the acquisition date (measurement period).
The costs related to the acquisition, which include brokerage, legal, accounting, and professional consulting fees, general administrative costs, including those for maintaining an acquisitions office, are recorded in the income statement when incurred, except for the costs to issue equity securities and debt securities which are recognised based on the instructions of IAS 32 and IAS 39.
Transactions performed for the purpose of company reorganisation between two or more companies or business activities belonging to the same group are not considered business combinations. International accounting standards do not in fact regulate transactions under common control, recorded at the acquiree's pre-transaction carrying amounts in the acquirer's financial statements, whenever they do not exhibit a significant influence on future cash flows. This in compliance with the provisions of IAS 8§10 that, in the absence of a specific standard, requires the use of one's own judgment in applying an accounting standard to provide a relevant, reliable and prudent disclosure that reflects the economic substance of the transaction.

e) Method for determining the fair value of assets and liabilities

Fair value is the amount at which an asset (or a liability) may be exchanged in a transaction between independent counterparties possessing a reasonable degree of knowledge of market conditions and of the material facts associated with the subject matter of the trade.
Fair value is the price that would be paid in an ordinary transaction, i.e. in a transaction that involves market participants who have the will to trade, therefore precluding forced transactions.
Determination of the fair value of assets and liabilities is based on the going concern assumption for the Company, i.e. on the assumption that the Company will be fully operational and will neither liquidate nor appreciably reduce its operations nor will it conclude transactions under unfavourable terms. Fair value also reflects the credit rating of the instrument, insofar as it incorporates counterparty risk.
IFRS 13 defines a hierarchy of three levels of fair value based on the possibility of observing market values and parameters. On the basis of this distinction, the classification of fair value from an IFRS perspective is carried out in accordance with the principles presented below:

1. *Level 1* – The instruments are listed on markets deemed to be active (mark-to-market);
2. *Level 2* – The instruments are not listed, or are listed on markets deemed to be inactive: the adoption of an evaluation model (mark-to-model) is therefore required. For classification in Level 2, it is necessary that all the model input data that have a substantial effect on the overall instrument valuation can be obtained or deduced from the market and that said input data are representative of all the risk factors that influence the valuation of that instrument (interest rates, foreign exchange rates, credit spread, market volatility, etc.). The input data may refer to the instrument itself or, if absent, to instruments deemed to be comparable ("comparable approach"). For certain types of instruments (for example shares), approaches such as significant transactions recently conducted on the instrument or on similar products are also included in the comparable approach method;
3. *Level 3* – The instruments are not listed, or are listed on markets deemed to be inactive: the adoption of an evaluation model (mark-to-model) is therefore required. For classification in Level 3, it is necessary that at least one of the model input data having a substantial effect on the overall valuation of the instrument cannot be obtained or deduced from the market, but is subject to estimation by the valuator (e.g. application of future cash flow estimation methods, repayment plans or correlations between underlying assets of options or structured products).

The hierarchy presented above is aligned with the amendments of IFRS 7 "Financial Instruments: disclosures", approved with EC Regulation No. 1165 of 27 November 2009, which requires that disclosures be provided on the triple level of fair value, as described in section "A. 3 – Information on fair value" below.

Financial assets and liabilities held for trading, Financial assets designated at fair value through profit or loss, Financial assets available for sale

For these financial instruments, fair value is determined:

- through the use of prices acquired from the financial markets, in the case of instruments listed in active markets;
- through the use of internal valuation models, for other financial instruments.

Mark to Market

In determining fair value, whenever available the Company uses information based on market data obtained from independent sources, these being considered the best evidence of fair value. In this case, fair value is the market price of the same financial instrument subject to valuation – that is without changes or recompositions of the instrument – deducible from the trade prices expressed by an active market. A market is considered active whenever the trade prices reflect normal market transactions, are properly and readily available through Stock Exchanges, listing services and brokers, and if said prices represent actual and regular market transactions.

The following are normally considered active markets:

- regulated markets for securities and derivatives, with the exception of the Luxembourg market;
- organised trading systems;
- certain electronic OTC trading circuits (e.g. Bloomberg), whenever specific conditions exist based on the presence of a certain number of contributors with executable proposals and characterised by bid-ask spreads – i.e. from the difference between the price at which the counterparty pledges to sell the securities (ask price) and the price at which it pledges to buy them (bid price) – contained within a particular risk tolerance;
- the secondary market for UCITS, expressed by the official NAV (Net Asset Value), based on which the issuing Asset Management Company must proceed to liquidate the units. This NAV may be accordingly corrected to make allowance for the poor marketability of the fund, i.e. of the time interval elapsing between the date of the redemption request and the actual date of repayment, as well as to take into account any back-end fees.

Mark to Model

In the absence of market prices directly observable on markets considered active, it is necessary to resort to valuation techniques that maximise the use of information available on the market, based on the following valuation approaches:

1. *Comparable approach:* in this case, the instrument's fair value is inferred from the prices observed in recent transactions which took place on similar instruments in active markets, duly adjusted to make allowance for differences in the instruments and in the market conditions;
2. *Model Valuation:* in the absence of observable transaction prices for the instrument subject to valuation or for similar instruments, a valuation model must be adopted; this model must be of proven reliability in estimating hypothetical "operational" prices and therefore must be widely accepted by market participants.

More specifically:

- debt securities are valued according to the discounted cash flow (DCF) method, duly corrected to make allowance for issuer risk;
- derivative contracts are valued according to multiple models, based on the input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which influence its corresponding valuation;
- unlisted equity securities are valued with reference to direct transactions on the same or similar securities observed in an appropriate interval with respect to the valuation date, with the market multiples method used for comparable companies and subordinately to financial, income and equity valuation methods.

Financial liabilities designated at fair value and determination of the bank's own creditworthiness

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

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

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

Unlike hedge accounting, the accounting rules for which require that only the changes in fair value attributable to the hedged risk be recognised for the hedged instrument, the fair value option implies the recognition of all fair value changes, regardless of the risk factor that generated them, including the issuer's credit risk.

The factors considered to be significant when setting the trading price for a hypothetical transaction on the secondary market must be considered for own bond issues.

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

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

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

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

- for the medium-long term non-performing loans, the fair value is determined by discounting the contractual flows, based on a risk-free market rate, net of expected loss. For the medium-long term performing loans, the fair value is calculated in accordance with a risk-aversion approach: the time-discounting based on a risk-free market rate is conducted on the expected cash flows, duly adjusted for expected losses, plus a component deemed to represent risk aversion to make allowance for factors other than expected loss;
- for on-demand assets and liabilities or having short-term or unspecified maturity, the carrying value is considered to be a good approximation of the fair value;

- for bond loan issues, measured in the financial statements at amortised cost, the valuation is performed by discounting the bond's cash flows based on the reference interest rate curve, duly corrected to make allowance for changes in the issuer's credit rating, wherever considered a relevant factor;
- for the debt securities classified in the "Financial assets held to maturity" portfolio or under "Due from banks or customers", including after portfolio reclassifications, the fair value was determined through the use of prices conferred on active markets or through the use of valuation models, as described previously for financial assets and liabilities recorded in the financial statements at fair value.

Methods for the determination of amortised cost

The amortised cost of a financial asset or liability is the value at which the financial asset or liability was measured upon initial recognition net of reimbursements of capital, increased or decreased by overall amortisation, calculated using the effective interest method, of the differences between the initial value and the value at maturity, net of any impairment loss.

The effective interest rate is the rate which at which the present value of a financial asset or liability is equal to the discounted contractual flow of future cash payments or those received until maturity or at the next price recalculation date. For the present value calculation, the effective interest rate is applied to the flow of future collections or payments throughout the entire useful life of the financial asset or liability – or for a shorter period under certain conditions (for example revision of market rates).

After initial recognition, the amortised cost allows revenues and expenses to be allocated to increase or decrease the instrument value throughout its entire expected life via the amortisation process. The measurement of amortised cost differs depending on whether the financial assets/liabilities subject to valuation are at a fixed or floating rate and – in the latter case – depending on whether or not the rate variability is known beforehand. For fixed rate instruments or with fixed rates for set periods, the future cash flows are quantified based on the known interest rate (fixed or floating) during the life of the loan facility. For floating rate financial assets/liabilities whose variability is not known beforehand (for example because it is linked to an index), the cash flows are determined based on the last rate known. The repayment plan and the effective rate of return over the entire useful life of the instrument, i.e. until the maturity date, are recalculated on each interest adjustment date.

The adjustment is recognised as cost or income in the income statement.

The amortised cost valuation is performed for loans, the financial assets held to maturity, 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 disbursed or, for instruments value at amortised cost, the amount paid including directly attributable transaction costs and fees.

The internal or external marginal costs and income attributable to the issue, to the acquisition or to the disposal of a financial instrument which cannot be charged back to the customer are considered transaction costs. These fees, which must be directly attributable to the individual financial asset or liability, influence the original effective yield and render the effective interest rate associated with the transaction different from the contractual interest rate. Excluded are costs/income indistinctly relevant to more than one transaction and the components related to events that can occur during the life of the financial instrument, but that are not certain at the time of the initial definition, such as for example: fees for retrocession, for non-use or for early redemption.

The amortised cost valuation criteria does not apply to hedged financial assets/liabilities that anticipate the recognition of changes fair value relative to the hedged risk in the income statement (limited to the hedged risk). The financial instrument is however again valued at amortised cost in case of termination of the hedge, when changes in fair value previously recognised are amortised, calculating a new effective interest rate with a yield that takes into consideration the value of the loan having adjusted the fair value of the hedged portion, until maturity of the originally scheduled hedge. Furthermore, as already mentioned in the paragraph regarding the valuation criteria for receivables, payables and securities issued, the valuation at amortised cost does not apply for financial assets/ liabilities whose short duration entails a negligible 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 the assets is not entirely recoverable.

Impairment exists if there is objective evidence of a reduction in future cash flows, compared with those originally estimated, subsequent to specific events. The loss must be reliably quantifiable and be correlated with actual events, not merely expected events.

In particular, the objective evidence of impairment of an asset or a group of financial assets can also be attributed to the following negative events:

- significant financial difficulties of the issuer or debtor;
- breach of contract, such as a material breach or a payment default on interest or capital;
- the granting to the beneficiary of a facility that the Company had taken into consideration predominantly for economic or legal reasons relative to the financial difficulties of the beneficiary and that otherwise would not have been granted;
- the probability that the debtor may enter in bankruptcy proceedings or other financial reorganisation procedures;
- the loss of an active market for the financial asset under discussion due to financial difficulties of the issuer. However the disappearance of an active market due to the fact that the company's instruments are no longer publicly traded is not evidence of a reduction of fair value;
- events that indicate an appreciable reduction in the issuer's future cash flows (in this case, the general conditions of the local or national economy of reference in which the Issuer operates come into play).
- Furthermore, for an equity instrument investment, objective evidence of impairment exists in correspondence with the following additional negative events:
- significant changes having a negative impact in the technological, economic or regulatory environment in which the issuer operates, such as to indicate that the investment therein cannot be recovered;
- an extended or significant decrease in fair value below the acquisition cost.

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

Whenever an objective impairment is observed subsequent to one or more events occurring after initial recognition of the asset, the impairment must be calculated according to rules that are different for financial instruments valued at amortised cost and for assets carried at fair value, with any changes recognised to shareholders' equity.
With reference to loans to customers and banks, reference should be made to comments already made in the section on Loans.
With reference to assets available for sale, the process for detecting impairment involves verifying the presence of impairment indicators and determining the write-down, if appropriate.
The amount of the impairment loss is determined with reference to the financial asset's fair value.

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 amendment to IAS 39, by virtue of the exceptional situation, the transfer was conducted essentially based on the prices as at 1 July 2008, having resolved upon the reclassification before 1 November 2008.

Furthermore, in accordance with the cited regulations, effective as of 8 November 2011 unlisted financial assets not held by the Company for trading, with a nominal 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 which has characterised the 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 recognition of the financial instruments under financial assets held for trading, actually involving 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 2015 no further reclassifications were carried out.

An illustration of the residual carrying amount as at 31 December 2015 is shown below.

(thousands of Euro)

Type of financial instrument	Source Portfolio	Destination Portfolio	Carrying amount as at 31.12.2015	Fair value at *31.12.2015*	Income components in the absence of transfers (before tax)		Income components entered in the year (before tax)	
					Evaluation	Other	Evaluation	Other
Debt securities	HFT	AFS	4,126	4,126	163	39	100	102
UCITS units	HFT	AFS	67,283	67,283	(38)	–	(38)	–
Debt securities	HFT	HTM	782	607	(54)	17	–	3
Debt securities	HFT	LRO	–	–	–	–	–	–

The carrying amount of the debt securities as at 31 December 2015 amounts to 4.9 million (4.8 million as at 31 December 2014) and their fair value amounts to 4.7 million (4.7 million as at 31 December 2014).

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

No further reclassifications of financial assets were made in 2015.

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 2011.
No further reclassifications of financial assets were made in 2015.

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

No further reclassifications of financial assets were made in 2015.

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
	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.

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 2015, the exposure at default ("EAD") came to Euro 5.7 million. It refers to derivative trading contracts vis-à-vis 57 counterparties, mainly institutional. The notional value of the afore-mentioned contracts is equal to Euro 144.9 million. The contracts are mainly outright on currencies and caps on interest rates.

As regards Properties held for investment purposes, the fair value is calculated primarily through external appraisals, whose reference point is represented by current prices for similar assets (value by square metre, prices of similar transactions).

The fair value calculated in this way is classified under fair value hierarchy level 3.

A.4.2. 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.

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 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 2015, and which have a different level of fair value compared to that in place as at 31 December 2014, 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 2015, 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)	31.12.2015			31.12.2014 (*)		
Financial Assets/Liabilities measured at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets held for trading	1,158	37,824	112	1,483	45,401	98
2. Financial assets designated at fair value through profit or loss	–	–	–	–	–	–
3. Financial assets available for sale	754,293	610,224	6,076	611,745	293,237	1,666
4. Hedges	–	–	–	–	–	–
5. Property and equipment	–	–	–	–	–	–
6. Intangible assets	–	–	–	–	–	–
Total	**755,451**	**648,048**	**6,188**	**613,228**	**338,638**	**1,764**
1. Financial liabilities held for trading	233	2,897	–	154	3,248	–
2. Financial liabilities designated at fair value through profit or loss	–	9,692	–	–	158,579	–
3. Hedges	–	–	–	–	–	–
Total	**233**	**12,589**	**–**	**154**	**161,827**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.
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 99.6% 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 0.4%, 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.
3.1 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 2015, 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	**98**	**–**	**1,666**	**–**	**–**	**–**
2. Increases	**14**	**–**	**4,922**	**–**	**–**	**–**
2.1 Purchases	–	–	4,479	–	–	–
2.2 Profits allocated to:	14	–	382	–	–	–
2.2.1 Income Statement	14	–	29	–	–	–
– of which capital gains	14	–	–	–	–	–
2.2.2 Shareholders' equity	X	X	353	–	–	–
2.3 Transfers from other levels	–	–	–	–	–	–
2.4 Other increases	–	–	61	–	–	–
3. Decreases	**–**	**–**	**512**	**–**	**–**	**–**
3.1 Sales	–	–	–	–	–	–
3.2 Reimbursements	–	–	139	–	–	–
3.3 Losses allocated to:	–	–	369	–	–	–
3.3.1 Income Statement	–	–	–	–	–	–
– of which capital losses	–	–	–	–	–	–
3.3.2 Shareholders' equity	X	X	369	–	–	–
3.4 Transfers to other levels	–	–	–	–	–	–
3.5 Other decreases	–	–	4	–	–	–
4. Closing balance	**112**	**–**	**6,076**	**–**	**–**	**–**

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

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

A.4.5.4. Assets and liabilities not designated at fair value or designated at fair value on a non-recurring basis: breakdown by fair value levels

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis *(thousands of Euro)*	31.12.2015				31.12.2014 (*)			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Investments held to maturity	170,426	158,391	19,877	607	54,757	–	58,892	–
2. Due from banks	44,804	–	44,804	–	39,420	–	39,420	–
3. Loans to Customers	6,447,871	–	6,762,580	–	5,124,169	–	5,419,431	–
4. Property and equipment held for investment	1,809	–	–	–	–	–	–	–
5. Non-current assets and groups of assets held for sale	–	–	–	–	–	–	–	–
Total	**6,664,910**	**158,391**	**6,827,261**	**607**	**5,218,346**	**–**	**5,517,743**	**–**
1. Due to banks	838,463	–	826,200	–	585,675	–	534,252	–
2. Due to customers	5,207,990	–	4,822,730	–	3,507,309	–	3,102,079	–
3. Debt securities issued	1,570,687	–	1,470,745	93,956	1,435,639	–	1,447,074	–
4. Liabilities associated with assets held for sale	–	–	–	–	–	–	–	–
Total	**7,617,140**	**–**	**7,119,675**	**93,956**	**5,528,623**	**–**	**5,083,405**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.
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 2015.

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 2015, 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)	**31.12.2015**	**31.12.2014 (*)**
a) Cash	62,622	51,173
b) Demand deposits at Central Banks	–	–
Total	**62,622**	**51,173**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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)	**31.12.2015**			**31.12.2014 (*)**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
A. Cash assets						
1. Debt securities	–	34,687	103	–	39,277	90
1.1 Structured securities	–	1,036	–	–	4,202	–
1.2 Other debt securities	–	33,651	103	–	35,075	90
2. Equity securities	–	–	–	–	–	–
3. UCITS units	–	27	9	–	27	8
4. Loans	–	–	–	–	–	–
4.1 Repurchase agreements	–	–	–	–	–	–
4.2 Other	–	–	–	–	–	–
Total A		**34,714**	**112**	**–**	**39,304**	**98**
B. Derivatives						
1. Financial derivatives	1,158	3,110	–	1,483	6,097	–
1.1 held for trading	1,158	308	–	1,483	129	–
1.2 related to the fair value option	–	2,802	–	–	5,968	–
1.3 other	–	–	–	–	–	–
2. Credit derivatives	–	–	–	–	–	–
2.1 held for trading	–	–	–	–	–	–
2.2 related to the fair value option	–	–	–	–	–	–
2.3 other	–	–	–	–	–	–
Total B	**1,158**	**3,110**	**–**	**1,483**	**6,097**	**–**
Total (A+B)	**1,158**	**37,824**	**112**	**1,483**	**45,401**	**98**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Cash assets are classified as listed or unlisted depending on whether they relate to instruments with or without a price on an active market, as illustrated in Part A – Accounting Policies.

They are included under listed derivatives only where the transactions are negotiated on organised markets.

The item "Debt securities – Other debt securities" of level 1 is composed of Eurozone country government securities.

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)	31.12.2015	31.12.2014 (*)
A. CASH ASSETS		
1. Debt securities	**34,790**	**39,367**
a) Governments and central banks	–	1,505
b) Other public entities	–	–
c) Banks	1,210	5,344
d) Other issuers	33,580	32,518
2. Equity securities		**–**
a) Banks	–	–
b) Other issuers:	–	–
–	–	–
–	–	–
–	–	–
–	–	–
3. UCITS units	**36**	**35**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other entities	–	–
Total A	**34,826**	**39,402**
B. DERIVATIVES		
a) Banks		7,275
b) Customers		305
Total B	**4,268**	**7,580**
Total (A+B)	**39,094**	**46,982**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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)	31.12.2015			31.12.2014 (*)		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Debt securities	754,293	419,857	6,076	611,735	202,027	1,666
1.1 Structured securities	–	32,723		–	10,561	–
1.2 Other debt securities	754,293	387,134	6,076	611,735	191,466	1,666
2. Equity securities	–	7,064	16,593	10	6,711	12,771
2.1 Designated at fair value	–	7,064	–	10	6,711	–
2.2 Carried at cost	–	–	16,593	–	–	12,771
3. UCITS units	–	183,303	–	–	84,499	–
4. Loans	–	–	–	–	–	–
Total	**754,293**	**610,224**	**22,669**	**611,745**	**293,237**	**14,437**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

The item “Equity securities” consists of investments representing the voting rights of less than 20% of the share capital of companies that cannot be classified as controlling interests, associated or joint control, and which do not represent a strategic investment for the Bank.

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

(thousands of Euro)	**31.12.2015**	**31.12.2014 (*)**
1. Debt securities	**1,180,226**	**815,428**
a) Governments and central banks	759,377	611,735
b) Other public entities	212	–
c) Banks	368,090	187,900
d) Other issuers	52,547	15,793
2. Equity securities	**23,657**	**19,492**
a) Banks	9,582	9,392
b) Other issuers:	14,075	10,100
– Insurance companies	1,751	–
– Financial companies	1,807	40
– Non-financial companies	10,517	10,060
– Other	–	–
3. UCITS units	**183,303**	**84,499**
4. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other entities	–	–
Total	**1,387,186**	**919,419**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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

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

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

With reference to the values as at 31 December 2015, 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 2015 amounted to 1,180.2 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 30% and 50% over a three-year time period, normalised for volatility. Overall, the exposure in terms of debt securities as at 31 December 2015 amounted to 183.3 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 2015 amounted to 23.7 million.

There was no evidence of impairment on other equity securities as at 31 December 2015.

Section 5 INVESTMENTS HELD TO MATURITY – ITEM 50

5.1 *Investments held to maturity: breakdown by type*

(thousands of Euro)	31.12.2015				31.12.2014 (*)			
	BV	*Fair value*			BV	*Fair value*		
		L1	L2	L3		L1	L2	L3
1. Debt securities	170,426	158,391	19,877	607	54,757	–	58,892	–
– Structured	–	–	–	–	–	–	–	–
– other	170,426	158,391	19,877	607	54,757	–	58,892	–
2. Loans	–	–	–	–	–	–	–	–
Total	**170,426**	**158,391**	**19,877**	**607**	**54,757**	**–**	**58,892**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.
Key: BV = Book value; L1 = Level 1; L2 = Level 2; L3 = Level 3

The item "Debt securities – other securities" consists of purchases of BTPs.

5.2 *Investments held to maturity: breakdown by debtor/issuer*

(thousands of Euro)	31.12.2015	31.12.2014 (*)
1. Debt securities	**170,426**	**54,757**
a) Governments and central banks	149,942	51,767
b) Other public entities	–	–
c) Banks	12,076	–
d) Other issuers	8,408	2,990
2. Loans	**–**	**–**
a) Governments and central banks	–	–
b) Other public entities	–	–
c) Banks	–	–
d) Other entities	–	–
Total	**170,426**	**54,757**
Total (fair value)	**178,875**	**58,892**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

5.3 *Investments held to maturity subject to micro-hedging*

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

Results of impairment tests for investments held to maturity

With reference to the values as at 31 December 2015, 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, relating to a senior tranche of a securitisation for residential properties, whose carrying amount was 0.8 million as at 31 December 2015 and debt securities.

The tranche of the securitisation is rated by the three biggest ratings agencies: Standard & Poor's, Moody's and Fitch, therefore the impairment indicator was identified as the impairment of the specific issue rating. The issuer rating for the purpose of checking 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 probability of default (PD) by contrast emerge from the application of an internal hybrid model and Bloomberg. The issue had a weighted average life of 5.2 years at the reference date. No elements were 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 and Banca Monte dei Paschi di Siena e Cassa del Trentino 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)	31.12.2015				31.12.2014 (*)			
	BV	Fair value (*)			BV	Fair value (*)		
		L1	L2	L3		L1	L2	L3
A. Due from Central Banks	**36,717**	–	**36,717**	–	**25,267**	–	**25,267**	–
1. Fixed-term deposits	18,394	X	X	X	–	X	X	X
2. Compulsory reserve	18,323	X	X	X	25,267	X	X	X
3. Repurchase agreements	–	X	X	X	–	X	X	X
4. Other	–	X	X	X	–	X	X	X
B. Due from banks	**8,087**	–	**8,087**	–	**14,153**	–	**14,153**	–
1. Loans	8,087	X	8,087	–	14,153	–	14,153	–
1.1 Current accounts and demand deposits	3,072	X	X	X	6,066	X	X	X
1.2 Fixed-term deposits	50	X	X	X	3,377	X	X	X
1.3 Other loans	4,965	X	X	X	4,710	X	X	X
– Repurchase agreements	–	X	X	X	–	X	X	X
– Financial leasing	–	X	X	X	–	X	X	X
– Other	4,965	X	X	X	4,710	X	X	X
2. Debt securities	–	–	–	–	–	–	–	–
2.1 Structured securities	–	X	X	X	–	X	X	X
2.2 Other debt securities	–	X	X	X	–	X	X	X
Total	**44,804**	**–**	**44,804**	**–**	**39,420**	**–**	**39,420**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.
(*) As regards the determination of the fair value level, please refer to "Part A – Information on the Main Items of the Financial Statements, 17 – Other informations"
Key: BV = Book value; L1 = Level 1; L2 = Level 2; L3 = Level 3

Considering the short-term expiry of the amount due from banks, the best fair value measure is given by the book value. As at 31 December 2015, there were no impaired assets from banks.
This category includes unlisted financial assets on an active market (Level 2 and Level 3) held at banks (current accounts, guarantee deposits, debt securities etc.) classified in the "loans and receivables" portfolio. Operating receivables related to the provision of financial services and assets sold that do not meet the conditions of IAS 39 to be derecognised from the financial statements ("sold and not derecognised") and impaired assets are included in the category.

6.2 *Due from banks subject to micro-hedging*

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

6.3 *Financial leasing*

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

Section 7 LOANS TO CUSTOMERS – ITEM 70

7.1 *Loans to customers: breakdown by type*

(thousands of Euro)	31.12.2015						31.12.2014 (*)					
	Book value			Fair value			Book value			Fair value		
	Not impaired	Impaired		L1	L2	L3	Not impaired	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**5,669,777**	**–**	**627,644**	**–**	**6,762,580**	**–**	**4,634,209**	**–**	**343,871**	**–**	**5,419,431**	**–**
1. Current accounts	1,285,476	–	277,010	X	X	X	1,144,453	–	168,103	X	X	X
2. Repurchase agreements	3,288	–	–	X	X	X	–	–	–	X	X	X
3. Mortgages	3,749,275	–	318,329	X	X	X	2,935,598	–	155,959	X	X	X
4. Credit cards, personal loans and loans on salary	107,502	–	3,360	X	X	X	85,992	–	1,073	X	X	X
5. Financial leasing	–	–	–	X	X	X	–	–	–	X	X	X
6. Factoring	–	–	–	X	X	X	–	–	–	X	X	X
7. Other loans	524,236	–	28,945	X	X	X	468,166	–	18,736	X	X	X
Debt securities	**150,450**	**–**	**–**	**–**	**–**	**–**	**146,089**	**–**	**–**	**–**	**–**	**–**
8. Structured securities	–	–	–	–	–	–	–	–	–	–	–	–
9 Other debt securities	150,450	–	–	X	X	X	146,089	–	–	X	X	X
Total	**5,820,227**	**–**	**627,644**	**–**	**6,762,580**	**–**	**4,780,298**	**–**	**343,871**	**–**	**5,419,431**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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 132.9 million, 86.0 million of which by public entities.

With the acquisition of the Banca Popolare di Marostica Group, impaired loans totalling Euro 257.2 million were acquired.

7.2 Loans to customers: breakdown by debtor/issuer

(thousands of Euro)	31.12.2015			31.12.2014 (*)		
	Not impaired	Impaired		Not impaired	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities:	**150,450**	**–**	**–**	**146,089**	**–**	**–**
a) Governments	–	–	–	–	–	–
b) Other public entities	–	–	–	–	–	–
c) Other issuers	150,450	–	–	146,089	–	–
– Non-financial companies	–	–	–	–	–	–
– Financial companies	–	–	–	–	–	–
– Insurance	150,450	–	–	146,089	–	–
– other	–	–	–	–	–	–
2. Loans to:	**5,669,777**	**–**	**627,644**	**4,634,209**	**–**	**343,871**
a) Governments	–	–	–	–	–	–
b) Other public entities	13,005	–	–	11,891	–	–
c) Other entities	5,656,772	–	627,644	4,622,318	–	343,871
– Non-financial companies	3,419,355	–	508,035	2,759,280	–	297,116
– Financial companies	88,015	–	9,369	97,336	–	4,889
– Insurance	151	–	–	–	–	–
– Other	2,149,251	–	110,240	1,765,702	–	41,866
Total	**5,820,227**	**–**	**627,644**	**4,780,298**	**–**	**343,871**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

7.3 Loans to customers: assets subject to micro-hedging

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

7.4 Financial leasing

As at the balance sheet date, as in the previous year, there are no loans deriving from financial lease transactions.

Section 8 HEDGES – ITEM 60

8.1 Hedges: breakdown by type and level

As at the balance sheet date, as in the previous year, there are no hedges.

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

As at the balance sheet date, as in the previous year, there are no hedges.

Section 9 VALUE ADJUSTMENTS OF FINANCIAL ASSETS SUBJECT TO HEDGING – ITEM 90

9.1 Value adjustments of hedged assets: breakdown by portfolios hedged

As at the balance sheet date, as in the previous year, there were no financial assets subject to macro-hedging.

9.2 Assets subject to macro-hedging for interest rate risk

As at the balance sheet date, as in the previous year, there were no financial assets subject to macro-hedging of interest rate risk.

Section 10 INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL – ITEM 100

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

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

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

As in the previous year, the Company did not hold any significant investments as at the balance sheet date.

10.3 Significant investments: accounting information

As in the previous year, the Company did not hold any significant investments as at the balance sheet date.

10.4 Minor investments: accounting information

Company Name	Book value of invest-ments	Total assets	Total liabilities	Total reve-nues	Net current operat-ing profit (loss) after tax	*Income (loss) after tax from discon-tinued opera-tions*	Net income (loss) for the year (1)	*Other net of tax income items (2)*	*Compre-hensive income (3) = (1)+(2)*
A. Wholly-owned subsidiaries									
1. Voba Invest S.r.l. in liquidation	–	1,526	1,803	40	(80)	–	(80)	–	(80)
2. Valpolicella Alta Società Agricola S.r.l.	3,268	5,006	4,848	536	144	–	144	–	144
B. Companies subject to joint control									
C. Companies subject to significant influence									
1. Casa di cura Villa S. Anna (*)	486	17,715	6,150	5,128	(46)	–	(46)	–	(46)
2. Quartiere Brizzi S.r.l. (*)	850	7,171	7,135	387	(14)	–	(14)	–	(14)
3. Tre S.r.l. (*)	165	366	285	1	(2)	–	(2)	–	(2)

(*) The figures for the investee companies refer to the most recent financial statements available (31/12/2014).

10.5 Investments: annual changes

(thousands of Euro)	31.12.2015	31.12.2014 (*)
A. Opening balance	**4,626**	**5,157**
B. Increases	**143**	**130**
B.1 Purchases	–	130
B.2 Recoveries	143	–
B.3 Revaluations	–	–
B.4 Other changes	–	–
C. Decreases	**–**	**661**
C.1 Sales	–	–
C.2 Adjustments	–	661
C.3 Other changes	–	–
D. Closing balance	**4,769**	**4,626**
E. Total revaluations	**210**	**67**
F. Total adjustments	**2,376**	**2,376**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

The item B.2 "Recoveries" refers to the change in equity investments due to the recognition of the profit reported by the investee companies, recognised at equity.

Results of impairment tests on the investments

As described in the "Part A – Accounting Policies", the investments were subject to impairment testing to evaluate the recoverability of the carrying amount.
In identifying potential signs of impairment, particular attention was given to the analysis of the economic results after the date when control was acquired, as well as, when available, 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 2015 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, as in the previous year, there are no significant restrictions in reference to investments.

10.9. Other information

For the majority of equity investments, the timescales of availability of the financial statements at year-end are not comparable with the close of the financial year of Banca Popolare · Volksbank. The application of the equity method refers to the latest accounting reports available, represented, in the majority of cases, by the half-yearly financial report.
If the accounting reports of the investee company used in the application of the equity method relate to a different date from the reference date of the financial statements of Banca Popolare · Volksbank, adjustments are made which take account of the effects of transactions or significant events that occur between the date of the accounting position and the reference date of the financial statements.

Section 11 PROPERTY AND EQUIPMENT – ITEM 110

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

(thousands of Euro)	31.12.2015	31.12.2014 (*)
1 Assets owned	**143,789**	**118,497**
a) Land	40,056	35,272
b) Buildings	95,603	79,756
c) Movable assets	2,475	1,541
d) Electronic systems	3,125	1,928
e) Other	2,530	–
2 Assets acquired under finance lease	**–**	**–**
a) Land	–	–
b) Buildings	–	–
c) Movable assets	–	–
d) Electronic systems	–	–
e) Other	–	–
Total	**143,789**	**118,497**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

11.2 Property and equipment held for investment purposes: breakdown of assets carried at cost

(thousands of Euro)	31.12.2015	31.12.2014 (*)
Assets owned	**1,802**	**–**
a) Land	185	–
b) Buildings	1,617	–
Assets acquired under finance lease	**–**	**–**
a) Land	–	–
b) Buildings	–	–
Total	**1,802**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Property and equipment held for investment refer fully to assets obtained as a result of the acquisition of the Banca Popolare di Marostica Group.

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**	**117,379**	**54,931**	**25,557**	**103**	**233,242**
A.1 Net total impairment	–	37,623	53,390	23,629	103	114,745
A.2 Net opening balance	**35,272**	**79,756**	**1,541**	**1,928**	**–**	**118,497**
B. Increases:	**4,969**	**20,912**	**8,707**	**4,607**	**21,318**	**60,513**
B.1 Purchases	9	–	1,379	2,544	1,469	5,401
B.2 Expenditure for capitalised improvements	–	9,331	–	–	–	9,331
B.3 Recoveries	–	–	–	–	–	–
B.4 Positive changes in fair value charged to:						
a) Shareholders' equity	–	–	–	–	–	–
b) Income statement	–	–	–	–	–	–
B.5 Positive exchange differences	–	–	–	–	–	–
B.6 Transfers from properties held for investment purposes	–	–	–	–	–	–
B.7 Other changes	–	–	–	–	–	–
B.8 Business combinations	4,960	11,581	7,328	2,063	19,849	45,781
C. Decreases	**–**	**3,448**	**7,773**	**3,410**	**18,788**	**33,422**
C.1 Sales	–	91	–	–	65	156
C.2 Amortisation	–	3,357	510	1,569	1,148	6,584
C.3 Value adjustments for impairment charged to:						
a) shareholders' equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.4 Negative changes in fair value charged to:						
a) shareholders' equity	–	–	–	–	–	–
b) income statement	–	–	–	–	–	–
C.5 Negative exchange differences	–	–	–	–	–	–
C.6 Transfers to:	–	–	–	–	–	–
a) property and equipment held for investment	–	–	–	–	–	–
b) assets held for sale	–	–	–	–	–	–
C.7 Other changes	–	–	–	–	–	–
C.8 Business combinations	–	–	7,263	1,841	17,575	26,679
D. Net closing balance	**40,241**	**97,220**	**2,475**	**3,125**	**2,530**	**145,591**
D.1 Net total impairment	–	40,980	39,793	27,040	39,720	147,533
D.2 Gross closing balance	**40,241**	**138,200**	**42,268**	**30,165**	**42,250**	**293,124**
E. Valuation at cost	–	–	–	–	–	–

11.6 Property and equipment held for investment purposes: annual changes

(thousands of Euro)	Land	Buildings
A. Gross opening balance	**–**	**–**
A.1 Net total impairment	–	–
A.2 Net opening balance	**–**	**–**
B. Increases:	**185**	**1,624**
B.1 Purchases	–	–
B.2 Expenditure for capitalised improvements	–	–
B.3 Recoveries	–	–
B.4 Positive changes in fair value charged to:		
a) Shareholders' equity	–	–
b) Income statement	–	–
B.5 Positive exchange differences	–	–
B.6 Transfers from properties held for investment purposes	–	–
B.7 Other changes	–	–
B.8 Business combinations	185	1,624
C. Decreases	**–**	**7**
C.1 Sales	–	7
C.2 Amortisation	–	–
C.3 Value adjustments for impairment charged to:		
a) shareholders' equity	–	–
b) income statement	–	–
C.4 Negative changes in fair value charged to:		
a) shareholders' equity	–	–
b) income statement	–	–
C.5 Negative exchange differences	–	–
C.6 Transfers to:	–	–
a) property and equipment held for investment	–	–
b) assets held for sale	–	–
C.7 Other changes	–	–
C.8 Business combinations	–	–
D. Net closing balance	**185**	**1,617**
D.1 Net total impairment	–	7
D.2 Gross closing balance	**185**	**1,624**
E. Valuation at cost	–	–

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)		31.12.2015		31.12.2014 (*)	
		Definite life	**Indefinite life**	**Definite life**	**Indefinite life**
A.1	Goodwill	X	99,602	X	40,392
A.2	Other intangible assets	22,335	–	1,450	–
	A.2.1 Assets carried at cost:	22,335	–	1,450	–
	a) Internally generated intangible assets	–	–	–	–
	b) Other assets	22,335	–	1,450	–
	A.2.2 Assets measured at fair value:	–	–	–	–
	a) Internally generated intangible assets	–	–	–	–
	b) Other assets	–	–	–	–
	Total	**22,335**	**99,602**	**1,450**	**40,392**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

As at the balance sheet date, the item "goodwill" amounting to 40.4 million, 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. The increase of 59.2 million relates to the goodwill recognised subsequent to acquisition, on 1 April 2015, of the Banca Popolare di Marostica Group.

Intangible assets: impairment testing

Goodwill

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.

Banca Popolare · Volksbank's organisational model requires management decisions to be centralised at the company management structure. In particular, the strategies, identification of new products or services, sales initiatives are outlined and addressed at the level of the general management structure and applied to the entire operating structure. The planning processes and reporting systems are managed at Bank entity level. Financial risks are managed centrally in order to ensure, also for the purposes of regulatory supervision, unitary governance of the risk profile. There are no divisions that operate in homogeneous markets or sectors in terms of economic characteristics and degree of development. Therefore, the Bank entity as a whole was considered a CGU, with the subsequent amalgamation of goodwill generated in 2008 by the purchase of a business unit of Intesa Sanpaolo Group branches and the goodwill generated by the business combination of the Banca Popolare di Marostica Group. Therefore, this CGU constitutes the minimum level at which the goodwill can be allocated according to non-arbitrary and monitored criteria.

This result is that, for Banca Popolare · Volksbank, the CGU coincides with the overall activity of the bank and, therefore, the impairment test was conducted at legal entity level as a whole, comparing the value in use of the legal entity with the value of reported shareholders' equity.

At the end of the process of allocation of the price paid, the total amount of goodwill to be subject to impairment testing is therefore 99.6 million, of which 40.4 million deriving from the aforementioned acquisition of a business unit of branches and 59.2 million from the incorporation of the Banca Popolare di Marostica Group. Shareholders' equity as at 31 December 2015 amounts, based on the draft financial statements that will be submitted to the Board of Directors for approval, to 777.2 million.

It should also be noted that the methodologies and assumptions underlying the procedure for the impairment testing of intangible assets and goodwill, defined by management, were approved by the Board of Directors prior to approval of the 2015 draft financial statements.

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 2016-2020 Strategic Plan 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; For the purpose of estimating the maximum cash flows that can be distributed, the minimum level capitalisation needed to guarantee operations was defined, in compliance with the provisions of the Supervisory Authorities; in particular a minimum Common Equity Tier 1 Ratio of 9.25% was assumed
- the DDM (Dividend Discount Model) method was applied ("excess capital version.

The formula on which the DDM method is based is the following:

$$W = \sum_{i=1}^{n} \frac{D_i}{(1+k_e)^i} + \frac{TV}{(1+k_e)^n}$$

With the terminal value calculated as follows:

$$TV = \frac{D_{n+1}}{k_e - g}$$

Where:

W = value of economic capital of the company/business unit subject to valuation;

K_e = Cost of own capital (see page below);

Di = Cash flow potentially distributable in the i-th period of explicit planning;

n = Explicit planning period (expressed in number of years);

TV = residual value or terminal value assumed as the present value of the perpetual yield of the dividend sustainable for the years after the explicit planning period;

Dn+1 = Expected sustainable dividend, determined on the basis of the net sustainable income and the rate of distribution of sustainable profits in the long-term (pay-out ratio);

g = rate of expected long-term growth after the explicit planning period.

The cost of own capital (k_e) was calculated on the basis of the Capital Asset Pricing Model, considering the current structure of market interest rates and the specific reference sector. In particular, own capital is the sum of the nominal rate of return on risk-free assets and a premium for specific risk which reflects the risk of the reference sector context and the specific risks linked to the bank's operations according to the following formula: ($k_e = Rf + \beta \times (Rm - Rf) = 8.79$).
The cost of capital, equal to 8.79%, was calculated on the basis of the following parameters:

- rate of return of risk-free assets, identified on the basis of the gross annual yield of the 10-year BTP Italia benchmark recorded on 31 December 2015 equal to 1.60%;
- The market risk premium (Rm – Rf) or yield spread, required by investors for an investment in shares with respect to a risk-free investment. Calculated at 6.0%, in line with valuation standards in use;
- Beta (β) ratio, which indicate the risk of a specific share with respect to the share market as a whole; in the case in point estimated on the basis of the average historical 5-year betas, recorded as at 31 December 2015, of a sample composed of listed Italian cooperative banks. The β was equal to 1.20.

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. More specifically, in addition to the explicit forecast period, a 1.5% perpetual growth rate was considered.
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 8.54% up to 9.04%;
- an assumed CET 1 ratio from 8.75% to 9.75%.

It should be noted that the increase in the cost of capital (with respect to the starting value of 8.79%) needed for the value in use to be equal to reported shareholders' equity is 46 basis points (cost of capital of 9.25%).
With reference to capital requirements, it should be noted that the Supervisory Authorities asked Banca Popolare · Volksbank, following the SREP procedure, to maintain a minimum Tier 1 Ratio of 7.8% and a minimum Total Capital Ratio of 10.3%. Based on these parameters, and considering, starting from 2018, the maintenance of a capital target in line with the instructions set forth by the Supervisory Authorities, the surplus with respect to shareholders' equity as at 31 December 2015 would be Euro 87.2 million.

Based on the aforementioned comparison as at 31 December 2015, 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.

Client relationship

The intangible asset "client relationship" booked for the first time in the financial statements of Banca Popolare · Volksbank as at 31 December 2015 due to the incorporation of the Banca Popolare di Marostica Group, is considered "finite life".
The customer taken as a reference for the valuation of the client relationship concerned solely the relations established before the acquisition date. Therefore, the intangible asset is linked to the status quo before the acquisition date and its fair value is of a limited duration, following the duration observed for relations between the company acquired and its customers. The capacity to generate new relations, which cannot be separated and transferred to third parties, unless the company is being transferred as a whole, is not valued in any way. This capacity to generate new relations will therefore constitute indistinct goodwill. The client relationship was determined by valuing the following components:

- indirect funding (administered funding net of own securities, managed funding, insurance products);
- core deposits (ordinary free savings deposits, ordinary current accounts).

The client relationship was valued by discounting the net future economic flows related to it.
The value of this asset was calculated with reference to 1 April 2015, the effective date of the merger. The process for calculating the value of this asset was completed prior to the resolution to approve the draft financial statements.
The impairment tests relating to this asset are based mainly on an analysis of the main indicators of the value of the asset itself, nonetheless monitored during the year (including the trend in the volumes of core deposits and indirect funding, the evolution of the likelihood of the closure of relations ("lifting curve"), evolution of the interest rate curve, changes in profitability, the level of operating expenses, cost of capital).
Developments were observed in 2015 in the aforementioned parameters as such to require an impairment test with respect to the figure determined with reference to 1 April 2015. Therefore, these in-depth analyses did not lead to the identification of indicators of impairment of the client relationship intangible asset.

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**	**–**	**–**	**6,558**	**–**	**46,950**
A.1 Net total impairment	–	–	–	5,108	–	5,108
A.2 Net opening balance	**40,392**	**–**	**–**	**1,450**	**–**	**41,842**
B. Increases	**59,210**	**–**	**–**	**22,770**	**–**	**81,980**
B.1 Purchases	59,210	–	–	22,680	–	81,890
B.2 Increases in internal intangible assets	X	–	–	–	–	–
B.3 Recoveries	X	–	–	–	–	–
B.4 Positive changes in fair value	–	–	–	–	–	–
– to shareholders' equity	X	–	–	–	–	–
– to income statement	X	–	–	–	–	–
B.5 Positive exchange differences	–	–	–	–	–	–
B.6 Other changes	–	–	–	–	–	–
B.7 Business combinations	–	–	–	90	–	90
C. Decreases	**–**	**–**	**–**	**1,885**	**–**	**1,885**
C.1 Sales	–	–	–	–	–	–
C.2 Adjustments		–	–	1,885	–	1,885
– Amortisation	X	–	–	1,885	–	1,885
– 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	**99,602**	**–**	**–**	**22,335**	**–**	**121,937**
D.1 Total net value adjustments	–	–	–	6,758	–	6,758
E. Gross closing balance	**99,602**	**–**	**–**	**29,093**	**–**	**128,695**
F. Valuation at cost	–	–	–	–	–	–

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

The increase of 22,680 million relates to the recognition of the intangible asset 'client relationship' subsequent to acquisition, on 1 April 2015, of the Banca Popolare di Marostica Group.

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 *(thousands of Euro)*	**31.12.2015**		**31.12.2014 (*)**	
	amount of timing differences	**tax effect**	**amount of timing differences**	**tax effect**
Losses on impairment of loans	281,046	77,288	85,568	23,531
Provisions for risks and charges	20,354	5,597	2,616	719
Valuation of AFS securities (*)	8,171	2,247	619	170
Components directly recorded in the OCI statement (*)	692	190	2,110	581
Amortisation of prepaid tax on post-2008 purchases	2,944	810	2,931	806
Other	12,334	3,392	1,093	300
Total	**325,541**	**89,524**	**94,937**	**26,107**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES) *(thousands of Euro)*	**31.12.2015**		**31.12.2014 (*)**	
	amount of timing differences	**tax effect**	**amount of timing differences**	**tax effect**
Losses on impairment of and losses on loans	138,156	6,958	33,234	1,615
Provisions for risks and charges	20,354	1,025	–	–
Valuation of AFS securities (*)	8,171	412	619	30
Other	11,740	591	352	17
Total	**178,421**	**8,986**	**34,205**	**1,662**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Deferred tax assets, accounted for with reference to the deductible temporary differences, amounted to 98.5 million and refer, for 95.78 million, to taxes recorded as a contra-entry in the income statement and, for 2.8 million, to taxes booked as a contra-item in shareholders' equity.
The former refer mainly to taxes for losses carried forward, to the portion not offset by benefits connected to deductibility in future years of adjustments to loans and allocations to provisions for risks and charges, as well as to the benefit deriving from the realignment of the tax value of goodwill, of trademarks and of other intangible assets pursuant to art. 15, paragraph 10 of Law Decree 185/2008 and Law Decree no. 98/11. Deferred tax assets as a contra-entry in shareholders' equity relate almost exclusively to taxes on negative valuation reserves relating to available-for-sale financial assets.

13.2 Deferred tax liabilities: breakdown

IRES *(thousands of Euro)*	31.12.2015 amount of timing differences	 tax effect	31.12.2014 (*) amount of timing differences	 tax effect
Land depreciation	2,510	690	2,106	579
Revaluation of property at deemed cost	59,109	16,255	55,944	15,385
Valuation of AFS securities	8,770	2,412	6,031	1,659
Components directly recorded in the OCI statement	–	–	–	–
Revaluation of investments – AFS PEX	66	18	49	13
Goodwill amortisation	18,724	5,149	16,558	4,553
Other	21,447	5,898	–	–
Total	**110,626**	**30,422**	**80,688**	**22,189**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES) *(thousands of Euro)*	31.12.2015 amount of timing differences	 tax effect	31.12.2014 (*) amount of timing differences	 tax effect
Land depreciation	2,510	126	2,106	102
Revaluation of property at deemed cost	59,109	2,977	55,944	2,718
Valuation of AFS securities	8,770	442	6,031	293
Goodwill amortisation	18,598	937	16,432	799
Other	24,537	1,236	–	–
Total	**113,524**	**5,718**	**80,513**	**3,912**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Deferred taxes amounted to 36.1 million and were booked as a contra-entry in the income statement for 33.2 million, and as a contra-entry in shareholders' equity for 2.9 million.

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

(thousands of Euro)	IRES	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2015	31.12.2014 (*)
1. Initial amount			**26,989**	**23,630**
2. Increases	**64,279**	**7,310**	**71,589**	**9,604**
2.1 Deferred tax assets recognised during the year	6,042	1,427	7,469	9,604
a) relating to previous years	–	–	–	–
b) due to change in accounting standards	–	–	–	–
c) recoveries	–	–	–	–
d) other	6,042	1,427	7,469	9,604
2.2 New taxes or increases in tax rates	–	–	–	–
2.3 Other increases	–	–	–	–
2.4 Business combinations	58,237	5,883	64,120	–
3. Decreases	**2,550**	**367**	**2,917**	**6,246**
3.1 Deferred tax assets cancelled during the year	2,550	367	2,917	6,246
a) reversals	2,550	367	2,917	4,695
b) write-downs for uncollectible amounts	–	–	–	–
c) change of accounting standards	–	–	–	–
d) other	–	–	–	1,551
3.2 Decreases in tax rates	–	–	–	–
3.3 Other decreases	–	–	–	–
a) conversion into tax credits under Italian Law no. 214/2011	–	–	–	–
b) other	–	–	–	–
4. Final amount			**95,661**	**26,988**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

As at 31 December 2015, sub-item 2. “Increases: – d) other” mainly includes the deferred tax assets related to impairment losses on loans of 3.0 million and the allocation to the provision for risks and charges of 2.5 million relating to IRES and deferred tax assets relating to impairment losses on loans for 0.5 million and allocations to the provision for risks and charges of 0.5 million relating to IRAP.

13.3.1 Changes in prepaid taxes pursuant to Italian Law 214/2011 (with contra-entry in the income statement)

(thousands of Euro)	IRES	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2015	31.12.2014 (*)
1. Initial amount	**23,440**	**1,615**	**25,055**	**21,716**
2. Increases	**55,814**	**5,742**	**61,556**	**8,803**
Of which Business combinations	50,581	4,735	55,316	–
3. Decreases	**–**	**–**	**–**	**5,464**
3.1 Reversals	–	–	–	5,464
3.2 Conversion into tax credits	–	–	–	–
a) deriving from losses for the year	–	–	–	–
b) deriving from tax losses	–	–	–	–
3.3 Other decreases	–	–	–	–
4. Final amount			**86,611**	**25,055**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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

(thousands of Euro)	IRES	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2015	31.12.2014 (*)
1. Initial amount			**24,136**	**23,869**
2. Increases	**9,114**	**2,055**	**11,169**	**721**
2.1 Deferred tax liabilities recognised during the year	7,889	1,578	9,467	721
a) relating to previous years	7,889	1,578	9,467	–
b) due to change in accounting standards	–	–	–	–
c) other	–	–	–	721
2.2 New taxes or increases in tax rates	–	–	–	–
2.3 Other increases	–	–	–	–
2.4 Business combinations	1,225	477	1,702	–
3. Decreases	**1,640**	**464**	**2,104**	**454**
3.1 Deferred tax liabilities cancelled during the year	1,640	464	2,104	454
a) reversals	1,640	464	2,104	454
b) due to change in accounting standards	–	–	–	–
c) other	–	–	–	–
3.2 Decreases in tax rates	–	–	–	–
3.3 Other decreases	–	–	–	–
4. Final amount			**33,201**	**24,136**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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

(thousands of Euro)	IRES	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2015	31.12.2014 (*)
1. Initial amount			**781**	**1,457**
2. Increases	**2,144**	**381**	**2,525**	**456**
2.1 Deferred tax assets recognised during the year	2,077	381	2,458	456
a) relating to previous years	–	–	–	–
b) due to change in accounting standards	–	–	–	–
c) other	2,077	381	2,458	456
2.2 New taxes or increases in tax rates	–	–	–	–
2.3 Other increases	–	–	–	–
2.4 Business combinations	67	–	67	–
3. Decreases	**457**	**–**	**457**	**1,132**
3.1 Deferred tax assets cancelled during the year	457	–	457	1,132
a) reversals	457	–	457	629
b) write-downs for uncollectible amounts	–	–	–	–
c) due to change in accounting standards	–	–	–	–
d) other	–	–	–	503
3.2 Decreases in tax rates	–	–	–	–
3.3 Other decreases	–	–	–	–
4. Final amount			**2,849**	**781**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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

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

(thousands of Euro)	IRES	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2015	31.12.2014 (*)
1. Initial amount			**1,965**	**1,818**
2. Increases	**758**	**216**	**974**	**775**
2.1 Deferred tax liabilities recognised during the year	758	216	974	775
a) relating to previous years	–	–	–	–
b) due to change in accounting standards	–	–	–	–
c) other	758	216	974	775
2.2 New taxes or increases in tax rates	–	–	–	–
2.3 Other increases	–	–	–	–
2.4 Business combinations				
3. Decreases	**–**	**–**	**–**	**628**
3.1 Deferred tax liabilities cancelled during the year	–	–	–	628
a) reversals	–	–	–	–
b) due to change in accounting standards	–	–	–	–
c) other	–	–	–	628
3.2 Decreases in tax rates	–	–	–	–
3.3 Other decreases	–	–	–	–
4. Final amount			**2,939**	**1,965**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

13.7. Other information

Breakdown of current tax assets

(thousands of Euro)	31.12.2015	31.12.2014 (*)
1. Advance payment of IRES – IRAP – VAT taxes	27,454	16,351
2. Advance payment of stamp duty, withholding tax on interest	17,669	11,804
3. Withholding tax paid	2,900	428
4. Other current tax assets	17,947	5,283
Total	**65,970**	**33,866**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Breakdown of current tax liabilities

(thousands of Euro)	31.12.2015	31.12.2014 (*)
1. Liabilities for direct taxes	10,199	19,376
2. Indirect taxes	63	46
3. Withholding tax at source to be paid	–	–
4. Other current tax liabilities	5,074	275
Total	**15,336**	**19,697**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Probability test on deferred taxes

Probability test on deferred taxes

IAS 12 requires deferred tax assets and deferred tax liabilities to be recognised according to the following criteria:

- taxable temporary differences: a deferred tax liability must be recognised for all taxable temporary differences;
- deductible temporary differences: a deferred tax assets must be recognised for all deductible temporary differences, if it is likely that taxable income will be generated against which the deductible temporary difference will be used. Prepaid taxes not accounted for in the past – given there was no reason for their recognition – must be recorded in the year in which these requirements emerge.

The amount of prepaid taxes recorded in the financial statements must, therefore be subject to testing each year, to verify whether is a reasonable certainty of achieving future taxable income and therefore, the possibility of recovering the prepaid taxes.

Considering the amount of prepaid taxes recorded, an analysis was conducted to verify whether the forecasts of future profitability are as such to guarantee their re-absorption and therefore justify their recognition and maintenance in the financial statements (so-called “probability test”).

In particular, for prepaid taxes deriving from deductible temporary differences relating to write-downs and losses on loans (“qualified prepaid taxes” and qualified temporary differences”) it is important to note the establishment, effective from the tax period ended as at 31 December 2011, of the conversion to tax credits of prepaid taxes (IRES) booked in the financial statements against tax losses deriving from the deferred deduction of qualified temporary differences (art. 2, paragraph 56-bis, Law Decree 29 December 2010 no. 225, introduced by art. 9, Law Decree 6 December 2011 no. 201).

Effective from the 2013 tax period, a similar conversion is established, if the IRAP return shows a negative net value of production, in relation to prepaid taxes (IRAP) which refer to qualified temporary differences that contributed to the calculation of the negative net value of production, (art. 2, paragraph 56-bis.1, Law Decree no. 225 of 29 December 2010, introduced by Law no. 147/2013).

This convertibility – which augments that already envisaged in the case in which the individual financial statements show an operating loss (art. 2, paragraphs 55 and 56, Law Decree no. 225/2010, as recently amended by Law no. 147/2013 – is suitable to ensure the recovery of qualified prepaid taxes in any situation, regardless of the company's future profitability. In fact, if, in a given year, excess qualified temporary differences are verified with respect to taxable income or the net value of production, the recovery of the associated prepaid taxes would not result in a reduction of current taxes, but, nonetheless, through the recognition of prepaid taxes on the tax loss or on the negative net value of production, convertible to tax credits pursuant to art. 2, paragraph 56-bis and 56-bis.1, of Law Decree no. 225/2010.

The convertibility of prepaid taxes on tax losses and the negative net value of production that are determined by qualified temporary differences therefore constitutes a sufficient basis for the recognition of qualified prepaid taxes in the financial statements, implying the passing of the associated probability test.

This approach is, however, confirmed in the joint Bank of Italy, Consob and ISVAP document no. 5 of 15 May 2012 (issued as part of the coordination round-table regarding the application of IAS/IFRS), relating to the accounting treatment of prepaid taxes deriving from Law 214/2011", and in the subsequent IAS ABI document no. 112 of 31 May 2012 ("Tax credits deriving from the transformation of deferred tax assets: clarifications of the Bank of Italy, Consob and ISVAP regarding the application of IAS/IFRS").

The verification therefore concerned:

- the identification of prepaid taxes, other than those relating to write-downs and losses on loans, goodwill and other intangible assets with an indefinite life ("unqualified prepaid taxes"), booked to the financial statements;
- the analysis of these unqualified prepaid taxes and the deferred taxes recorded in the consolidated financial statements, distinguishing them by origin type and, therefore, by forecast timing of re-absorption;
- the provisional qualification of the Bank's future profitability, aimed at verifying the ability to absorb the prepaid taxes pursuant to previous points a).

The detailed analysis pursuant to points b) and c) was not necessary for prepaid taxes (and, subsequently, deferred taxes) recorded in the financial statements for IRAP purposes, given that almost all of them had certain prospects of use pursuant to art. 2, paragraph 56 bis.1 of Law Decree no. 225/2010 and "unqualified" prepaid IRAP taxes were of a negligible amount.

The analysis conducted highlighted a taxable base sufficiently able to absorb the deferred taxes recorded in the financial statements as at 31 December 2015.

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

As at the balance sheet date, as in the previous year, there were no non-current assets and groups of assets held for sale.

14.2. Other information

As at the balance sheet date, as in the previous year, there is no other information to be reported.

14.3 Disclosure regarding the investments in companies subject to significant influence not carried at equity

As at the balance sheet date, as in the previous year, there is no other information to be reported.

Section 15 OTHER ASSETS – ITEM 150

15.1 Other assets: breakdown

(thousands of Euro)	31.12.2015	31.12.2014 (*)
1. Unprocessed transactions with branches	275	–
2. Deposits	143	146
3. Work in progress	99,283	45,244
4. Various outstanding items (items waiting final allocation)	5,117	1,071
5. Income accrued and due to be received	18,755	14,419
6. Cash items in hand	312	65
7. Accruals and deferrals not reported	832	407
8. Expenditure on third party assets	1,827	2,250
Total	**126,544**	**63,602**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

LIABILITIES

Section 1 DUE TO BANKS – ITEM 10

1.1 Due to banks: breakdown by type

(thousands of Euro)	31.12.2015	31.12.2014 (*)
1. Due to central banks	**599,579**	**402,605**
2. Due to banks	**238,884**	**183,070**
2.1 Current accounts and demand deposits	52,040	27,160
2.2 Fixed-term deposits	77,469	65,651
2.3 Loans	108,619	89,696
2.3.1 Reverse repurchase agreements	–	–
2.3.2 Other	108,619	89,696
2.4 Liabilities for commitments to repurchase own equity investments	–	–
2.5 Other payables	756	563
Total	**838,463**	**585,675**
Fair Value – level 1	**–**	**–**
Fair Value – level 2	**826,200**	**534,252**
Fair Value – level 3	**–**	**–**
Total (fair value)	**826,200**	**534,252**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Repurchase agreements (borrowing) in respect of assets transferred and not derecognised from the financial statements are detailed in Part E.

1.2 Detail of item 10 "Due to banks": subordinated debt

As at the balance sheet date, as in the previous year, there is no subordinated debt due to banks.

1.3 Detail of item 10 "Due to banks": structured debt

As at the balance sheet date, as in the previous year, there is no structured debt due to banks.

1.4 Due to banks subject to micro-hedging

As at the balance sheet date, as in the previous year, there are no amounts due to banks subject to micro-hedging.

1.5 Finance lease payables

As at the balance sheet date, as in the previous year, there are no finance lease payables.

Section 2 DUE TO CUSTOMERS – ITEM 20

2.1 Due to customers: breakdown by type

(thousands of Euro)	**31.12.2015**	**31.12.2014 (*)**
1. Current accounts and demand deposits	4,245,677	2,546,292
2. Fixed-term deposits	403,297	445,937
3. Loans	78,969	109,888
3.1 Reverse repurchase agreements	78,969	109,888
3.2 Other	–	–
4. Liabilities for commitments to repurchase own equity investments	–	–
5. Other payables	480,047	405,192
Total	**5,207,990**	**3,507,309**
Fair Value – level 1	**–**	**–**
Fair Value – level 2	**4,822,730**	**3,102,079**
Fair Value – level 3	**–**	**–**
Total (fair value)	**4,822,730**	**3,102,079**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

2.2 Detail of item 20 “Due to customers”: subordinated debt

As at the balance sheet date, as in the previous year, there is no subordinated debt due to customers.

2.3 Detail of item 20 “Due to customers”: structured debt

As at the balance sheet date, as in the previous year, there is no structured debt due to customers.

2.4 Due to customers subject to micro-hedging

As at the balance sheet date, as in the previous year, there are no amounts due to customers subject to micro-hedging.

2.5 Finance lease payables

As at the balance sheet date, as in the previous year, there are no debts payable to customers associated with financial lease transactions.

Section 3 DEBT SECURITIES ISSUED – ITEM 30

3.1 Debt securities issued: breakdown by type

(thousands of Euro)	31.12.2015				31.12.2014 (*)			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,476,275	–	1,470,745	–	1,435,639	–	1,447,074	–
1.1 Structured	–	–	–	–	–	–	–	–
1.2 Other	1,476,275	–	1,470,745	–	1,435,639	–	1,447,074	–
2. Other securities	94,412	–	–	93,956	–	–	–	–
2.1 Structured	–	–	–	–	–	–	–	–
2.2 Other	94,412	–	–	93,956	–	–	–	–
Total	**1,570,687**	**–**	**1,470,745**	**93,956**	**1,435,639**	**–**	**1,447,074**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

The Euro 1.9 million of the sub-item “1.2 Bonds – Other” (6.8 million as at 31 December 2014) 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 2015 within the sphere of the EMTN.

3.2 Detail of item 30 “Debt securities issued”: subordinated securities

As at the balance sheet date, as in the previous year, no subordinated debt securities were issued.

3.3 Debt securities issued subject to micro-hedging

As at the balance sheet date, as in the previous year, no debt securities issued were subject to micro-hedging.

Section 4 FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

4.1 *Financial liabilities held for trading: breakdown by type*

(thousands of Euro)	31.12.2015					31.12.2014 (*)				
	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
3.1.1 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	–	232	2,898	–	–	–	154	3,248	–	–
1.1 Held for trading	X	232	2,875	–	X	X	154	3,149	–	X
1.2 Related to the fair value option	X	–	23	–	X	X	–	99	–	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**	**232**	**2,898**	**–**	**X**	**X**	**154**	**3,248**	**–**	**X**
Total (A+B)	**X**	**232**	**2,898**	**–**	**X**	**X**	**154**	**3,248**	**–**	**X**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.
(**) Fair value calculated excluding value adjustments due to changed issuer credit rating since the date of issue.

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.

4.2 *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.

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)	31.12.2015					31.12.2014 (*)				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	1,000	–	1,139	–	1,139	2,000	–	2,220	–	2,220
1.1 Structured	–	–	–	–	X	–	–	–	–	X
1.2 Other	1,000	–	1,139	–	X	2,000	–	2,220	–	–
2. Due to customers	–	–	–	–	–	–	–	–	–	–
2.1 Structured	–	–	–	–	X	–	–	–	–	X
2.2 Other	–	–	–	–	X	–	–	–	–	X
3. Debt securities	7,598	–	8,553	–	8,553	154,560	–	156,359	–	156,359
3.1 Structured	–	–	–	–	X	14,708	–	15,120	–	X
3.2 Other	7,598	–	8,553	–	X	139,852	–	141,239	–	X
Total	**8,598**	**–**	**9,692**	**–**	**9,692**	**156,560**	**–**	**158,579**	**–**	**158,579**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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.

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

As regards the information of this section, please refer to Section 13 of 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)	**31.12.2015**	**31.12.2014 (*)**
1. Adjustments of non-liquid items related to securities portfolios	68,513	41,692
2. Unprocessed transactions with branches	–	–
3. Amounts available to third parties (banks, suppliers etc.)	35,389	34,724
4. Amounts available to customers	50,794	14,168
5. Work in progress (credit transfers etc.)	5,688	5,594
6. Other items due to various creditors	42,022	23,538
7. Provisions for risks and charges for guarantees and commitments	751	330
8. Accruals and deferrals not reported	–	–
9. Withholding tax and taxes due	11,688	6,856
Total	**214,845**	**126,902**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Section 11 EMPLOYEE TERMINATION INDEMNITIES – ITEM 110

11.1 Employee termination indemnities: annual changes

(thousands of Euro)	**31.12.2015**	**31.12.2014 (*)**
A. Opening balance	**20,189**	**18,831**
B. Increases	**5,028**	**2,102**
B1. Provisions during the year	236	424
B2. Other increases	616	1,678
B3. Business combinations	4,176	–
C. Decreases	**3,957**	**744**
C1. Amounts paid	1,613	714
C2. Other decreases	2,344	30
C3. Business combinations	–	–
D. Closing balance	**21,260**	**20,189**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Sub-item C.1 refers to uses of the provision as at 31 December 2015.

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 contra-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 on the basis of the distinct historical experience by service seniority. A value of 1.50% was used for the current financial year.
Disability	INPS tables distinguished by age and gender
Turnover frequencies	Determined on the basis of the historical experience for the company and for similar companies, distinguished by age and gender, equal to 2.00%.
Probability of retirement	Upon reaching the first retirement requirement (in accordance with the provisions of the Assicurazione Generale Obbligatoria [Compulsory General Insurance Institute] (AGO).
Annual discount rate	In compliance with the provisions of par. 83 of IAS 19, the Iboxx Eurozone Corporate AA index, in line with the duration of the benefits recognised for the Company's employees, equal to 2.03% as at 31 December 2015
Annual inflation rate	1.50% for 2016; 1.80% for 2017; 1.70% for 2018; 1.60% for 2019 and 2.0% from 2020 onwards
Annual rate of increase of the employee termination indemnities	2.625% for 2016; 2.850% for 2017; 2.775% for 2018; 2.700% for 2019 and 3.000% from 2020 onwards

Other information	**31.12.2015**
Service cost for 2015	**0.00**
Plan duration	**10.2**

It is specified that the criteria underlying demographic and actuarial assumptions described above are essentially in line with those used in the past financial year.
Given the content of IAS 19 and lack of specific requirements by Regulatory Bodies, the identification and selection of the rate concerned is believed to represent one of the many possible evaluations and estimates required by the IFRS within the scope of preparing the financial statements. More specifically, the standard specifies that the discount rate must be calculated with reference to the market yield at year-end, of securities of leading companies in the country in which the entity operates (high quality corporate bond yields) or alternatively, if there is no market for said securities, with reference to the market yields of government-backed bonds.
For 2015, the annual discount rate used to calculate the current value of the bond was taken – in compliance with paragraph 83 of IAS 19 – from the Iboxx Corporate AA index with a 10+ year duration, at the valuation date. The yield with a duration that is comparable to the duration of the 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 31.12.2015 (values represent the change in the IAS value of the plan)	**Valuation parameters**	**DBO**
(thousands of Euro)		
Inflation rate	*+0.25%*	**21,730.9**
Inflation rate	*−0.25%*	**21,097.3**
Discount rate	*+0.25%*	**20,910.7**
Discount rate	*−0.25%*	**21,930.1**
Turnover rate	*+1%*	**21,350.4**
Turnover rate	*−1%*	**21,478.9**

Section 12 PROVISIONS FOR RISKS AND CHARGES – ITEM 120

12.1 Provisions for risks and charges: breakdown

(thousands of Euro)	**31.12.2015**	**31.12.2014 (*)**
1. Retirement benefits	–	–
2. Other provisions for risks and charges	20,628	2,809
2.1 Legal disputes	20,628	2,809
2.2 Personnel charges	–	–
2.3 Other	–	–
Total	**20,628**	**2,809**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

12.2 Provisions for risks and charges: annual changes

(thousands of Euro)	**Retirement benefits**	**Other provisions**	**Total**
A. Opening balance	**–**	**2,809**	**2,809**
B. Increases	**–**	**24,065**	**24,065**
B1. Provisions during the year	–	8,712	8,712
B2. Changes due to the passing of time	–	–	–
B3. Changes due to discount rate adjustments	–	–	–
B4. Other changes	–	–	–
B5. Business combinations	–	15,353	15,353
C. Decreases	**–**	**6,246**	**6,246**
C1. Use during the year	–	3,719	3,719
C2. Changes due to discount rate adjustments	–	–	–
C3. Other changes	–	2,527	2,527
C4. Business combinations	–	–	–
D. Closing balance	**–**	**20,628**	**20,628**

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 20.6 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)	**31.12.2015**	**31.12.2014 (*)**
Number of treasury stocks and shares	44,883,933	38,127,110
Face value	Euro 4.00	Euro 4.00

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

As at 31 December 2015, Banca Popolare · Volksbank has no treasury shares on hand.
As at 31 December 2015, the share capital is equal to Euro 179,535,732.00 and comprises 44,883,933 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. There are no categories of shares other than ordinary shares.

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**	**6,756,823**	**–**
B.1	New issues	6,756,823	–
	· against payment:	6,756,823	–
	– business combinations	6,756,823	–
	– bond conversions	–	–
	– warrant exercise	–	–
	– Other	–	–
	· on a free basis:	–	–
	– in favour of employees	–	–
	– in favour of directors	–	–
	– Other	–	–
B.2	Sale of treasury shares	–	–
B.3	Other changes	–	–
C.	**Decreases**	**–**	**–**
C.1	Cancellation	–	–
C.2	Purchase of treasury shares	–	–
C.3	Sale of businesses	–	–
C.4	Other changes	–	–
D.	**Shares outstanding: closing balance**	**44,883,933**	**–**
D.1	Treasury shares (+)	–	–
D.2	Number of shares at the end of the year	44,883,933	–
	– fully paid-up	44,883,933	–
	– 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)	31.12.2015	31.12.2014 (*)
1. Legal reserve	113,000	110,800
2. Extraordinary reserve	109,774	105,774
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	32,197	33,516
Total	**267,738**	**262,857**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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 uses
180.	**Share capital**	179,536	–	–		
170.	**Share premium reserve**	307,527	A, B, C (1)	307,527		
160.	**Reserves**					
	– retained earnings					
	– Legal reserve	113,000	B (2)	–		
	– Extraordinary reserve	109,774	A, B, C	109,774		
	– Unavailable reserve pursuant to art. 6, Italian Legislative Decree 38/2005	2,054	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	(5,521)		–		
	d) Positive AFS valuation reserve	7,158	(*)	–		
	e) Negative actuarial reserve for employee termination indemnities	(1,652)		–		
	Equity instruments	–		–		
	Retained earnings	22,368		–		
	Total	**777,154**				

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. If distributed to the shareholders, it helps to form the taxable income of the company.

14.5 Equity instruments: breakdown and annual changes

As at the balance sheet date, as in the previous year, there are no bank capital instruments other than ordinary shares.

14.6. Other information

As at the balance sheet date, as in the previous year, there is no other information to be reported.

OTHER INFORMATION

1. Guarantees issued and commitments

(thousands of Euro)	**31.12.2015**	**31.12.2014 (*)**
1) Financial guarantees issued	57,765	33,147
a) Banks	9,466	6,425
b) Customers	48,299	26,722
2) Commercial guarantees issued	383,456	332,230
a) Banks	630	507
b) Customers	382,826	331,723
3) Irrevocable commitments to disburse funds	280,110	184,605
a) Banks	150	80
i) certain to be used	150	80
ii) not certain to be used	–	–
b) Customers	279,960	184,525
i) certain to be used	561	179
ii) not certain to be used	279,399	184,346
4) Commitments underlying credit derivatives protection sales	–	–
5) Assets lodged to guarantee minority interest	–	–
6) Other commitments	–	–
Total	**721,331**	**549,982**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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)	**31.12.2015**	**31.12.2014 (*)**
1. Financial assets held for trading	503,514	300,917
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	–	–

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Assets established as security of own liabilities and commitments for reverse repurchase agreements deposits total 432.4 million, whereas the securities uses as deposit and guarantees for other transactions are recorded for 71.1 million.
Furthermore, it is noted that as at the balance sheet date, there are 415.7 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 no assets or liabilities under an operating lease.

4. Management and brokerage on behalf of third parties

Type of service *(thousands of Euro)*	Amount
1. Order execution on behalf of customers	**–**
a) Purchases	–
1. Settled	–
2. Not settled	–
b) Sales	–
1. Settled	–
2. Not settled	–
2. Portfolio management	**–**
a) Individual	–
b) Collective	–
3. Custody and administration of securities	**7,416,033**
a) Third party securities held on deposit: related to depositary bank services (excluding assets under management)	2,411,906
1. securities issued by the Bank preparing the financial statements	1,603,460
2. other securities	808,446
b) Third party securities held on deposit (excluding assets under management): other	56,657
1. securities issued by the Bank preparing the financial statements	41,528
2. other securities	15,129
c) Third party securities deposited with third parties	2,399,008
d) Own securities deposited with third parties	2,548,462
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 balance sheet date, 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, as in the previous year, there were no securities lending transactions.

8. Disclosure on joint-control activities

As at the balance sheet date, as in the previous year, there were no joint control activities.

PART C INFORMATION ON THE INCOME STATEMENT

Section 1 INTEREST – ITEMS 10 AND 20

1.1 *Interest and similar income: breakdown*

Items/Technical forms *(thousands of Euro)*	Debt securities	Loans	Other transactions	31.12.2015	31.12.2014 (*)
1. Financial assets held for trading	1,765	–	1,307	3,072	4,238
2. Financial assets available for sale	10,360	–	–	10,360	9,988
3. Investments held to maturity	2,602	–	–	2,602	1,733
4. Due from banks	–	151	–	151	730
5. Loans to customers	4,360	177,279	–	181,639	160,043
6. Financial assets designated at fair value through profit or loss	–	–	–	–	–
7. Hedges	X	X	–	–	–
8. Other assets	X	X	54	54	–
Total	**19,087**	**177,430**	**1,361**	**197,878**	**176,732**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

The interest income on impaired assets totalled 8.2 million, compared to 5.1 million as at 31 December 2014.
Interest income also includes income on securities relating to reverse repurchase agreements deposits.
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)	31.12.2015	31.12.2014 (*)
a) on (foreign) currency assets	189	221

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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	31.12.2015	31.12.2014 (*)
1. Due to central banks	(519)	X	–	(519)	(756)
2. Due to banks	(1,646)	X	–	(1,646)	(1,589)
3. Due to customers	(27,577)	X	–	(27,577)	(25,343)
4. Debt securities issued	X	(33,948)	–	(33,948)	(32,761)
5. Financial liabilities held for trading	–	–	–	–	–
6. Financial liabilities designated at fair value through profit or loss	(87)	(1,623)	–	(1,710)	(4,925)
7. Other liabilities and funds	X	X	–	–	–
8. Hedges	X	X	–	–	–
Total	**(29,829)**	**(35,571)**	**–**	**(65,400)**	**(65,374)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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)	31.12.2015	31.12.2014 (*)
a) on liabilities in foreign currency	(654)	(765)

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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 service/Amounts *(thousands of Euro)*	31.12.2015	31.12.2014 (*)
a) Guarantees issued	**3,787**	**3,095**
b) Credit derivatives	**–**	**–**
c) Management, brokerage and consulting services:	**23,926**	**17,042**
1. trading of financial instruments	–	16
2. foreign currency trading	826	383
3. portfolio management	–	–
3.1 Individual	–	–
3.2 Collective	–	–
4. custody and administration of securities	405	258
5. depositary bank	–	–
6. placement of securities	11,163	7,131
7. order receipt and transmission work	1,336	1,249
8. advisory services	–	–
8.1 on investments	–	–
8.2 on financial structures	–	–
9. distribution of third-party services	10,196	8,005
9.1 portfolio management	–	–
9.1.1 Individual	–	–
9.1.2 Collective	–	–
9.2 insurance products	6,075	4,868
9.3 other products	4,121	3,137
d) Collection and payment services	**6,527**	**4,817**
e) Servicing for securitisations	**–**	**–**
f) Factoring transaction services	**–**	**–**
g) Tax collection services	**–**	**–**
h) Management of multilateral trading systems	**–**	**–**
i) Current account maintenance and management	**39,618**	**31,804**
j) Other services	**12,297**	**12,520**
Total	**86,155**	**69,278**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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

Channels/Amounts *(thousands of Euro)*	31.12.2015	31.12.2014 (*)
a) At own branches:	**21,359**	**15,136**
1. portfolio management	–	–
2. placement of securities	11,163	7,131
3. third party services and products	10,196	8,005
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	–	–

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

2.3 Fee and commission expense: breakdown

Services/Amounts *(thousands of Euro)*	31.12.2015	31.12.2014 (*)
a) Guarantees received	**(223)**	**(1,758)**
b) Credit derivatives	**–**	**–**
c) Management and brokerage services:	**(2,146)**	**(1,965)**
1. trading of financial instruments	(1,602)	(1,547)
2. foreign currency trading	(132)	(77)
3. portfolio management:	–	–
3.1 own	–	–
3.2 on behalf of third parties	–	–
4. custody and administration of securities	(412)	(321)
5. placement of financial instruments	–	(20)
6. door-to-door sales of financial instruments, products and services	–	–
d) Collection and payment services	**(577)**	**(374)**
e) Other services	**(5,667)**	**(4,143)**
1. transmission duties for bancomat (ATM card) details, POS	(3,272)	(2,565)
2. transmission duties – Bank network	(940)	(649)
3. other	(1,455)	(929)
Total	**(8,613)**	**(8,240)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Section 3 DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

Items/Amounts *(thousands of Euro)*	31.12.2015		31.12.2014 (*)	
	Dividends	**Income from UCITS**	**Dividends**	**Income from UCITS**
A. Financial assets held for trading	–	–	–	–
B. Financial assets available for sale	777	7,220	275	1,529
C. Financial assets designated at fair value through profit or loss	–	–	–	–
D. Investments	–	X	–	X
Total	**777**	**7,220**	**275**	**1,529**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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	**24,346**	**20,846**	**(31,800)**	**(11,377)**	**2,015**
1.1 Debt securities	59	92	(1)	(148)	2
1.2 Equity securities	–	–	–	–	–
1.3 UCITS units	–	–	–	–	–
1.4 Loans	–	–	–	–	–
1.5 Other	24,287	20,754	(31,799)	(11,229)	2,013
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	**791**	**2,155**	**(202)**	**(2,331)**	**10**
4.1 Financial derivatives:	791	2,155	(202)	(2,331)	10
– on debt securities and interest rates	791	963	(202)	(1,366)	186
– on equity instruments and share indices	–	1,192	–	(965)	227
– on currency and gold	X	X	X	X	(403)
– other	–	–	–	–	–
4.2 Credit derivatives	–	–	–	–	–
Total	**25,137**	**23,001**	**(32,002)**	**(13,708)**	**2,025**

The sub-item “Financial derivatives – on debt securities and interest rates”, positive for 0.2 million, refers to margins and differentials on IRSs held for trading, futures, and options on securities and rates.
The column “Net result” includes the profits, losses, capital gains and capital losses from currency transactions and currency and gold derivatives.

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

5.1 Profits (losses) from hedging activities

During the financial year, as in the previous one, there were 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)*	**31.12.2015**			**31.12.2014 (*)**		
	Profit	**Loss**	**Net result**	**Profit**	**Loss**	**Net result**
Financial assets						
1. Due from banks	4	–	4	–	–	–
2. Loans to customers	–	(2,195)	(2,195)	–	(1,236)	(1,236)
3. Financial assets available-for-sale	26,536	(2,438)	24,098	14,904	(2,735)	12,169
3.1 Debt securities	6,614	(629)	5,985	12,343	(991)	11,352
3.2 Equity securities	15,744	(750)	14,994	–	–	–
3.3 UCITS units	4,178	(1,059)	3,119	2,561	(1,744)	817
3.4 Loans	–	–	–	–	–	–
4. Investments held to maturity	–	–	–	3	–	3
Total assets	**26,540**	**(4,633)**	**21,907**	**14,907**	**(3,971)**	**10,936**
Financial liabilities						
1. Due to banks	–	–	–	–	–	–
2. Due to customers	–	–	–	–	–	–
3. Debt securities issued	229	(12)	217	284	(17)	267
Total liabilities	**229**	**(12)**	**217**	**284**	**(17)**	**267**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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	**247**	**1,097**	**(81)**	**(10)**	**1,253**
2.1 Debt securities	178	1,097	(81)	(10)	1,184
2.2 Due to banks	69	–	–	–	69
2.3 Due to customers	–	–	–	–	–
3. Foreign currency financial assets and liabilities: exchange differences	X	X	X	X	–
4. Financial and credit derivatives	**–**	**–**	**(1,139)**	**–**	**(1,139)**
Total	**247**	**1,097**	**(1,220)**	**(10)**	**114**

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.

During the year, expenses/income attributable to a variation in the Bank's creditworthiness were verified.

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				2015	2014 (*)
	specifications		Portfolio	specifications		Portfolio			
	Derecogni-tions	Other		From interest	Other recoveries	From interest	Other recoveries		
A. Due from banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Loans	–	–	–	–	–	–	–	–	–
– Debt securities	–	–	–	–	–	–	–	–	–
B. Loans to customers	**(3,989)**	**(68,448)**	**(1,797)**	**10,151**	**19,882**	**–**	**539**	**(43,662)**	**(27,048)**
Purchased impaired loans	–	–	–	–	–	–	–	–	–
– Loans	–	–	X	–	–	X	X	–	–
– Debt securities	–	–	X	–	–	X	X	–	–
Other loans	(3,989)	(68,448)	(1,797)	10,151	19,882	–	539	(43,662)	(27,048)
– Loans	(3,989)	(68,448)	(1,797)	10,151	19,882	–	539	(43,662)	(27,048)
– Debt securities	–	–	–	–	–	–	–	–	–
C. Total	**(3,989)**	**(68,448)**	**(1,797)**	**10,151**	**19,882**	**–**	**539**	**(43,662)**	**(27,048)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

The item “Losses – Specific – Derecognitions” mainly refers to doubtful loans. The item “Losses – Specific – Other” mainly contains value adjustments to doubtful and unlikely to pay loans.

The item “Recoveries – Specific – From interest” mainly refers to recoveries on default interest on doubtful loans, as well as to recoveries on doubtful loans as an effect of time-discounting.

8.2 *Net losses/recoveries on impairment of financial assets available-for-sale: breakdown*

Transactions/ Income components *(thousands of Euro)*	Adjustments		Recoveries		2015	2014 (*)
	specifications		specifications			
	Derecognitions	Other	A	B		
A. Debt securities	–	(2,404)	–	–	(2,404)	–
B. Equity securities	–	–	X	X	–	(1,839)
C. UCITS units	–	–	X	–	–	–
D. Loans to banks	–	–	–	–	–	–
E. Loans to customers	–	–	–	–	–	–
F. Total	**–**	**(2,404)**	**–**	**–**	**(2,404)**	**(1,839)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.
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				2015	2014 (*)
	specifications			specifications		Portfolio			
	Derecogni-tions	Other	Portfolio	From interest	Other recoveries	From interest	Other recoveries		
A. Guarantees issued	–	(827)	–	–	406	–	–	(421)	(52)
B. Credit derivatives	–	–	–	–	–	–	–	–	–
C. Commitments to disburse funds	–	–	–	–	–	–	–	–	–
D. Other transactions	–	–	–	–	–	–	–	–	–
E. Total	**–**	**(827)**	**–**	**–**	**406**	**–**	**–**	**(421)**	**(52)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Section 9 ADMINISTRATIVE EXPENSES – ITEM 150

9.1 Personnel expenses: breakdown

Type of cost/Amounts *(thousands of Euro)*	31.12.2015	31.12.2014 (*)
1) Employees	(96,318)	(72,578)
a) salaries and wages	(66,870)	(50,256)
b) social security costs	(18,931)	(13,939)
c) employee termination indemnities	–	–
d) pension costs	–	–
e) provisions to employee termination indemnities	(3,083)	(2,504)
f) provisions for retirement benefits and similar commitments:	–	–
– defined contribution plans	–	–
– defined benefit plans	–	–
g) payments to external supplementary pension funds:	(3,776)	(2,736)
– defined contribution plans	(3,776)	(2,736)
– defined benefit plans	–	–
h) costs resulting from share-based payment arrangements	–	–
i) other employee benefits	(3,658)	(3,143)
2) Other working staff	–	–
3) Directors and auditors	(1,636)	(1,320)
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	**(97,954)**	**(73,898)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Item 3 “Directors and auditors” includes the fees paid to members of the Board of Directors and to the Board of Statutory Auditors of the company.

9.2 Average number of employees per category

	31.12.2015	31.12.2014 (*)
1. Employees	**1,118**	**968**
a) Officers	34	29
b) Line managers	440	364
c) Remaining employees	644	575
2. Other employees	**–**	**–**
Total	**1,118**	**968**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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

9.3 Defined benefit retirement funds: total costs

In the financial year, as in the previous year, there are no company defined benefit retirement funds.

9.4 Other employee benefits

Other employee benefits, whose costs are reported in the previous table 9.1 in point i), mainly include 1.0 million of personnel training expenses. Also included are cafeteria contributions (1.2 million), reimbursement of food and accommodation expenses of employees away on business and mileage allowance costs (0.5 million), as well as costs for insurance policies stipulated in favour of employees (0.5 million).

9.5 Other administrative expenses: breakdown

(thousands of Euro)	31.12.2015	31.12.2014 (*)
1. Equipment and software leasing charges	(1,411)	(1,039)
2. Vehicle circulation and travel/accommodation reimbursements	(2,121)	(1,394)
3. Fees for professional services	(9,613)	(4,939)
4. Membership fees	(2,083)	(567)
5. SEC (consortium data processing centre) management costs	(15,035)	(9,659)
6. Donations	(490)	(310)
7. Property rental	(5,779)	(4,958)
8. Stamp duty	(14,523)	(11,588)
9. Indirect taxes	(1,130)	(629)
10. Insurance premiums	(990)	(711)
11. Transport expenses	(1,291)	(873)
12. Security services	(1,053)	(754)
13. Electricity, heating, and condominium fees	(2,164)	(1,704)
14. Office supplies	(1,794)	(1,127)
15. Investigation and commercial information	(2,309)	(1,359)
16. Legal fees for credit collection	(3,383)	(2,331)
17. Property, furniture and plant maintenance	(3,823)	(2,812)
18. Advertising and entertainment	(3,769)	(2,882)
19. Office cleaning	(1,185)	(929)
20. Telephone, postal, data transmission and telex	(2,953)	(2,221)
21. Taxes and duties	(2,012)	(1,528)
22. Other expenses	(7,900)	(133)
Total	**(86,811)**	**(54,447)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Section 10 NET PROVISIONS FOR RISKS AND CHARGES – ITEM 160

10.1 *Net provisions for risks and charges: breakdown*

(thousands of Euro)	31.12.2015	31.12.2014 (*)
a) Provision for civil disputes, revocatory bankruptcy action and *other charges*	(11,774)	(1,972)
b) Net provisions for sundry personnel expenses	3,060	–
c) Release of provisions	2,527	177
Total	**(6,187)**	**(1,795)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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)*	**Amortisation (a)**	**Losses on impairment (b)**	**Recoveries (c)**	**Net result (a+b-c)**
A. Property and equipment				
A.1 Owned	(6,584)	–	–	(6,584)
– for functional use	(6,584)	–	–	(6,584)
– for investment	–	–	–	–
A.2 Acquired under finance	–	–	–	–
lease	–	–	–	–
– for functional use	–	–	–	–
– for investment	–	–	–	–
Total	**(6,584)**	**–**	**–**	**(6,584)**

Section12 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	(1,883)	–	–	(1,883)
– generated internally by the company	–	–	–	–
– other	(1,883)	–	–	(1,883)
A.2 Acquired under finance lease	–	–	–	–
Total	**(1,883)**	**–**	**–**	**(1,883)**

For a description of the methods of performance of the impairment tests on the values of intangible assets and the associated value adjustments booked to the income statement, please refer to “Part B – Section 12 – intangible assets” of these Notes.

Section 13 OTHER OPERATING INCOME (EXPENSES) – ITEM 190

13.1 Other operating expenses: breakdown

(thousands of Euro)	31.12.2015	31.12.2014 (*)
1. Cash, material, and operating differences	(113)	(116)
2. Losses on loans from Deposit Protection Funds	–	–
3. Other expenses	(2,465)	(2,302)
Total	**(2,578)**	**(2,418)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

13.2 Other operating income: breakdown

(thousands of Euro)	31.12.2015	31.12.2014 (*)
1. Property rental	502	493
2. Recovery of management costs	6,711	5,596
3. Charges to third parties for various recoveries	15,573	12,995
4. Other income	6,613	366
Total	**29,399**	**19,450**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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)*	31.12.2015	31.12.2014 (*)
A. Income	144	–
1. Revaluations	–	–
2. Profits on disposal	–	–
3. Recoveries	144	–
4. Other income	–	–
B. Charges	–	(661)
1. Write-downs	–	–
2. Losses on impairment	–	(661)
3. Losses on disposal	–	–
4. Other expenses	–	–
Net result	**144**	**(661)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Section 15 GAINS (LOSSES) FROM FAIR VALUE MEASUREMENT OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS – ITEM 220

15.1 Gains (losses) from fair value (or revalued amount) measurement of property and equipment and intangible assets: breakdown

During the financial year and in the previous year, there were no gains or losses from fair value measurement of property and equipment and intangible assets.

Section 16 VALUE ADJUSTMENTS TO GOODWILL – ITEM 230

16.1 Value adjustments to goodwill: breakdown

The results of the checks on the recoverability of goodwill recorded in the financial statements did not determine any value adjustments in 2015.
Please refer to part A – Accounting Policies for an in-depth analysis of the methods of determining losses in value of goodwill.
For a description of the methods of performance of the impairment tests on goodwill, please refer to "Part B – Section 12 – intangible assets" of these Notes.

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)*	**31.12.2015**	**31.12.2014 (*)**
A. Property	29	–
– Profits on disposal	29	–
– Losses on disposal	–	–
B. Other assets	43	18
– Profits on disposal	53	18
– Losses on disposal	(10)	–
Net result	**72**	**18**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Section 18 TAXES ON INCOME FROM CONTINUING OPERATIONS – ITEM 260

18.1 Taxes on income from continuing operations: breakdown

Income component/Amounts *(thousands of Euro)*		**IRES**	**IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)**	**31.12.2015**	**31.12.2014 (*)**
1.	Current taxes (-)	(7,138)	(2,158)	(9,296)	(18,913)
2.	Changes in current taxes compared to previous years (+/-)	83	(698)	(615)	1,676
3.	Reduction in current taxes for the year (+)	–	–	–	–
3bis	Reduction in current taxes for the year from tax credits pursuant to Italian Law no. 214/2011 (+)	–	–	–	–
4.	Changes in deferred tax assets (+/-)	61,729	6,943	68,672	3,358
4bis	– effect of business combinations	(58,237)	(5,883)	(64,120)	–
5.	Changes in deferred tax liabilities (+/-)	(7,475)	(1,590)	(9,065)	(267)
5bis	– effect of business combinations	1,225	477	1,702	–
5ter	– PPA effect – business combinations	9,869	1,807	11,676	–
6.	**Taxes for the year (–)(–1+/–2+3+/–4+/–5)**			**(1,046)**	**(14,146)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

18.2 Reconciliation between theoretical tax expense and actual tax expense in the financial statements

(thousands of Euro)	**IRES**	**%**
IRES tax with application of nominal rate	**6,439**	***27.50%***
Tax-free losses on investments	207	*2.00%*
Non-deductible interest expense	719	*2.09%*
Non-deductible costs	765	*1.70%*
Total tax effect of increases	**1,691**	***5.79%***
Dividends	(203)	*(0.21%)*
Other decreases	(5,447)	*(4.41%)*
Total tax effect of decreases	**(5,650)**	***(4.62%)***
IRES tax charged to the income statement	**2,480**	***28.67%***

(thousands of Euro)	**IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)**	**%**
IRAP tax with application of nominal rate	**1,179**	***4.86%***
Personnel expenses	302	*6.57%*
Net losses/recoveries on impairment	2,199	*3.82%*
Non-deductible interest expense	132	*0.37%*
Other increases	911	*1.77%*
Total tax effect of increases	**3,544**	***12.53%***
Dividends	(20)	*(0.02%)*
Other decreases	(3,090)	*(4.90%)*
Total tax effect of decreases	**(3,110)**	***(4.92%)***
IRAP tax charged to the income statement	**1,613**	***12.47%***

(thousands of Euro)	**IRES+IRAP**
Franking of the fair value of loans pursuant to Law Decree 185/2008	**(3,047)**

Art. 15, paragraph 11, of Law Decree 185/2008 provides the right of realigning the higher values attributed to loans at the time of extraordinary transactions by applying substitute tax at a rate of 20%. The amount of 3.0 million refers to the positive effects of the tax relief of the variation in the fair value of loans, booked to the financial statements for a total amount of 23.3 million, following the incorporation of the Banca Popolare di Marostica Group.
The higher values subject to substitute tax are considered recognised for tax purposes starting from the tax period in which substitute tax is paid.

Section 19 INCOME (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS – ITEM 280

19.1 Income (loss) after tax from discontinued operations: breakdown

During the financial year, as in the previous year, there was no income or loss after tax from discontinued operations, for which the breakdown is to be reported.

19.2 Breakdown of income taxes on discontinued operations

During the financial year, as in the previous year, there were no income taxes on discontinued operations.

Section 20 OTHER INFORMATION

20.1 Collection of receivables on behalf of third parties: debit and credit adjustments

(thousands of Euro)	31.12.2015	31.12.2014 (*)
a) Debit adjustments	**627,721**	**349,934**
1. Current accounts	135,098	78,788
2. Central portfolio	487,066	270,962
3. Cash on hand	5,145	157
4. Other accounts	412	27
b) Credit adjustments	**696,234**	**391,626**
1. Current accounts	158,208	81,160
2. Assignment of bills and documents	537,219	309,779
3. Other accounts	807	687

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Section 21 EARNINGS PER SHARE

	31.12.2015	31.12.2014 (*)
Basic earnings per share	0.52	0.53
Diluted earnings per share	0.52	0.53

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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.

	31.12.2015	31.12.2014 (*)
Weighted average number of ordinary shares	43,166,342	38,127,110
Adjustment for effects of dilution	–	–
Weighted average number of diluted ordinary shares	–	–

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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) for the year**	**X**	**X**	**22,368**
	Other comprehensive income without reclassification to profit or loss	**1,677**	**(458)**	**1,219**
20.	Property and equipment	–	–	–
30.	Intangible assets	–	–	–
40.	Defined benefit plans	1,677	(458)	1,219
50.	Discontinued operations	–	–	–
60.	Portion of valuation reserves of equity-accounted investees	–	–	–
	Other comprehensive income with reclassification to profit or loss	**(4,470)**	**1,485**	**(2,985)**
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:	(4,470)	1,485	(2,985)
	a) changes in fair value	(2,472)	835	(1,637)
	b) reclassification to profit or loss	(1,998)	650	(1,348)
	– losses on impairment	–	–	–
	– profits/losses on disposal	(1,998)	650	(1,348)
	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**	**(2,793)**	**1,027**	**(1,766)**
140.	**Comprehensive income (10+130)**	**(2,793)**	**1,027**	**20,602**

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 risk 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. The IIA issued professional standards for Internal Audit (International Professional Practices Framework – IPPF). Three binding elements are defining internal audits, a code of ethics and international standards for the professional internal audit procedure. The IPPF disseminates best practices for internal audits. In performing its duties, Internal Audit takes account of the provisions of widely accepted professional standards.

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 for the process audit, standard work schemes with check points to inspect the retail network (periodically revised). The manual reflects the direction of internal audits towards risk and control assessment by the Company.

Particular attention was paid to the company's extraordinary transactions in 2015: the incorporation of the Banca Popolare di Marostica Group (Banca Popolare di Marostica e Banca di Treviso) in the company and the share capital increase at the end of the year, completed in 2016. For both transactions, the department performed a series of checks on the effectiveness of the internal control system for mitigating the risks present in the respective operating processes affected.

REGULATORY COMPLIANCE OFFICE

The mission of the Compliance Office is to identify, mitigate and monitor the compliance risk. This is the risk of non-compliance with laws, regulations or internal and external governance codes and any rules that protect the reputation of the Company and the quality of the services provided to customers.

The Compliance Office operates independently and autonomously within the unit, reporting functionally in relation to its activities to the Board of Directors, the natural recipient of the evaluations performed in-house. The current mandate of the compliance office was approved by the Board of Directors in its meeting of 7 August 2015. The main responsibilities of the Compliance office concern:

- governance and management of the compliance process covering all bank operations, in accordance with an approach based on the degree of risk of non-compliance; for every activity that is considered to potentially expose the Company to greater risk of non-compliance, instruments and methods to achieve the pre-established objectives of regulatory and operating compliance are identified;
- supervision of the effectiveness over time of the organisational controls for the mitigation of the risk of non-compliance, and if necessary, request for the implementation of mitigation actions to eliminate or, in any case, contain the risks within the desired levels;
- on-going identification of the standards applicable to Banca Popolare · Volksbank and measurement and assessment of their impact on the company's processes and procedures: if necessary, the competent organisational units are alerted, for the consequent adaptations;
- consulting, assistance and training in matters concerning compliance, which is provided to both top management bodies and the functional organisational units;
- periodic assessment and verification of the overall compliance status;
- submitting reports to top management and company bodies;
- management of relations with the banking and financial Supervisory Authorities and with the public institutions that control the management of given economic sectors (Authorities).

The Compliance office interacts on a daily basis with the company bodies and structures and therefore formalises its activities, typically through:

- annual planning of ordinary activities;
- ordinary check reports, in implementation of the annual plan and, extraordinary, if necessary;
- consultancy report;
- report on the analysis of the impacts of the new regulations;
- interim periodic reports to the Board of Directors;
- annual final report, of which the most recent relating to 2015 was approved on 19 February 2016 by the Board of Directors.

The Compliance Office takes action within the sphere of the “Internal controls system – Co-ordination, integration, information flows between the audit units” which Banca Popolare · Volksbank’s Board of Directors approved on 1 August 2014; its activities are co-ordinated within the sphere of the Internal Audit Committee, made up of the managers of the Bank’s second and third level audit units, for the purpose of maintaining synergy and greater interaction between said units, in order to reach the tangible objective, also desired by the Supervisory Authorities, of increasing, based on the rules, the level of risk awareness on the part of the bodies responsible for company management.
The Compliance office also works closely with both the Risk Committee, the Board body responsible for monitoring, on behalf of the Board of Directors, the trend in bank risks, as well as with the Board of Statutory Auditors as the control body and the Supervisory Body (231/2001)
In 2015, the Compliance Office systematically monitored new regulations (278 were identified and assessed); it issued 26 formal advisory reports and 107 informal ones and conducted 38 ex-ante checks on the adequacy of the controls prepared to mitigate the risks of non-compliance, and ex-post checks to verify that the operating behaviour is in line with said controls. These activities concerned the following areas:

- Corporate governance, including remuneration policies;
- Merger by incorporation of Banca Popolare di Marostica e della Banca di Treviso;
- Increase in share capital;
- Management of conflicts of interest;
- Related parties (Consob) and associated parties (Bank of Italy);
- Investment services;
- Market abuse;
- Credit and anti-usury process;
- Transparency and Payment Service Directive (PSD);
- IT security and Privacy;
- Insurance brokerage;
- Outsourcing of the cash processing activities;
- Own taxes and substitute tax;
- Support in the management of the Organisational Model under Leg. Decree 231/2001 and Code of Ethics;
- Complaint management;
- Internal control system management.

The Compliance office plays a key role in protecting the bank’s image with customers and the local community: therefore, it also deals with observance of the Code of Ethics which the Board of Directors has adopted since 2005. Efficient and effective compliance control in this area promotes training and helps build up a good reputation. The company’s Compliance office is an asset for both consumers, whose rights and complaints are followed by the Company, and for the Company itself, based on the creation of the reputational value said control can generate.

RISK MANAGEMENT

By means of the charter of the Risk management office, approved in first draft on 20 December 2012 and reviewed in April 2015, the Board of Directors formalised the duties and tasks of the risk management office, which had already been established by Banca Popolare · Volksbank in 2003, acknowledging all the latest national and international regulations concerning the role and obligations of the audit units, to which the risk management department belongs, incorporated in the more general Internal Control System, and which lay down, in particular:

- 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 mandate therefore establishes that the Risk Management department is hierarchically and functionally directly dependent on the Board of Directors. The head of the Risk Management department communicates and answers to the Board of Directors regarding the work carried out and performs the duties conferred on an independent basis.

Within the Internal 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.

In 2015, the risk committee was established, pursuant to Bank of Italy Circular no. 285/2013, a Board committee in support of the Board of Directors regarding risks and the internal control system. It is composed of between three and five non-executive directors and is responsible for:

- identifying and proposing the appointment of the company control functions;
- examining the programme of activities beforehand and the annual reports of the functions themselves;
- expressing judgments and formulating opinions to the Board of Directors on compliance of the principles to which the internal control system must be aligned and of the requirements which must be respected by the company control functions, bringing any areas of weakness to the attention of the Board and the subsequent corrective actions to be promoted;
- verifying that the company control functions correctly conform to the indications and the guidelines and of the body and support the latter in drafting the coordination document;
- in the definition and approval of the strategic guidelines and risk governance policies, performing the necessary valuation and proposal activities so that the body with the strategic supervision function can define and approve the risk objectives and tolerance threshold;
- supporting the Board of Directors in verifying the correct implementation of the strategies, risk governance policies and the RAF;
- supporting the Board of Directors with the definition of the policies and processes of evaluation of company activities, including the verification that the price and the conditions of transactions with customers are consistent with the business model and strategies governing risks.

Efforts were once again intensified, 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 2015. 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 Circular No. 285 of 17 December 2013 of the Bank of Italy, of the so-called Risk Appetite Framework (RAF) which was established to define – in accordance with the maximum risk that can be taken on by the Bank, its business model and the strategic plan, the following fundamental limits:

- the risk appetite,
- the tolerance thresholds,
- the risk limits,
- the risk governance policies,
- the reference processes needed to define them and start them up.

The goal was to define risks in individual activities and describe the ongoing changes in the risk structure, so that accurate and fast risk control and management could be ensured. Any adverse changes could therefore be detected in time thanks to systematic monitoring, allowing for corrective actions to be taken for the risk structure. The framework adopted includes four levels of assumption of risks depending on the ability or intention of the Bank to assume risk and also depending on the extent of Company capital available to cover risks, its income capacity and the risk the Company is willing to assume in order to attain its own economic and strategic goals:

- risk covering potential, representing the absolute risk limit that the Bank is able to sustain, even if it compromises its ability to continue as a going concern, but protecting savings and maintaining the stability and efficiency of the financial system, therefore preventing any domino effect on the system. This reflects the Bank's ability to tackle adverse situations of critical emergency or crisis;
- the maximum risk capacity, representing the maximum amount of risk that the Bank is able to sustain without compromising its ability to continue as a going concern. This reflects the Bank's ability to tackle and endure adverse situations of critical emergency or stress;
- the overall (or aggregate) risk appetite that constitutes the level of risk, and by category of risk, that the bank intends to take on to pursue its strategic objectives. It reflects the risk appetite of the bank within the scope of the normal running of the business;
- the risk tolerance that represents the maximum deviation permitted by the risk appetite. This constitutes the overall deviation of risk accepted by the Bank with respect to its risk appetite within the scope of the normal running of its business, and is set so as to ensure sufficient margins to the Bank to operate, including in stress conditions, within the limits of the maximum risk that it can take on.

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 Bank 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 thereof. 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 Bank for which the entire operating and control strategy structure must monitor as carefully as possible.

Within the scope of the Internal Control System (ICS), the "integrated method", i.e. common to all company control functions, defines, in a consistent and standardised framework, the objectives, roles, procedures and techniques to adopt in the design and evaluation of controls put in place by the Bank to mitigate 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 2015 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 and Funding Policy", which is structured so as to define guidelines to manage operational and structural liquidity of the Bank while setting strategies and procedures to manage liquidity risk and monitor the bank's net financial position and prepare emergency plans;
- the "Credit Risk Policy", which 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 Bank – of the interest rate risk level, given by the structure and the repricing of the interest rates and the expiries of the financial assets and liabilities, and to express the potential for profit or loss resulting from market rate fluctuations.
- the "Strategic risk policy", which pursues the aim of achieving strategic and planning decisions which are;
  - which are coherent with and informed in terms of the level of propensity to risk adopted, avoiding at all costs decisions which may place the income-earning capacity of the Bank 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 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 2015 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.

Banca Popolare · Volksbank’s ICAAP process envisages, in the course of the same year, two capital adequacy checks:

- the annual 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 annual ICAAP process report send to the supervisory body in April, based on company planning inclusive of the acquisition of the Banca Popolare di Marostica Group, highlighted the opportunity to prepare a share capital increase in 2015 for an amount of between Euro 100 and Euro 150 million through the issuing of ordinary shares. The successful outcome of the transaction made it possible to maintain the solidity and quality of the Bank’s equity structure, as well as its ability to continue as a going concern.

Again in 2015 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 the procyclicality of rules (capital buffer) and setting limits on financial leverage while promoting new rules on liquidity management. In particular, during 2015 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.

In the last quarter of 2015, the risk control function was finally involved in the project called ‘SREP Mirroring – Adjustment into line with SREP EBA approaches’. The project involved a critical and systematic analysis of the activities and methodologies adopted by Internal Audit and Risk management, in order to identify any areas of improvement and/or refinement, in light of the supervisory model adopted by the European Central Bank (SREP). The outcomes of the assessments made it possible to identify a plan of activities and remediation initiatives which are incorporated in the programme plans of the two company functions involved.

INTEGRATION OF THE BANCA POPOLARE DI MAROSTICA GROUP

In 2015, risk monitoring and control activities were mainly focused on the project involving the merger by incorporation of the Banca Popolare di Marostica Group. A fundamental prerequisite of the project, as regards risk governance, was the full transfer of the structure, regulations, processes and human and technological resources of the Internal Control System in place at Banca Popolare · Volksbank also to the new units acquired. The system of limits and risk appetite was also adjusted as part of the Risk Appetite Framework (RAF), to take account of the effects of the merger in terms of volumes and the operating and business characteristics of the merged entity. Similarly, also the capital adequacy (ICAAP) checks performed during the year took account of the effects of the combination, also in terms of the outlook, determining, inter alia, the definition of the share capital launched in December 2015.
With reference to the activities carried out immediately after the integration (1 April 2015), special attention was focused on the assessment of the quality of the credit exposure acquired, centred on the verification of the correct classification of positions, suited to the criteria and the rules already in place at Banca Popolare · Volksbank and the verification of the quality and of the value of the collaterals given. In particular, an external advisory company was appointed to carry out due diligence on the entire portfolio of impaired loans of the banks acquired. All available evaluation elements were taken into account in the assessment, derived from both the recognition activities carried out by the external company and other available elements. The evaluation methods used were in line with the market best practice, and involved an estimate of the recoverable amounts based on the estimated cash flows that can be obtained also through the enforcement of guarantees actually in place, as well as verification of the effective recovery times for these amounts, also with reference to the actual duration of the enforcement procedures at the individual courts in which the associated proceedings are held.
In relation to operational and strategic risks, all the main operating and organisational decisions taken in respect of the merger were firstly, and continuously, subject to specific risk assessments by the company control functions. Finally, a detailed screening process was carried out on all liability-generating legal proceedings in progress at the incorporated banking group in order to estimate their potential losses, according to the criteria in place at Banca Popolare · Volksbank and to make the necessary allocations to the Provision for risks and charges.

BANK RISKS

CREDIT RISK

Credit risk is the total or partial risk of insolvency of a key counterparty and constitutes Banca Popolare · Volksbank's main risk factor, in accordance with its own retail nature as a Bank geared towards retail customers and small to medium enterprises.
Therefore, 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 2015 was entirely inspired by the Credit Risk Policy, which was approved at the end of 2011 and subject to annual review in December 2015. This document defines in full the guidelines for managing all

forms of credit risk as defined in the more general risk Policy (risk related to insolvency, change in degree of solvency, exchange rate exposure, loans portfolio concentration, remaining risk). More specifically, the document governs:

- the definition of the economic risk appetite relating to the credit risk of the customers
- the scope of application, with explicit mention of the bank's values as a credit institution, with are applied in their annual credit strategy and management policies;
- the organisation model, specifying responsibilities, roles and minimum activities assigned to each department involved;
- the description of the management process and credit risk control, which is divided into five fundamental steps, i.e., granting credit, position control and monitoring, risk measurement and quantification, stress testing, management of impaired loans;
- for each step there are specific essential activities in execution and monitoring and control, while making reference from time to time to internal documentation for details;
- the procedures for mitigating risk, i.e., the process for receiving and managing guarantees, with the related implications as regards asset requirements;
- the system for monitoring positions, which is based on five pillars: regular monitoring through periodic review, monitoring trends using the internal rating system, behavioural monitoring of the individual exposures by the risk management department as part of level 2 controls, the regulatory device and alert for positions at risk (early warning, CM), monitoring of 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 Bank'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 potentially deteriorating situations, starting from the performance rating and other indicators calculated and input on a daily basis. In addition, the system streamlines the internal process for classification and management of problem customers, in turn 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 (doubtful, unlikely to pay, past due exposures, exposures subject to concession [forborne exposures], the system also provides two classifications for performing customers, graded on the basis of the presence of anomaly indicators which, despite not calling for the classification under the impaired loan category, nonetheless require more careful management of the risk profile.

Specifically, a monitoring and management system exists for 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 2015 as part of the granting, monitoring, and periodic reviewing processes involved in lending:

- introduction for the entire bank of the so-called electronic loan application procedure, which allows the transmission of loan applications from the network to the internal offices exclusively in digital form, thanks to the digital archiving of all the relevant documentation;

- introduction of the attachment of the certain date on all contractual documents relating to non-mortgage credit facilities, with particular reference to invoice advances and SBFs (subject to collection);
- introduction of processes and controls for the performance of the role of advisor of Banca Popolare · Volksbank for the management of the Strategic Fund of Trentino-Alto Adige, promoter of the issue of Minibonds by small and medium companies;
- revision of the impaired loan classification and management processes in compliance with the regulatory provisions to take account of the new definitions of "unlikely to pay" and "exposures subject to concession" ("forborne exposures");
- review of the organisational structure of the Loan Division internal offices following the integration of the Banca Popolare di Marostica Group in order to ensure a homogeneous and efficient organisational and decision-making structure;
- introduction to the acquired banks of risk management guidelines (from disbursement to monitoring) according to Banca Popolare · Volksbank standards;
- detailed analysis of the entire credit portfolio acquired under the merger, with particular reference to the risk profiles, position support guarantees, any customers in common, analysis of provisions;
- segmentation of the portfolio acquired, both in relation to the credit facility brackets and the level of risk identified on the basis of the pre-existing evaluation system ("Credit Position Control");
- training of personnel acquired on the use of the IT procedures in place at Banca Popolare · Volksbank.

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 observe the eligibility and admissibility criteria of such guarantees. To this end, in 2015, the entire portfolio of mortgage guarantees given was subject to the process of periodic revaluation, with the help of the services offered by Nomisma.

In order to guarantee the correct classification and assessment of credit exposures, in 2015, the performance monitoring of single positions by the risk management department was extended and reinforced. In that context, the risk management function:

- verifies that the performance monitoring of exposures, both performing and impaired, is performed methodically and systematically, in compliance with the internal organisational processes;
- checks that this monitoring is carried out using methodologies and procedures which make it possible:
  - to identify and promptly report the occurrence of any anomalies;
  - to ensure the adequacy of adjustments and write-offs.
- assesses, with reference to credit management:
  - the consistency of the classifications, i.e. the consistency of the distribution into credit classes with the provisions of internal regulations;
  - the consistency of the allocations, i.e. the adequacy of coverage of impaired loans.
- verifies the adequacy of the debt collection process and in particular:
  - the correct placement of impaired loans;
  - the reliability of the estimated recovery times and the levels of non-recoverability of impaired loans;
  - the treatment of guarantees, including therein the updating of appraisals.

Control by the Risk Management department incorporates:

- sample checks, based on predefined approaches, applicable to all loan categories;
- regular controls, through the adoption of synthetic distance indicators applied to all existing exposures, at all phases of the life of the loan.

During the year, the capital requirement level was constantly monitored within the ICAAP process and there were no significant changes in the average level of weighting of the exposures in the individual regulatory portfolios, also in respect of the integration of the credit portfolio of the Banca Popolare di Marostica Group.
The quarterly credit risk report drafted for the Board of Directors of the Company represents the tool for reporting on the trend in lending activities and related risks, and compliance with the risk objectives (defined in the RAF) and guidelines defined in the medium/long-term strategic plan. Amongst other things, it contains the risk index assessments (insolvency probability and estimated losses), the calculation methods adopted and scenario analyses to verify loans portfolio behaviour should unexpected events occur. Also in 2015 the structure and quality of information was partially revised to make it more accessible and meet the needs of management.
A condensed report is also drawn up on a monthly basis, containing the essential information on the composition and overall degree of risk of the credit portfolio.
The control of credit risk was also dealt with on a monthly basis by the Internal Credit Committee, which, among other things, also makes an in-depth detailed analysis of the aforesaid monthly and quarterly reports and the situation regarding the main impaired positions.

MARKET RISK

Market risk is defined as the risk of loss on owned financial instruments from possible fluctuations in financial market variables (rates, volatility, exchange rates, share prices), considering that each individual financial instrument may be exposed to one or more of these risks. Therefore, Banca Popolare · Volksbank measures market risk as changes in value of the balances due to market fluctuations.
Banca Popolare · Volksbank adopts a system for measuring and managing market risk based on the Value-at-Risk (VaR) method, which supports a system of risk limits and maximum losses sustainable (risk capital) over various timeframes. The VaR method calculates the maximum potential loss of a portfolio during a certain timeframe and with a certain probability, under normal market conditions. VaR is a single measurement system applicable to all financial instruments, thus allowing a comparison of risk figures calculated in terms of both time and daily profitability. For calculating VaR, the Bank uses the historic simulation approach with exponential weighting applied to the Murex computer platform which, since 2009, forms the integrated computer treasury procedure at Banca Popolare · Volksbank.
In addition to analysing VaR and maximum sustainable losses, using specific limit systems market risk management is based on the control of Counterparty risk, Country risk, the sensitivity of the portfolio to market rate risk (basis point value) and credit risk (credit risk sensitivity).
To avoid and prevent exceeding authorised risk limits, a standardised daily reporting system monitors and verifies how near positions are to reaching thresholds.

Checking and managing market risk is discussed by the Internal Finance Committee on a weekly basis and by the Finance Committee on a monthly basis. At these meetings a specific monthly report is submitted by the risk management department.
The Risk management department also has the role of validating and checking the pricing system for financial instruments in order to maintain a reliable price profile that is consistent with fair value pricing.

COUNTERPARTY RISK

It is the risk that a counterparty to a transaction does not fulfil its obligations with the methods and within the time limits envisaged by the contract.
Counterparty risk is governed by a specific system of operating limits, based on a range of creditworthiness separate evaluation criteria of the counterparties in accordance with the type (corporate or financial). The general rules whereby all financial transactions must be followed exclusively by trusted counterparties also apply.
Each counterparty's limit is decided on by the Board of Directors, and may be used by the Treasury and Investment services on the basis of specific percentage quotas of the limit itself, attributed to standard categories of financial instruments.

INTEREST RATE RISK

With regard to the banking book, which corresponds to the Bank's range of commercial operations in relation to the conversion of maturities for all assets and liabilities, treasury and hedging derivatives, changes in market rate structure can have a negative effect on the interest margin and on equity, thereby constituting a source of risk (interest rate risk).
The management and investment strategies for this banking book are in line with optimisation of the risk-yield ratio and are implemented according to expected interest rate performance. The Bank's investment policy is therefore focused on optimising interest rate margins and minimising their volatility (Asset & Liability Management).
The guidelines and procedures for managing interest rate risk are laid down by the Finance Policy, 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 2015 the banking book's risk profile was also kept within the limits set by risk assessment with respect to interest margin sensitivity and asset value sensitivity, also after the integration of the Gruppo Banca Popolare di Marostica Group.
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 2015.
Liquidity risk is the risk that the bank might not be able to meet its own payment commitments at the due date and/or fund increases in its company. It is mainly in the form of:

- inability to obtain funds on the market (funding liquidity risk);
- inability to use funds by selling assets on the market (asset liquidity risk).

Liquidity is managed in accordance with the instructions and operational guidelines contained in the liquidity and funding policy, which is a constantly updated document. An essential element is the distinction between short-term operational liquidity (under 12 months) and medium/long-term structural liquidity (over 12 months). The former is to deal with unexpected critical situations due to specific shocks in the Bank or market; the latter meets the need to ensure optimal management from a strategic standpoint, transformation of maturities between funding and loans, by balancing asset and liability maturities in order to prevent any future crisis in liquidity.
Measurement and control of operational liquidity and structural liquidity were defined by means of a system of indicators, limits, and reports, including daily. Moreover, the organisational structure is clearly defined for liquidity risk management and its oversight as well as emergency plans for times of crisis or so-called Contingency Funding Plan (CFL).
Liquidity risk is measured using the Liquidity at Risk method ("LaR"), which assesses liquidity needs at different confidence levels over specific timeframes. Interest liquidity flows in the LaR analysis are daily imbalances not caused by bank decisions, or flows not "dependent" on the intent of the bank and so resulting from customer activity. This approach is used to check the level of reserves and to determine, under ICAAP, any internal capital needs to deal with liquidity risk.
Specific committees constantly monitor the liquidity situation on a weekly and monthly basis. The Contingency Funding Plan also provides a system of alerts monitored by the Liquidity Monitor and based on the measurement of pre-alarm indicators sorted according to whether the indicators refer to a systematic crisis or a specific crisis. The indicators are fully weighted in order to determine five different operational situations resulting from progressive deterioration of this liquidity position of the Bank: normal operations – in turn comprising the situations of consistency, under observation and attention – stress situation (emergency), crisis (critical emergency).
The Treasury service, which manages liquidity, also uses the so-called liquidity synoptic panel, which is a daily report providing a concise yet thorough description of the short/medium-term liquidity situation, thereby enabling the company to quickly identify critical situations and control indicators.
During 2015, 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.

As regards the risk of excessive financial leverage, i.e. the risk of a particularly high level of debt with respect to equity resources making the bank vulnerable, making is necessary to adopt corrective actions in relation to its business plan, including the sale of assets with the accounting of losses that may involve adjustments to the remaining assets too, once a year, the Board of Directors defines – within the RAF – the Bank'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 2015 the Bank did not experience any short-term or long-term situations in liquidity that would cause concern, despite the low confidence between operators and especially in consideration of the country risk given to several countries in the Eurozone including Italy.

The policy of the Bank favoured maintaining substantial funds in liquidity reserves so that they would always be sufficient to deal with any stress conditions; all available instruments were used for that purpose including the most recent provisions by the European Central Bank and the Italian government. A specific securities portfolio was set for this as of 2012, in order to act exclusively as a reserve for liquidity management, and for which separate investment rules were identified that are more prudent than the normal trading portfolios in terms of duration, sector, issuer risk, eligibility, etc.

OPERATIONAL RISKS

Unlike credit and market risks, which the Bank inevitably assumes while being remunerated for such risk, operational risk may generate losses without any compensation being received by the Bank. Operational risks are naturally intrinsic to processes, the characteristics of products and services provided, and the likelihood of being exposed to fraudulent or accidental events.

For these reasons the Bank studies causes that may result in operational losses and systematically detect and measure the events to limit and reduce the risks in question.

In line with Basel Committee definitions, Banca Popolare · Volksbank defines operational risk as "the risk of loss resulting from errors or inadequacies in internal processes, human resources and systems or from external events". This category includes legal risks, but not strategic, reputational and system risks. Therefore, the definition of operational risk includes opportunity risks (deal fall-through), damage to image and risks involving the entire banking system.

Since 2003, Banca Popolare · Volksbank has used a system for detecting and measuring operational losses with the purpose of improving management of potential sources of risk that could undermine company stability.

This system follows a similar initiative applied on a national scale by the Italian Banking Association (ABI). With the DIPO project (Italian database of operational losses) ABI is attempting to inform banks on how to implement these procedures and create a national databank that would allow banks to obtain more extensive and meaningful statistical data.

The collection of data on operating losses is based on an internal notification process that detects all events in the category of operational losses, starting from the minimum threshold of Euro 500, and forwards them to a central collection point run by the Risk management department. These reports are integrated with losses deriving from legal action, customer complaints, disputes with staff, etc.

The collection and systematic analysis of this information in latest years provided valuable inspiration and suggestions to assess and optimise processes and activities of the Bank.

The management of operational risks is the responsibility of the Risk management department 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 Bank's operational risk situation is drafted on a quarterly basis by the risk management department 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 bank, evaluating the exposure to operational risks on a comprehensive level, evaluating the compliance of the system with prevailing law, evaluating the effectiveness of the system in relation to the objectives and the programmes of the Strategic Plan in effect and development of the reference markets;
- implementation of rules to ensure the correct allocation of operating losses among the different business lines of the bank;
- the annual review of the operational risk management system by the Internal Audit office.

In the final quarter of 2015, the so-called "conduct risk" was also integrated in the operational risk management system, as defined in the SREP guidelines of the European Central Bank. This is the risk of incurring losses owing to inadequate supply of financial services, including cases of fraud or negligence and derives from unethical behaviour on the part of bank managers and employees, also in violation of correctly defined controls and processes, the expression of an unethical company ethos. In particular, this risk encapsulates:

- the fraudulent sale of products in retail and wholesale markets;
- pushed cross-selling of products to private customers, e.g. packaged bank accounts or add-on products which customers don't need;
- conflicts of interest in the management of transactions;
- the manipulation of reference interest rates, exchange rates or of other financial instruments or indexes to increase entities' profits;
- barriers preventing a change of financial product during its life cycle and/or switch to other providers of financial services.

The risk evaluation is incorporated in the assessments of the company control functions when new products, services or other sales initiatives are introduced.

CONCENTRATION RISK

Concentration is defined as the risk deriving from credit exposure with regard to counterparties, groups of related counterparties, counterparties in the same economic sector or which exercise the same company activities.
Concentration risk is measured in compliance with the provisions of Bank of Italy Circular no. 285 (Title III – Chapter 1 – Annex B) by the Granularity Adjustment (GA) method.
Specific procedures were defined under the ICAAP process in compliance with applicable regulatory provisions in order to calculate geo-sector concentration risk, i.e., risk deriving from counterparties operating in the same sector or geographical area.
A defined system of limits that controls and steers the guidelines to limit exposure to concentration risk in the bank 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 Bank's image by stakeholders or any party with which the Bank enters into dealings.

ANTI-MONEY LAUNDERING OFFICE

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

The wide-ranging legal basis on which the entire system involved in the international and internal fight against money-laundering and terrorism are aimed at protecting the system from the risk of being used, also inadvertently, to perform unlawful acts. They call on operators to “collaborate actively”, i.e. by reporting any transactions that raise suspicions regarding the unlawful origin of the funds being transferred. In order to make anti-money laundering laws fully effective it was necessary to undertake 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 adhered to by the intermediaries, and which Banca Popolare · Volksbank constantly implements, is focused on the following three basic principles:

a) adequate verification of customers with whom relations are established or transactions carried out (customer due diligence);
b) registration of relations and transactions and conservation of the related supporting documentation;
c) notifying authorities of any suspicious transactions.

The most recent national legislation and regulations on this matter regarded the following:

- the update of the UIF (financial intelligence unit) dated 8 January 2015 on the summary codes on the basis of the amendments to the Bank of Italy Circular No. 140 (single computerised database);
- the MEF (Ministry of Economy and Finance) 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, which was also followed by various clarifications by the Italian Revenue Agency;
- the UIF (FIU) and Bank of Italy Communications dated 30 January 2015 on the anomalous use of virtual currencies;
- the decree of the MEF (Ministry of Economy and Finance) of 10 April 2015, which updated the list of countries and territories that impose anti-money laundering obligations similar to EU ones;
- the Measure of the Bank of Italy dated 31 July 2015 which made amendments to the provisions governing customer due diligence and the maintenance of the AUI (single computerised database), with reference to the assignment of receivables and placement of funds by SGRs (asset management companies);
- the circular letter to banks in October 2015 in which the Bank of Italy introduced the obligation for banks, starting from 2016, to conduct an annual self-assessment of the adequacy of its anti-money laundering controls, whose outcomes must be incorporated in the annual report of the anti-money laundering department;
- the countless updates of the European Council via regulations and decisions regarding the restrictive measures vis-à-vis various countries and/or parties subject to sanctions.

In 2015, Banca Popolare · Volksbank expanded its regional network, following the incorporation of the Banca Popolare di Marostica Group: the appropriate measures, including the increase in the number of staff in the dedicated department, were adopted to bring the new structures into line with the anti-money laundering control procedures, which Banca Popolare · Volksbank had already set up in previous years in order to properly fulfil its obligations relating to the regulations in force and to effectively govern risks. Therefore, the necessary requirements of the company's anti-money laundering department were safeguarded. In summary, Banca Popolare · Volksbank's anti-money laundering department:

- 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 2015, both in execution of the annual plan and taking into account the guidelines received from the sector Supervisory Authorities and the Internal Audit department, the following main activities were developed:

a) full recovery of all customer due diligence questionnaires on current and savings deposit accounts in place;
b) qualitative improvements in the customer due diligence process;
c) introduction of a new IT procedure for a more in-depth and, in particular, more prompt assessment of potentially anomalous transactions by the branches;
d) revision of the internal process for the management of resident PEPs (politically exposed persons);
e) qualitative/quantitative increase in internal and external training activities;
f) check on the activities of the anti-money laundering department carried out by the Board of Statutory Auditors;

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 profound commitment of all 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 for the out-of-court settlement of disputes between the bank and customers. With a view to constant improvement in the services offered to customers, the creation of an office in charge of complaints management whose staff are organisationally and hierarchically independent from the company units responsible for the marketing of products and services, ensures the objectiveness of analysis and opinions 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 company's retail network or from the company's website which contains, inter alia, the complaints regulation and the company's systems for settling disputes.
Moreover, statistics on complaints received by 31 December 2015 were also published on the bank's website. During the financial year 347 written complaints were received and processed, including 303 regarding bank services and 44 regarding investment services.
The number of complaints as at 31 December 2015 include the complaints submitted by customers acquired under the incorporation of the Banca Popolare di Marostica Group.
Out of 347 complaints as at 31 December 2015, 263 were settled, 53 were closed pending settlement, while 31 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 2015 regarding the banking services, the Company repaid customers a total gross amount of Euro 11,635.21; with respect to loss forecasts relating to complaints which have not yet been settled, a total loss of Euro 15,100.00 was envisaged; this amount was allocated to the appropriate provision.
With respect to complaints made in 2015 regarding financial instrument intermediation, the Company repaid customers a total gross amount of Euro 3,185.37; with respect to loss forecasts relating to complaints which have not yet been settled, no loss was envisaged.
In 2015, repayments relating to complaints made in previous years (eight presented in 2014) were made for Euro 7,728.71. A detailed investigation of the complaints made in 2015 did not show up any particular procedural, organisational or behavioural shortfalls.

THE CODE OF ETHICS

A good reputation implies trust in the organisation, as an institution that adopts business and relation policies with stakeholders. Protection of the company's image stems from observance of the values, principles and standards of conduct that the Code of Ethics of Banca Popolare · Volksbank explicitly sets forth: it constitutes an internal company control to guarantee propriety in day-to-day business operations, meaning, in the strict sense, compliance with the regulatory provisions and, in a broad sense, ensuring the best operational practices of elevated value drivers. It is a key tool in assessing stakeholders, who can approach the Company with more trust, confidence and greater sense of cooperation. The Code of Ethics is an internal Bank regulation, and the bank fully believes that the integrity, honesty, propriety and good faith of all interested parties are essential conditions for long-lasting success. The Code of Ethics also supplements the Organisational Model of Banca Popolare · Volksbank, in combating the commission of predicate offences set out in Italian Legislative Decree 231/2001.
In 2015, the Board of Directors approved the renewed edition of the Code of Ethics, which is coupled to the system of values on which Banca Popolare · Volksbank bases its activities and, at the same time, updated its prescriptive contents, also in light of the context of the company, which expanded as a result of the merger by incorporation of

the Banca Popolare di Marostica Group. The rules of conduct that the Code of Ethics sets out stem from the following principles (the "values") supported and actively experienced by individuals working at the Bank:

- Appreciation: we treat one another with esteem and respect, we conduct ourselves in the proper manner with customers, shareholders, colleagues and persons in charge;
- Trust: thanks to our reliability vis-a-vis customers, shareholders and employees, we lay the foundations for mutual trust;
- Enthusiasm: we work contentedly, our spirit of initiative and our commitment convey a sense of enthusiasm to customers and shareholders, contributing to the Bank's success;
- Courage: everything we do, we do with courage: our positions our clear and even in difficult situations we stay true to our values and principles;
- Authority: we are aware of our strengths as people and workers; we further develop our skills and believe wholeheartedly in the value of our Bank;
- Attention: we are fully aware of and attentive to our surroundings; we pay attention to our customers, shareholders and work colleagues, listening to them and respecting each one;
- Excellence: we obtain excellent results thanks to constant improvements; we are looking for fresh challenges and pursue our objectives with sporting ambition.

Compliance of company activities with the Code of Ethics is verified extensively by the Compliance and Internal Audit departments and, for certain aspects, by the Supervisory Body pursuant to Italian Legislative Decree 231/2001, which report them to the Board of Directors.

In 2015, the Bank also approved the "Whistleblowing" policy, as per the specific provisions of the Bank of Italy; this an internal system for reporting any conduct engaged in by bank personnel not in keeping with internal and external regulations that govern banking activities.

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 Bank's credit business offers support in the growth and consolidation of small and medium enterprises and assistance in family financing needs, with the dual aim of providing financial support in the development of local economies in areas covered by the Bank and of becoming a well-known, competent, and reliable contact for the customers.

The credit policy that has always been adopted by Banca Popolare · Volksbank is geared towards meeting the financing needs of private individuals and companies, always with a special focus on the risk-yield ratio and the presence of adequate hedging with guarantees, including via mortgages, particularly in relation to medium-long term exposures.

With regard to private customers, the activity concentrated on mortgages and personal loans, for which the Bank has a complete, wide-ranging product mix, selecting customers based on criteria regarding the reliability and the merit of the specific needs and financial goals.

For small enterprises, on the other hand, demand concentrated mainly on short-term commitments, characterised by a high degree of risk spreading, whilst for medium and large enterprises the Bank increased its medium-term lending, particularly with regard to loans backed by real guarantees. Pool loans were provided to distribute major loan risks.

Special focus was targeted on the selection of economic sectors, preferring those considered less 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 segments and geographical areas (provinces of Bolzano, Trento, Belluno, Vicenza, Padua, Treviso, Pordenone and Venice), so as to mitigate the effect of any crisis situation. Strict and timely controls were also applied to significant exposures, taking into account all legal and economic ties between the counterparties in order to keep these within limits that do not jeopardise the Bank's equity and economic position in any manner.

In any event, the credit policy is guided by a prudential approach and geared towards establishing key customer relationships of mutual trust and transparency in order to guarantee long-term, customised relations.

2. Credit risk management policies

2.1 Organisational aspects

Credit risk is the risk of incurring losses due to default by the counterparty or the risk that a debtor or counterparty fails to meet assumed financial obligations (specifically with regard to failure to repay loans). This is one of the Bank's main risk factors, affecting all financial activities, in particular loans, securities, and all committed facilities in relation to guarantees issued or as funding for distribution commitments. Its analysis mainly involves the quality and reliability of debtors and risk concentration. In particular, credit risk may be manifest in the following types of risk:

- credit default risk is the risk that a debtor is unable to fulfil commitments taken on, generating a loss represented by the unrecovered portion of the loan;

- residual risk is the risk that the techniques acknowledged for risk mitigation utilised by the Bank turn out to be effective than expected. The residual risk is manifest, therefore, in relation to the Credit Risk Mitigation (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 bank;
- settlement risk, i.e. the risk of incurring losses, whenever, while settling a transaction, the counterparty is no longer able to fulfil its commitments. Settlement risk originates mainly from swap transactions and contracts where which the counterparty is unable to fulfil its obligations (handover securities or sums of money) during settlement, after the bank has already honoured its commitments;
- risk of change in solvency is associated with the deterioration of the borrower's and counterparty's credit rating, i.e. or that it is must be classified in a lower rating class (so-called downgrading), without there necessarily being an immediate economic loss for the bank;
- concentration risk, which in turn can be broken down into:

  single name concentration risk is the risk incurred if there is exposure (investments or granting of loans) to one individual or a group of interconnected individuals;

  sectorial 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 petition) are carried out; in this respect, the tests carried out by the offices responsible for credit assessment and the anomalous loans analysis department are particularly relevant. The minimum supervisory requirements will ensure proper management of credit positions attributable to the branches and corporate centres, such as:
  - implementation of decisions made by the relevant bodies;
  - timely renewal/reimbursement of credit lines at maturity;
  - meeting of the deadlines set for the review of the positions;
  - timely extension of guarantees at maturity (e.g., bank guarantees in our favour, guarantees from guarantee consortia);
  - breach of the rules on the powers assigned to grant/manage lines of credit;
  - absence or incomplete formation of economic groups;
  - the use of loans for reasons that were different from those provided for;
  - forms of credit managed in a technically incorrect manner (e.g., multiple lines of credit backed by differently guarantees on a single account, multiple projects managed on a single account).

Secondly, the Anomalous Loans Analysis service is instead responsible for supervising credit managing/monitoring classified positions by interfacing with the branch and area offices in charge of the relations with customers; this ensures the systematic control of the risks associated to loans to customers through overseeing and ensuring typical first-level and second-instance controls, and risk limitation.

- special monitoring: carried out by the 2nd level independent audit offices, i.e. Risk management, Compliance. The risk management office is in charge of carefully monitoring credit risk. The audits carried out by the Risk management office aimed to define the risk measurement methods, check compliance with the limits assigned and control the consistency of the work of the individual production areas with the assigned risk-reward targets. The regulatory compliance office is responsible for ensuring that internal procedures are consistent with the goal of preventing the breach of external regulations (laws and regulations) or self-regulation (codes of conduct, codes of ethics) applicable to the Bank on credit matters. Compliance audits are carried out through a system of audits aimed at identifying any misalignment caused by any missing/incorrect adoption of regulatory provisions.
- inspections performed by the Internal Audit 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 assigned positions that show signs of anomaly, placing them on the watch-list if necessary, and proposing their classification as impaired loans;
- the Service for doubtful loans is part of the Legal service. 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 electronic loan application procedure.

A structured and prudent system of powers approved by the Board of Directors defines the limits for granting credit lines starting from the sales network, where authorisation limits are not excessively high. For large amounts and/or 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 loan applications 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 department, particularly to measure and verify the system's predictive capacity for all customer types by means of appropriate statistical approaches.

The performance rating is used also when granting credit and revising credit lines and it is one of the essential factors in the framework of authorisation powers. The 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 (doubtful, unlikely to pay, past-due, exposures subject to concession) within one year. This rating depends only on counterparty characteristics and conduct, and not on the nature or quality of the guarantees granted.

The 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.

All loan 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 Bank's credit business and related risks, and to monitor adherence to objectives and compliance with guidelines defined in the Bank's medium/long-term strategic plan. Amongst other things, it contains the risk index assessments (insolvency probability and estimated losses), the calculation methods adopted and scenario analyses to verify loans portfolio behaviour should unexpected events occur.

The quantitative and qualitative assessments of the breakdown and level of risk of the loans portfolio are therefore used as the Bank's main credit policy guidelines, in the adoption of appropriate operational and control measures for the central and secondary offices.

The 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 compliance with the regulatory provisions, verification of the correct performance of monitoring of the individual exposures, in particular, impaired loans, and the assessment of the consistency of the classifications and of the allocations, and of the adequacy of the recovery process, is carried out at central level by the risk management department. This department verifies, inter alia, the work of the operating and debt collection units, ensuring the proper classification of impaired loans and the adequacy of the associated degree of non-recoverability.

The controls concern, inter alia: the presence of updated appraisal values of the guarantees, the registration in automatic procedures of all the information needed to evaluate the loans, the traceability of the collection process, the estimated recovery times and discount rates used. The monitoring activities are carried out both during the classification phase (downgrade or upgrade) and during the period in which an exposure remains in a risk class.

The transfer from an initial risk class to a lower risk class may occur automatically, when objective indicators of impairment of the exposure are verified, or through a genuine resolution process.

In the first case, the checks performed by the Risk Management department essentially consist of:

- assessing and validating the automatic procedures that perform the classification in terms of consistency of the parameters used and the promptness of the classification itself;
- statistical performance monitoring of the inflows by origin and quantities whose outcomes are periodically (at least monthly) transmitted to the competent bodies.

In the second case the risk management department checks the decisions taken by the decision-making bodies in observance of its competences, in particular by participating in the Internal Credit Committee in an advisory capacity.

In addition to the classification, the Risk Management department verifies the consistency of the specific (analytical) allocations proposed by the competent bodies with internal regulations, on a statistical or single position basis.

The Risk Management department carries out monitoring not only during the classification phase, but also during the period in which a position remains in a given risk class, in order to verify and continuously validate the consistency of the classification and of any specific allocations.

2.3 Credit Risk Mitigation Techniques

To mitigate credit risk, the Bank uses all the main forms of guarantees typical of banking activities, both collateral securities and personal guarantees. The main collateral securities acquired are:

- mortgages on property;
- pledges in cash or a variety of securities (treasury securities, bonds, investment funds, assets under management, insurance policies, certificates of deposit, securities in foreign currency, etc.).

With regard to management methods, the above-mentioned guarantees are acquired by means of a standard pledge agreement and by notary deed (for mortgages), and included in the electronic "Credit and Guarantees" procedure to allow their computerised management, control and monitoring.

Personal guarantees are mainly issued by:

- individuals in favour of companies in which they are shareholders and/or directors;
- individuals in favour of family members;
- credit syndicates in favour of their associate companies/firms (subsequent to agreements stipulated with the Bank).

To a more limited extent, there are also personal guarantees by companies in favour of subsidiaries/associated companies and by financial institutions primarily in favour of companies.

An analysis of guarantee characteristics given shows no particular degree of concentration of the various hedging/guarantee formats as the guarantees obtained, except in special cases, are essentially considered as "specific" to each individual position. Furthermore, in general, there are no contractual restrictions that could undermine their legal validity.

To conclude, as verification of the legal and operational effectiveness of the guarantees, an IT/organisational/legal system is used (electronic loan application procedure) providing online texts and help on the various guarantees in accordance with Italian Bankers' Association (ABI) regulations, including:

- operating procedures governed by national law, pronouncing and establishing regulations on values attributable to guarantees obtained (appraisals, confirmation/verification/monitoring of events with mass land registry searches, real-time online assessment of listed securities, etc.)
- verification of signature authenticity on the various guarantees (from company documents, "signed in the presence of" bank officers, confirmation by notary deed, etc.).

Adoption of the Credit Risk Mitigation methods to calculate the Bank's capital requirements led to the accurate definition of forecasting, valuation and periodic revaluation processes for properties used as mortgage guarantees in order to fully observe the eligibility and admissibility criteria of such guarantees.

2.4 Impaired Financial Assets

All 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;

- unlikely to pay, i.e. positions;
  - continuously marked by ongoing irregularities in performance, system-related/Bank of Italy Central Credit Bureau, information on recovery procedures and foreclosures (injunction decrees, seizures, judicial mortgages, etc.), drastic deterioration in the equity/profit or balance sheet position (lack of repayment capacity), from which it could be presumed that the debtor is in objective difficulty, also with the risk of insolvency, that could, however, in the Bank's opinion, be resolved in a reasonable period of time. The decision to classify a position as 'unlikely to pay' must be taken by disregarding any guarantees (collateral securities or personal guarantees) pledged to cover the loans and receivables;
  - that, regardless of the trend in relations, imply a situation of risk of debtor default (e.g. from being in a sector in crisis);
  - for which the bank deems it appropriate to make an allocation to the provision for risks (forecast loss);
- exposures subject to tolerance measures (forborne exposure) or positions, according to the supervisory provisions, to which the bank has agreed facilitated terms (e.g. restructuring of debt, lengthening of term of the loan, suspension of instalments/principal portions, reduction in rates or commissions) in the event of debtor difficulty. The category applies across the board to the categories of performing loans (performing exposures with forbearance measures) and impaired loans (non-performing exposures with forbearance measures). The following classifications of positions subject to tolerance measures are distinguished:
  - forborne performing exposure;
  - unlikely to pay with forborne non-performing exposure;
  - doubtful with forborne non-performing exposure;
- impaired past due and/or overdue exposures, according to supervisory provisions:
  - constantly overdue for more than 90 days (past due and/or overdue loans/mortgage instalments in arrears);
  - where the amount of the overdue loan exceeds the relevant threshold of 5% of the total exposure in the observation period;
  - not classified as 'unlikely to pay'.

As already described in the section on organisational aspects, 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 unlikely to pay include:

- immediate review of the position and any related positions (guarantor, affiliated, partner, associate companies), updating the relevant documentation and any estimates on guarantees granted;
- review of the terms applied in order to take into account the debtor's deteriorated risk profile
- verification of the quality and total of guarantees issued;
- set-up of a restructuring plan with the aim of turning around the position and improving guarantees through the definition of a detailed recovery plan submitted to the appropriate internal body for decision.

The Bank's management of doubtful loans and debt collection is handled by the Doubtful loans service, a department that 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 implemented, in-house legal advisors also make use of out-of-court debt collection, with recourse to settlement agreements, which have a positive impact on collection times and the level of costs sustained. External legal advisors are also employed to start legal actions that always represent a valid and fundamental coercive method for putting pressure on debtors and an instrument for resolving disputes.

The correct implementation of doubtful loans management and assessment activity is also ensured by periodic audits performed internally, by the internal audit department, and externally by the Board of Statutory Auditors and Independent Auditors.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information on the quality of credit, the term "credit exposures" excludes equity instruments and UCITS units while the term "exposures" includes the aforementioned elements.

A.1 Impaired and non-impaired loan exposures: balances, adjustments, changes, trend, economic and geographic distribution

A.1.1 Loan exposure distribution by relevant portfolio and by credit quality (book values)

Portfolio/quality *(thousands of Euro)*	**Doubtful loans**	**Unlikely to pay**	**Impaired past due exposures**	**Non-impaired past due exposures**	**Other non-impaired exposures**	**Total**
1. Financial assets available for sale	–	–	–	–	1,180,226	**1,180,226**
2. Investments held to maturity	–	–	–	–	170,426	**170,426**
3. Due from banks	–	–	–	–	44,804	**44,804**
4. Loans to customers	327,694	261,131	38,819	317,731	5,502,496	**6,447,871**
5. Financial assets designated at fair value through profit or loss	–	–	–	–	–	**–**
6. Financial assets held for sale	–	–	–	–	–	**–**
Total as at 31.12.2015	**327,694**	**261,131**	**38,819**	**317,731**	**6,897,952**	**7,843,327**
Total as at 31.12.2014	**165,442**	**161,012**	**17,417**	**260,837**	**5,476,013**	**6,080,721**

Impaired loans subject to concession amounted to 116.3 million: doubtful loans (3.5 million) and unlikely to pay (112.8 million). Non-impaired loans subject to concession amounted to 117.3 million.

	Loans under renegotiation				**Other transactions**			
Portfolio/quality (thousands of Euro)	**Assets past due by under 3 months**	**Assets past due between 3 and 6 months**	**Assets past due between 6 months and 1 year**	**Assets past due by over 1 year**	**Assets past due by under 3 months**	**Assets past due between 3 and 6 months**	**Assets past due between 6 months and 1 year**	**Assets past due by over 1 year**
1. Financial assets available for sale	–	–	–	–	–	–	–	**–**
2. Investments held to maturity	–	–	–	–	–	–	–	**–**
3. Due from banks	–	–	–	–	–	–	–	**–**
4. Loans to customers	–	–	–	–	207,019	44,232	48,749	**17,731**
5. Financial assets designated at fair value through profit or loss	–	–	–	–	–	–	–	**–**
6. Financial assets held for sale	–	–	–	–	–	–	–	**–**
Total as at 31.12.2015	**–**	**–**	**–**	**–**	**207,019**	**44,232**	**48,749**	**17,731**
Total as at 31.12.2014	**–**	**–**	**–**	**–**	**146,818**	**8,197**	**33,096**	**–**

A.1.2 Loan exposure distribution by relevant portfolio and by credit quality (gross and net values)

Portfolio/quality *(thousands of Euro)*	**Impaired assets**			**Non-impaired assets**			**Total**
	Gross exposure	**Specific adjust-ments**	**Net exposure**	**Gross exposure**	**Portfolio adjust-ments**	**Net exposure**	**(net exposure)**
1. Financial assets available for sale	–	–	–	1,180,226	–	1,180,226	**1,180,226**
2. Investments held to maturity	–	–	–	170,426	–	170,426	**170,426**
3. Due from banks	–	–	–	44,804	–	44,804	**44,804**
4. Loans to customers	1,048,407	(420,763)	627,644	5,858,096	(37,869)	5,820,227	**6,447,871**
5. Financial assets designated at fair value through profit or loss	–	–	–	X	X	–	**–**
6. Financial assets held for sale	–	–	–	–	–	–	**–**
Total as at 31.12.2015	**1,048,407**	**(420,763)**	**627,644**	**7,253,552**	**(37,869)**	**7,215,683**	**7,843,327**
Total as at 31.12.2014	**483,149**	**(139,278)**	**343,871**	**5,761,010**	**(24,160)**	**5,736,850**	**6,080,721**

The business combination of the Banca Popolare di Marostica Group involved the acquisition of impaired financial assets, which were booked on the business combination for an amount of 257.2 million. The purchase price of the aforementioned assets coincides with their book value. The positive difference between the nominal value of the aforementioned assets and their purchase price is 296.3 million.

Portfolio/quality *(thousands of Euro)*	**Assets with clear lack of credit quality**		**Other assets**
	Accumulated capital losses	**Net exposure**	**Net exposure**
1. Financial assets held for trading	–	–	**39,058**
2. Hedges	–	–	**–**
Total as at 31.12.2015	**–**	**–**	**39,058**
Total as at 31.12.2014	**–**	**–**	**46,947**

The Portfolio adjustments on loans to customers only regard write-downs on performing positions.

A.1.3 Cash and off-balance sheet loan exposure for amounts due from banks: gross and net values

Exposure type/Values *(thousands of Euro)*	**Gross exposure**							
	Impaired assets				**Non-impaired assets**	**Specific adjust-ments**	**Portfolio adjust-ments**	**Net expo-sure**
	Under 3 months	**From 3 to 6 months**	**From 6 months to 1 year**	**Over 1 year**				
A. CASH EXPOSURES								
a) Doubtful loans	–	–	–	–	X	–	X	–
– of which: loans subject to concession	–	–	–	–	X	–	X	
b) Unlikely to pay	–	–	–	–	X	–	X	–
– of which: loans subject to concession	–	–	–	–	X	–	X	
c) Impaired past due exposures	–	–	–	–	X	–	X	–
– of which: loans subject to concession	–	–	–	–	X	–	X	
d) Non-impaired past due exposures	X	X	X	X	–	X	–	–
– of which: loans subject to concession	X	X	X	X	–	X	–	
e) Other non-impaired exposures	X	X	X	X	426,179	X	–	426,179
– of which: loans subject to concession	X	X	X	X	–	X	–	–
TOTAL A	**–**	**–**	**–**	**–**	**426,179**	**–**	**–**	**426,179**
B. OFF-BALANCE SHEET EXPOSURES	–	–	–	–	–	–	–	
a) Impaired	–	–	–	–	X	–	X	–
b) Not impaired	X	X	X	X	14,873	X	–	14,873
TOTAL B	**–**	**–**	**–**	**–**	**14,873**	**–**	**–**	**14,873**
TOTAL A+B	**–**	**–**	**–**	**–**	**441,052**	**–**	**–**	**441,052**

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**							
	Impaired assets				**Non-impaired assets**	**Specific adjust-ments**	**Portfolio adjust-ments**	**Net exposure**
	Under 3 months	**From 3 to 6 months**	**From 6 months to 1 year**	**Over 1 year**				
A. CASH EXPOSURES								
a) Doubtful loans	31	19,528	73,789	573,972	X	339,626	X	**327,694**
– of which: loans subject to concession	–	254	66	2,813	X	1,049	X	**2,084**
b) Unlikely to pay	115,720	16,374	49,104	157,813	X	77,880	X	**261,131**
– of which: loans subject to concession	50,915	8,097	19,982	75,379	X	41,778	X	**112,595**
c) Impaired past due exposures	2,065	4,806	19,138	16,067	X	3,257	X	**38,819**
– of which: loans subject to concession	–	–	–	–	X	–	X	–
d) Non-impaired past due exposures	X	X	X	X	320,142	X	2,411	**317,731**
– of which: loans subject to concession	X	X	X	X	34,927	X	464	**34,463**
e) Other non-impaired exposures	X	X	X	X	6,542,019	X	35,458	**6,506,561**
– of which: loans subject to concession	X	X	X	X	83,959	X	1,162	**82,797**
TOTAL A	**117,816**	**40,708**	**142,031**	**747,852**	**6,862,161**	**420,763**	**37,869**	**7,451,936**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	11,996	–	–	–	X	735	X	**11,261**
b) Not impaired	X	X	X	X	699,259	X	16	**699,243**
TOTAL B	**11,996**	**–**	**–**	**–**	**699,259**	**735**	**16**	**710,504**
TOTAL A+B	**129,812**	**40,708**	**142,031**	**747,852**	**7,561,420**	**421,498**	**37,885**	**8,162,440**

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.).

With the acquisition of the Banca Popolare di Marostica Group, gross doubtful loans of 317.0 million and adjustment provisions of 215.4 million were acquired, for a net exposure of 101.6 million; gross 'unlikely to pay' loans for 215.5 million, adjustment provisions of 79.2 million for a net exposure of 136.3 million; gross past due exposures of 21.1 million and adjustment provisions 1.7 million for a net exposure of 19.3 million.

A.1.7 Cash loan exposures to customers: trend in gross impaired exposures

Reasons/Categories *(thousands of Euro)*	**Doubtful loans**	**Unlikely to pay**	**Impaired exposures**
A. Gross exposure at the beginning of the year	**283,590**	**181,074**	**18,486**
of which: exposures sold and not cancelled	*8,209*	*4,360*	*2,455*
B. Increases			
B.1 Income from performing loan exposure	15,716	37,860	53,367
B.2 Transferred from other categories of impaired exposures	58,407	26,813	44
B.3 Other increases	82,426	–	2,269
B.3bis Subject to business combination	316,965	215,497	21,055
C. Decreases			
C.1 Transferred to performing loans	–	7,996	16,867
C.2 Derecognitions	68,376	9	–
C.3 Collections	19,213	18,483	2,622
C.4 Sale proceeds	–	–	–
C.5 Losses on disposal	2,195	–	–
C.6 Transferred to other categories of impaired exposures	–	51,610	33,656
C.7 Other decreases	–	44,135	–
D. Gross exposure at the end of the year	**667,320**	**339,011**	**42,076**
of which: exposures sold and not cancelled	*8,972*	*10,699*	*3,036*

A.1.7bis Cash loan exposures to customers: trend in gross exposures subject to concession broken down by credit quality

Reasons/Categories *(thousands of Euro)*			Impaired loans subject to concession	Non-impaired loans subject to concession
A.	**Gross exposure at the beginning of the year**		**131,188**	**41,347**
	of which: exposures sold and not cancelled		–	–
B.	**Increases**			
	B.1	Income from performing loans not subject to concessions	–	96,346
	B.2	Income from performing loans subject to concessions	19,408	X
	B.3	Income from impaired loans subject to concessions	X	4,070
	B.4	Other increases	66,338	8,727
C.	**Decreases**			
	C.1	Transferred to performing loans not subject to concessions	X	17,281
	C.2	Transferred to performing loans subject to concessions	4,070	X
	C.3	Transferred to impaired loans subject to concessions	X	7,481
	C.4	Derecognitions	–	–
	C.5	Collections	47,980	6,842
	C.6	Sale proceeds	–	–
	C.7	Losses on disposal	–	–
	C.8	Other decreases	7,377	–
D.	**Gross exposure at the end of the year**		**157,507**	**118,886**
	of which: exposures sold and not cancelled		–	–

A.1.8 Impaired cash loan exposures to customers: trend in overall adjustments

Reasons/Categories *(thousands of Euro)*			Doubtful loans		Unlikely to pay		Impaired past due exposures	
			Total	Of which: loans subject to concession	Total	Of which: loans subject to concession	Total	Of which: loans subject to concession
A.	**Overall adjustments at the beginning of the year**		**118,148**	**–**	**20,062**	**129**	**1,068**	**–**
	of which: exposures sold and not cancelled		1,229	–	133	–	126	–
B.	**Increases**							
	B.1	Adjustments	245,898	716	78,038	49,241	5,077	–
	B.2	Losses on disposal	2,195	–	–	–	–	–
	B.3	Transferred from other categories of impaired exposures	15,333	356	1,359	572	1	–
	B.4	Other increases	2	2	–	–	–	–
C.	**Decreases**							
	C.1	Recoveries on valuation	–	–	–	–	–	–
	C.2	Recoveries on collection	6,778	25	6,363	2,195	426	–
	C.3	Profits on disposal	–	–	–	–	–	–
	C.4	Derecognitions	32,977	–	–	–	–	–
	C.5	Transferred to other categories of impaired exposures	–	–	14,899	5,969	1,794	–
	C.6	Other decreases	2,195	–	317	–	669	–
D.	**Overall adjustments at the end of the year**		**339,626**	**1,049**	**77,880**	**41,778**	**3,257**	**–**
	of which: exposures sold and not cancelled		1,736	213	558	895	197	–

Conversion of loans to equity instruments

During the year, as part of the agreements for the restructuring of impaired positions, some conversions of loans to equity instruments were completed. Gross impaired loans converted to shares totalled 0.1 million.

A.2 Exposure classification based on internal and external ratings

A.2.1. Distribution of cash and "off-balance sheet" credit exposures by external rating class

The Bank adopts the credit ratings issued by the following external credit assessment institutions (ECAI): Standard & Poor's Ratings Services.
In addition, reference is also made to the ratings of Moody's Investors Service and Fitch Ratings for the Exposures to Central administrations and central banks statutory portfolio only.
In compliance with the provisions of the legislation, where two assessments of the same customer are present, the more prudential one is adopted; in the event of three assessments, the middle one.
Taking into account the composition of the loan portfolio, composed predominantly of loans to small and medium-size companies, family business and craftsmen, professionals, and consumer families, the distribution of the cash and "off-balance sheet" exposures by rating class appears insignificant.

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

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

A.3 Distribution of guaranteed loans by guarantee type

A.3.1 Guaranteed loans to banks

As at the balance sheet date, as in the previous year, there are no guaranteed loans to banks.

A.3.2 *Guaranteed loans to customers*

(thousands of Euro)	Net exposure value	Collateral securities (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Credit commitments				
						CLN	Other derivatives								
		Mort-gaged property	Property under financial lease	Securities	Other collateral securities		Govern-ments and central banks	Other public entities	Banks	Other entities	Govern-ments and central banks	Other public entities	Banks	Other entities	
1. Guaranteed cash loan exposures:	**5,140,861**	**3,915,362**	**–**	**37,777**	**41,805**	**–**	**–**	**–**	**–**	**–**	**5,051**	**14,276**	**1,414**	**931,894**	**4,947,579**
1.1 fully guaranteed	4,704,259	3,788,674	–	31,307	23,865	–	–	–	–	–	2,199	11,854	1,286	845,035	4,704,220
– of which impaired	485,266	417,796	–	442	6,183	–	–	–	–	–	–	–	56	60,790	485,267
1.2 partly guaranteed	436,602	126,688	–	6,470	17,940	–	–	–	–	–	2,852	2,422	128	86,859	243,359
– of which impaired	74,298	41,720	–	1,247	8,759	–	–	–	–	–	–	–	–	13,190	64,916
2. Off-balance sheet guaranteed loan exposures:	**167,548**	**6,538**	**–**	**6,148**	**6,107**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**678**	**143,128**	**162,599**
2.1 fully guaranteed	139,431	2,822	–	4,787	5,096	–	–	–	–	–	–	–	647	126,079	139,431
– of which impaired	3,930	264	–	–	128	–	–	–	–	–	–	–	–	3,537	3,929
2.2 partly guaranteed	28,117	3,716	–	1,361	1,011	–	–	–	–	–	–	–	31	17,049	23,168
– of which impaired	1,715	–	–	59	–	–	–	–	–	–	–	–	–	1,623	1,682

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURE

B.1 *Segment distribution of cash and off-balance sheet credit exposure from loans to customers (book value)*

Exposures/counterparties *(thousands of Euro)*	Governments			Other public entities			Financial companies			Insurance companies			Non-financial companies			Other entities		
	Net exposure	**Specific adjustments**	**Portfolio adjustments**	**Net exposure**	**Specific adjustments**	**Portfolio adjustments**	**Net exposure**	**Specific adjustments**	**Portfolio adjustments**	**Net exposure**	**Specific adjustments**	**Portfolio adjustments**	**Net exposure**	**Specific adjustments**	**Portfolio adjustments**	**Net exposure**	**Specific adjustments**	**Portfolio adjustments**
A. Cash exposures																		
A.1 Doubtful loans	–	–	X	–	–	X	3,134	(3,283)	X	–	–	X	268,824	(290,032)	X	55,737	(46,312)	X
– of which: loans subject to concession	–	–	X	–	–	X	–	–	X	–	–	X	2,443	(1,077)	X	1,276	(395)	X
A.2 Unlikely to pay	–	–	X	–	–	X	6,144	(1,005)	X	–	–	X	214,223	(69,296)	X	40,763	(7,579)	X
– of which: loans subject to concession	–	–	X	–	–	X	4,428	(901)	X	–	–	X	93,254	(37,959)	X	16,550	(3,341)	X
A.3 Impaired past due exposures	–	–	X	–	–	X	92	(6)	X	–	–	X	24,987	(2,145)	X	13,740	(1,106)	X
– of which: loans subject to concession	–	–	X	–	–	X	–	–	X	–	–	X	–	–	X	–	–	X
A.4 Non-impaired exposures	909,318	X	–	13,217	X	(83)	139,845	X	(522)	176,924	X	(1)	3,435,737	X	(23,202)	2,149,250	X	(14,061)
– of which: loans subject to concession	–	X	–	–	X	–	53	X	(1)	–	X	–	82,971	X	(1,147)	34,237	X	(479)
Total A	**909,318**	**–**	**–**	**13,217**	**–**	**(83)**	**149,215**	**(4,294)**	**(522)**	**176,924**	**–**	**(1)**	**3,943,771**	**(361,473)**	**(23,202)**	**2,259,490**	**(54,997)**	**(14,061)**
B. Off-balance sheet exposures																		
B.1 Doubtful loans	–	–	X	–	–	X	212	–	X	–	–	X	4,019	(585)	X	55	(78)	X
B.2 Unlikely to pay	–	–	X	–	–	X	7	–	X	–	–	X	5,358	(72)	X	1,974	–	X
B.3 Other impaired assets	–	–	X	–	–	X	–	–	X	–	–	X	452	–	X	358	–	X
B.4 Non-impaired exposures	150	X	–	1,208	X	–	9,333	X	–	20	X	–	568,325	X	(16)	120,206	X	–
Total B	**150**	**–**	**–**	**1,208**	**–**	**–**	**9,552**	**–**	**–**	**20**	**–**	**–**	**578,154**	**(657)**	**(16)**	**122,593**	**(78)**	**–**
Total as at 31.12.2015	**909,468**	**–**	**–**	**14,425**	**–**	**(83)**	**158,767**	**(4,294)**	**(522)**	**176,944**	**–**	**(1)**	**4,521,925**	**(362,130)**	**(23,218)**	**2,382,083**	**(55,075)**	**(14,061)**
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)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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

Exposures/Geographic areas *(thousands of Euro)*	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	327,358	(338,864)	337	(762)	–	–	–	–	–	–
A.2 Unlikely to pay	260,125	(77,724)	1,005	(156)	–	–	–	–	–	–
A.3 Impaired past due exposures	38,590	(3,238)	229	(19)	–	–	–	–	–	–
A.4 Non-impaired exposures	6,746,922	(37,502)	75,935	(358)	914	(5)	455	(3)	66	–
Total A	**7,372,995**	**(457,328)**	**77,506**	**(1,295)**	**914**	**(5)**	**455**	**(3)**	**66**	**–**
B. Off-balance sheet exposures										
B.1 Doubtful loans	4,287	(663)	–	–	–	–	–	–	–	–
B.2 Unlikely to pay	7,339	(72)	–	–	–	–	–	–	–	–
B.3 Impaired past due exposures	810	–	–	–	–	–	–	–	–	–
B.4 Non-impaired exposures	671,524	(16)	27,719	–	–	–	–	–	–	–
Total B	**683,960**	**(751)**	**27,719**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total as at 31.12.2015	**8,056,955**	**(458,079)**	**105,225**	**(1,295)**	**914**	**(5)**	**455**	**(3)**	**66**	**–**
Total as at 31.12.2014 (*)	**6,281,506**	**(163,260)**	**102,304**	**(507)**	**295**	**(1)**	**247**	**(1)**	**49**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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	15,586	(6,359)	309,115	(328,878)	1,749	(2,480)	907	(1,148)	327,357	(338,865)
A.2 Unlikely to pay	11,132	(3,753)	243,283	(73,171)	5,540	(788)	171	(10)	260,126	(77,722)
A.3 Impaired past due exposures	1,700	(141)	36,869	(3,095)	2	–	18	(2)	38,589	(3,238)
A.4 Non-impaired exposures	181,947	(674)	5,492,963	(36,290)	1,062,084	(474)	9,929	(65)	6,746,923	(37,503)
Total A	**210,365**	**(10,927)**	**6,082,230**	**(441,434)**	**1,069,375**	**(3,742)**	**11,025**	**(1,225)**	**7,372,995**	**(457,328)**
B. Off-balance sheet exposures										
B.1 Doubtful loans	60	(60)	4,226	(603)	–	–	–	–	4,286	(663)
B.2 Unlikely to pay	74	–	6,786	(72)	430	–	50	–	7,340	(72)
B.3 Impaired past due exposures	–	–	810	–	–	–	–	–	810	–
B.4 Non-impaired exposures	16,412	–	647,023	(16)	7,092	–	997	–	671,524	(16)
Total B	**16,546**	**(60)**	**658,845**	**(691)**	**7,522**	**–**	**1,047**	**–**	**683,960**	**(751)**
Total as at 31.12.2015	**226,911**	**(10,987)**	**6,741,075**	**(442,125)**	**1,076,897**	**(3,742)**	**12,072**	**(1,225)**	**8,056,955**	**(458,079)**
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)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

B.3 *Geographic distribution of cash and off-balance sheet credit exposure from loans to banks (book value)*

Exposures/Geographic areas *(thousands of Euro)*	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	–	–	–	–	–	–	–	–	–	–
A.2 Unlikely to pay	–	–	–	–	–	–	–	–	–	–
A.3 Impaired past due exposures	–	–	–	–	–	–	–	–	–	–
A.4 Non-impaired exposures	365,334	–	60,124	–	667	–	44	–	9	–
Total A	**365,334**	**–**	**60,124**	**–**	**667**	**–**	**44**	**–**	**9**	**–**
B. Off-balance sheet exposures										
B.1 Doubtful loans	–	–	–	–	–	–	–	–	–	–
B.2 Unlikely to pay	–	–	–	–	–	–	–	–	–	–
B.3 Impaired past due exposures	–	–	–	–	–	–	–	–	–	–
B.4 Non-impaired exposures	10,188	–	4,549	–	–	–	–	–	–	–
Total B	**10,188**	**–**	**4,549**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total as at 31.12.2015	**375,522**	**–**	**64,673**	**–**	**667**	**–**	**44**	**–**	**9**	**–**
Total as at 31.12.2014 (*)	**210,377**	**–**	**32,090**	**–**	**4,191**	**–**	**165**	**–**	**46**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Exposures/Geographic areas *(thousands of Euro)*	NORTH-WEST ITALY		NORTH-EAST ITALY		CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS		TOTAL	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	–	–	–	–	–	–	–	–	–	–
A.2 Unlikely to pay	–	–	–	–	–	–	–	–	–	–
A.3 Impaired past due exposures	–	–	–	–	–	–	–	–	–	–
A.4 Non-impaired exposures	153,739	–	36,480	–	142,523	–	32,592	–	365,334	–
Total A	**153,739**	**–**	**36,480**	**–**	**142,523**	**–**	**32,592**	**–**	**365,334**	**–**
B. Off-balance sheet exposures										
B.1 Doubtful loans	–	–	–	–	–	–	–	–	–	–
B.2 Unlikely to pay	–	–	–	–	–	–	–	–	–	–
B.3 Impaired past due exposures	–	–	–	–	–	–	–	–	–	–
B.4 Non-impaired exposures	157	–	820	–	9,211	–	–	–	10,188	–
Total B	**157**	**–**	**820**	**–**	**9,211**	**–**	**–**	**–**	**10,188**	**–**
Total as at 31.12.2015	**153,896**	**–**	**37,300**	**–**	**151,734**	**–**	**32,592**	**–**	**375,522**	**–**
Total as at 31.12.2014 (*)	**54,349**	**–**	**59,318**	**–**	**63,201**	**–**	**33,509**	**–**	**210,377**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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)
31.12.2015	9	1,810,948	422,536
31.12.2014 (*)	6	1,116,156	201,034

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

The number of significant exposures stated in the table is determined by making reference to unweighted “exposures” that exceed 10% of admissible capital, as defined by EU Regulation no. 575/2013 (CRR), where “exposures” means the sum of cash risk assets and off-balance sheet transactions (excluding those deducted from capital) vis-a-vis a customer, or a group of related customers, without the application of weighting factors.

The financial statements table relating to significant exposures also includes entities that – despite a weighting of 0% – present an unweighted exposure exceeding 10% of admissible capital for the purposes of significant risks.

C. SECURITISATIONS

QUALITATIVE INFORMATION

Securitisation of residential mortgages – S.P.V. VOBA 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 signed 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	Amount (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 19.9 million in securities remain, 1.0 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 0.3 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	Amount (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 232.4 million in securities remain, 172.7 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 2015.

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	Amount (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 2015, a total of 279.8 million in securities remain, 109.4 million of which are Class A and 170.4 million are Junior class. Of these, 34.1 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 (sector of economic activity) 600, 614, 615
– Number of loans transferred	4,164
– Price of loans transferred	Euro 479,791,803.44
– Nominal value of loans transferred including accruals	Euro 479,791,803.44

The characteristics of the securities issued are as follows:

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

The Junior securities were fully subscribed by the Company. As at 31 December 2015, a total of 369.4 million in securities remain, 81.0 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 2015 81.0 million of the class A securities and 89.5 million of the Junior class are held by the Company.

C.1 *Exposures from Bank's own major securitisations according to securitised asset type and exposure type*

Securitised 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**
A. Subject to full derecognition	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
B. Subject to partial derecognition	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
C. Not derecognised	**115,324**	–	**4,350**	–	**327,150**	–	–	–	–	–	–	–	–	–	–	–	–	–
C.1 Voba Finance S.r.l.																		
– Mortgage loans	115,324	–	4,350	–	327,150	–	–	–	–	–	–	–	–	–	–	–	–	–

C.2 *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	782	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– Spanish residential mortgages																		

C.3 SPVs for the securitisation

Securitisation name / SPV name	Registered offices	Consolidation	Assets			Liabilities		
			Loans and receivables	Debt securities	Other	Senior	Mezzanine	Junior
Voba Finance S.r.l.	Milan	NO	3,219	–	–	1,001	11,300	7,600
Voba No.3 S.r.l.	Conegliano (TV)	NO	17,937	–	–	172,660	–	59,700
Voba No.4 S.r.l.	Conegliano (TV)	NO	25,212	–	–	103,391	–	170,400
Voba No.5 S.r.l.	Conegliano (TV)	NO	15,271	–	–	279,988	–	89,450

C.4 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.5 Servicer assets – own securitisations: securitised credit collections and repayment of SPV-issued securities for the securitisation

SPV *(thousands of Euro)*	Securitised assets (year-end figure)		Loan collections made in the year		Percentage of securities redeemed (year-end figure)					
	Impaired	Performing	Impaired	Performing	Senior		Mezzanine		Junior	
					Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
Voba Finance S.r.l.	4,618	79,243	257	16,057	–	99.72%	–	–	–	–
Voba 3 S.r.l.	1,421	368,716	178	34,469	–	49.01%	–	–	–	–
Voba 4 S.r.l.	6,543	226,969	1,122	63,138	–	75.31%	–	–	–	–
Voba 5 S.r.l.	10,124	272,265	237	67,820	–	30.07%	–	–	–	–

D. INFORMATION ON STRUCTURED BODIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES (OTHER THAN SECURITISATION SPVS)

QUALITATIVE INFORMATION

The Company did not hold any structured entities not consolidated in the accounts as at the balance sheet date, as in the previous year.

QUANTITATIVE INFORMATION

The Company did not hold any structured entities not consolidated in the accounts as at the balance sheet date, as in the previous year.

E. DISPOSAL TRANSACTIONS

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

A. Financial assets sold but not fully derecognised

QUALITATIVE INFORMATION

The transactions mainly refer to the use of debt securities in the portfolio for short and medium term repurchase agreements and loans to customers sold as part of the Voba 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/portfolio formats *(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	31.12.2015	31.12.2014
A. Cash assets	**–**	**–**	**–**	**–**	**–**	**–**	**27,579**	**–**	**–**	**47,458**	**–**	**–**	**–**	**–**	**–**	**961,541**	**–**	**–**	**1,036,578**	**1,266,622**
1. Debt securities	–	–	–	–	–	–	27,579	–	–	47,458	–	–	–	–	–	–	–	–	75,037	109,171
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	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	961,541	–	–	961,541	1,157,451
B. Derivatives	**–**	**–**	**–**	**X**	**X**	**X**	**–**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	**–**
Total as at 31.12.2015	**–**	**–**	**–**	**–**	**–**	**–**	**27,579**	**–**	**–**	**47,458**	**–**	**–**	**–**	**–**	**–**	**961,541**	**–**	**–**	**1,036,578**	**X**
of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	20,216	–	–	20,216	X
Total as at 31.12.2014 (*)	**2,881**	**–**	**–**	**–**	**–**	**–**	**99,946**	**–**	**–**	**6,344**	**–**	**–**	**–**	**–**	**–**	**1,157,451**	**–**	**–**	**X**	**1,266,622**
of which impaired	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	13,536	–	–	X	13,536

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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	**–**	**–**	**29,550**	**49,419**	**–**	**394,009**	**472,978**
a) in relation to assets recognised in full	–	–	29,550	49,419	–	394,009	472,978
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 31.12.2015	**–**	**–**	**29,550**	**49,419**	**–**	**394,009**	**472,978**
Total as at 31.12.2014 (*)	**2,877**	**–**	**99,979**	**7,033**	**–**	**405,192**	**515,081**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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. and VOBA N. 5 S.r.l. securitisations for Banca Popolare · Volksbank VOBA N. 3 S.r.l., VOBA N. 4 S.r.l. and VOBA N. 5 S.r.l..

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 2015.

Technical/portfolio formats	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	31.12.2015	31.12.2014 (*)
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	–	–	–	–	–	–	–	–	–	–	961,541	–	961,541	1,284,481
B. Derivatives	**–**	**–**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**–**	**–**
Total assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**961,541**	**–**	**961,541**	**1,284,481**
C. Associated liabilities														
1. Due to customers	–	–	–	–	–	–	–	–	–	–	969,900	–	X	X
2. Due to banks	–	–	–	–	–	–	–	–	–	–	–	–	X	X
Total liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**969,900**	**–**	**969,900**	**1,164,571**
Net value (T)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8,359)**	**–**	**(8,359)**	**X**
Net value (T–1)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**119,910**	**–**	**X**	**119,910**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Key:

A = financial assets sold and fully recognised

B = financial assets sold and partly recognised

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

As at the balance sheet date, as in the previous year, there are no financial assets sold and fully derecognised with recognition of the continuing involvement.

E.4 Covered Bond Transactions

As at the balance sheet date, as in the previous year, there are no covered bond transactions.

F. CREDIT RISK MEASUREMENT MODELS

In measuring the credit risk portfolio, the Risk Management 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

in Banca Popolare · Volksbank, the regulatory trading portfolio comprised a relatively modest section of the owned portfolio since most financial instruments are held and recognised under the Available-for-sale (AFS) category and therefore belong to the banking book.
However, the analytical instruments used to measure market risk (interest rate risk and price risk) is the same for all the owned portfolios.
Interest rate risk represents the risk relating to the possibility that the Bank suffers losses on financial assets held for trading as a result of adverse market rate performance.
Price risk represents the risk connected with changes in value of positions classed as financial assets held for trading, arising from market price fluctuations. It can be broken down as follows:

- generic risk: price change in an equity security following fluctuations in the reference stock market;
- specific risk: market price change in a specific equity security as a result of a change in market expectations regarding the financial solidity or prospects of the issuer.

The trading portfolio is managed in a prudent manner geared towards limiting market risk and in compliance with the strategic indications and the operating limits set out in the "Investment Policy", the "Limits and operational powers for finance and liquidity" and the annual "Operating Plan".
The main source of interest rate risk is formed by the bond securities held; trading is intended to produce absolute returns to maximise yields on the portfolio in compliance with the Value at Risk (VaR) and Stop-Loss as defined in the internal policies noted above. The bond section of the portfolio comprises floating rate and fixed rate securities with limited duration. Most bonds held refer to securities issued by the Republic of Italy or Italian banks with national standing. Interest rate risk is assumed by the Investment department which also uses derivative instruments (futures, IRS) as hedges.
On the other hand, the main source of price risk on the other hand is from the UCITS shares held and to a lesser extent, the derivative instruments connected to stock indices. In this case too, the strategy pursued is oriented towards the prudent management of assets, and thus towards the conscious assumption of risks. Value at Risk and Stop-Loss price ceilings also apply to price risk.
The financial instruments present in trading portfolio are almost all denominated in Euro, making the Exchange Risk totally marginal.
Assets in the owned portfolio did not undergo any significant changes from the previous year, except for average stocks, which rose in accordance with the strategic planning guidelines.

B. Interest rate risk and price risk management processes and measurement methods

The internal market-risk control and management processes (interest rate and price) are contained in the “Investment Policy” and the “Limits and operating powers for 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;
- sector-based limits;
- credit sensitivity limits (changes in profit or loss as a result of a change of one percentage point of the credit spread);
- expiry category limits;
- restrictions related to eligibility criteria for the Eurosystem;
- country limits: limits are provided on the maximum exposure allowed per individual country according to the rating of the latter.

Stop-Loss limits are monitored for cumulative results achieved and not achieved over the last business day, accumulated over the most recent 5 business days (weekly stop-loss) and over the last 30 calendar days (monthly stop-loss), backed by cumulative monitoring at the start of the year, via a reporting process to the relevant decision-making bodies. Limits are based on the maximum level of loss deemed acceptable in the reference period in accordance with Bank strategies (Risk Capital within the scope of the Risk Appetite Framework, RAF) and established in the annual Operating Plan. Risk Capital is in turn broken down across the various asset classes that make up the portfolio.

With regard to VaR limits, they are defined as the limit, over which there should be no losses with reference to a certain level of confidence and a specific time horizon. VaR is a single measurement indicator applicable to all types of market trading and all financial instruments, thus allowing a comparison of risk figures calculated from both a time and daily profitability viewpoint. The calculation approach used is that of Historic Simulation, with the significant addition of exponential weighting of the so-called scenarios (decay factor equal to 0.99), thus achieving the goal of making the recent past more significant that the remote past. The historic series of risk factors have a length equal to 256 working days. The VaR is thus calculated with a 99% confidence interval and a 21 working day horizon (1 month).

The responsibility for daily checks on operating limits, on positions, on Stop-Loss and VaR is entrusted to the Risk management department which, in order to avoid and prevent any possible exceeding of authorised risk limits, thanks to a standardised system of daily reporting, checking and testing approximations on reaching thresholds.

VaR models are intended for management purposes and are not used to calculate the asset requirements on credit risk on which, on the other hand, the standard approach for the purpose of reporting vigilance to the Bank of Italy is adopted.

1. *Regulatory trading portfolio: breakdown of cash financial assets and liabilities and financial derivatives by residual maturity (re-pricing date)*

Currency: Euro

Type/Residual life ***(thousands of Euro)***	**On de-mand**	**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	**13**	**1,266**	**–**	**32**	**–**	**7,154**	**–**	**–**
1.1 Debt securities	13	1,266	–	32	–	7,154	–	–
– With option of early redemption	–	–	–	–	–	–	–	–
– Other	13	1,266	–	32	–	7,154	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**2,877**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Reverse repurchase agreements	–	2,877	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**(58,543)**	**(9,592)**	**744**	**778**	**(10,000)**	**–**	**–**
3.1 With underlying security	–	(10)	171	72	(221)	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	(10)	171	72	(221)	–	–	–
+ Long positions	–	833	171	85	96	–	–	–
+ Short positions	–	(843)	–	(13)	(317)	–	–	–
3.2 Without underlying security	–	(58,533)	(9,763)	672	999	(10,000)	–	–
– Options	–	2	–	–	(1)	–	–	–
+ Long positions	–	3	–	1	8	6	2	–
+ Short positions	–	(1)	–	(1)	(9)	(6)	(2)	–
– Other derivatives	–	(58,535)	(9,763)	672	1,000	(10,000)	–	–
+ Long positions	–	66,011	4,938	3,372	1,000	–	–	–
+ Short positions	–	(124,546)	(14,701)	(2,700)	–	(10,000)	–	–

Currency: Other

Type/Residual life *(thousands of Euro)*	**On demand**	**Under 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**From 5 to 10 years**	**Over 10 years**	**Unspecified life**
1. Cash assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– With option of early redemption	–	–	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–	–
1.2 Other assets	–	–	–	–	–	–	–	–
2. Cash liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Reverse repurchase agreements	–	–	–	–	–	–	–	–
2.2 Other liabilities	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**78,082**	**(256)**	**(692)**	**–**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	78,082	(256)	(692)	–	–	–	–
Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	78,082	(256)	(692)	–	–	–	–
+ Long positions	–	122,717	202	206	–	–	–	–
+ Short positions	–	(44,635)	(458)	(898)	–	–	–	–

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 balance sheet date, as in the previous year.

3. Regulatory trading portfolio: internal models and other methods of sensitivity analysis

The trends in VaR for 2015 are shown below (confidence 95%, 1-day confidence interval) with respect to the entire proprietary portfolio of Banca Popolare · Volksbank:

In addition to the monthly and daily 99% VaR, a daily 99.9% VaR is also calculated using the "Extreme Value Theory". This method provides a notable advantage in terms of accuracy, especially in the valuation of extreme conditions (improbable situations but with strong impacts).
The above mentioned figure as at December 2015 (daily 99.9% VaR) amounted to Euro 8.3 million; this means that the proprietary portfolio could suffer a loss equal to or higher than that amount in one day every four years.

2.2 Interest rate risk and price risk – banking book

QUALITATIVE INFORMATION

A. General considerations, interest rate risk and price risk management, procedures and measurement methods

The banking book corresponds to the set of the commercial trading operations of the bank, of the treasury, and of the hedging derivatives. Changes in market rate structure can have adverse effects on the Banking Book (interest margin and share capital) and are therefore a source of risk. Changes in interest rates affect income in that they modify the net interest received, as well as the level of other operating expenses and revenues sensitive to interest rates, but also the underlying value of assets, liabilities, and off-balance sheet postings, since the present value of the future cash flow varies with changes in interest rates.

The interest rate risk on the banking book may have different origins:

- *basis risk*, i.e. the risk resulting from an imperfect correlation in the adjustment of the receivable and payable interest rates on various instruments but with otherwise similar price revision features; as interest rates vary, these differences can cause unforeseen changes in cash flow and in the yield differential between assets, liabilities and off-balance sheet positions having analogous maturities or rate-repricing frequency;
- *repricing risk*, the risk deriving from time lags in maturity (for flat rate positions) and in the interest rate adjustment date (for floating-rate positions); these can expose the bank's income and the economic worth to unforeseen fluctuations as interest rates vary;
- *yield curve risk*, i.e. the risk that materialises when unexpected changes in the yield curve have adverse effects on the bank's income and underlying economic value. In fact, asymmetries in interest rate repricing times can also expose the bank to changes in the inclination and shape of the yield curve;
- *option risk*, i.e. the risk deriving from option rights intrinsic to some of the bank's assets, liabilities and off-balance sheet instruments, such as for example various types of bonds or loans with call or put clauses, that grant the option holder the right to modify the characteristics of the rate applied and/or the duration of contract over time.

The Bank's banking book management and investment strategies are based on criteria of optimisation of the risk-yield ratio and are implemented according to expected interest rate performance. The Bank's investment policy is therefore focused on optimising interest rate margins and minimising their volatility (Asset & Liability Management).

The guidelines and rules and regulations for managing interest rate risk are contained in the "ALM Policy" according to a clear and easily understandable model. The measurement of interest rate risk is based on a gap analysis model:

- in relation to the annual interest margin (12 months), 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 value and own funds.

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

Ermas, by the Prometeia company, is the 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 department then, every month, calculates the sensitivity of the Bank's interest margins and share capital to predetermined variations in the rate curve on the transactions underway at the date in question (end of month).

The results of the analysis, together with the rate-change forecasts performed by the Investment and Treasury departments, are contained in a monthly report and help define the interest rate risk hedging policy established by the Finance Committee. They are discussed by the finance committee on a monthly basis. The Investment and Treasury Departments are thus entrusted with the practical application of the decisions made.

With a view to strengthening safeguards against interest rate risk, two main indicators were identified; these regard the sensitivity of the interest margin and the present value of the share capital to the interest rate risk; specific limits were set for these indicators:

- 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 department is responsible for verifying the limitations presented in the preceding paragraph, at least once every month.

As at 31 December 2015, 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 0.1% of the margin, quantifiable in a loss of Euro 87,000;
- for a sudden shock of +100 bps on the interest rate curve, a positive impact of 4.8%, quantifiable in a gain of Euro 6.512 million.

By contrast, as regards the effects on the economic value of the financial items of the banking book, the analysis performed shows that:

- in the case of a parallel decrease in rates of 200 bps, this value would increase by Euro 35.691 million, 5.6% of own funds.
- for an increase of 200 bps, a reduction of Euro 73.410 million is estimated, that is 11.5% 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 Bank uses the “fair value option” (FVO) accounting method. The underlying hedging strategy is intended to reduce the term of the liability that is intended to produce certainty in the cost of structured issues.
During 2015, 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*

Currency: Euro

Type/Residual life *(thousands of Euro)*	**On demand**	**Under 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**From 5 to 10 years**	**Over 10 years**	**Unspeci-fied life**
1. Cash assets	**2,521,247**	**3,500,904**	**515,893**	**121,511**	**961,854**	**216,481**	**127,387**	**–**
1.1 Debt securities	241,995	65,955	449,592	58,787	550,987	117,274	42,834	–
– With option of early redemption	–	–	–	–	–	–	–	–
– Other	241,995	65,955	449,592	58,787	550,987	117,274	42,834	–
1.2 Loans to banks	29,197	18,323	–	–	–	–	–	–
1.3 Loans to customers	2,250,055	3,416,626	66,301	62,724	410,867	99,207	84,553	–
– Current accounts	1,429,687	17,137	13,442	11,425	87,274	3,492	–	–
– Other loans	820,368	3,399,489	52,859	51,299	323,593	95,715	84,553	–
– with option of early redemption	342,850	3,296,109	41,790	26,973	170,245	90,379	84,458	–
– other	477,518	103,380	11,069	24,326	153,348	5,336	95	–
2. Cash liabilities	**4,513,370**	**1,342,711**	**273,058**	**250,373**	**1,227,014**	**6,387**	**785**	**–**
2.1 Due to customers	4,264,760	635,666	100,919	112,195	33,966	387	785	–
– Current accounts	3,870,511	–	–	–	–	–	–	–
– Other payables	394,249	635,666	100,919	112,195	33,966	387	785	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	394,249	635,666	100,919	112,195	33,966	387	785	–
2.2 Due to banks	246,927	70,000	–	–	562,853	6,000	–	–
– Current accounts	10,915	–	–	–	–	–	–	–
– Other payables	236,012	70,000	–	–	562,853	6,000	–	–
2.3 Debt securities	1,683	637,045	172,139	138,178	630,195	–	–	–
– With option of early redemption	–	–	–	–	–	–	–	–
– Other	1,683	637,045	172,139	138,178	630,195	–	–	–
2.4 Other liabilities	–	–	–	–	–	–	–	–
– With option of early redemption	–	–	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–	–
3. Financial derivatives	**–**	**–**	**(3,848)**	**–**	**3,848**	**–**	**–**	**–**
3.1 With underlying security	–	–	–	–	–	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
3.2 Without underlying security	–	–	(3,848)	–	3,848	–	–	–
– Options	–	–	–	–	–	–	–	–
+ Long positions	–	–	–	–	–	–	–	–
+ Short positions	–	–	–	–	–	–	–	–
– Other derivatives	–	–	(3,848)	–	3,848	–	–	–
+ Long positions	–	2,000	–	–	3,848	–	–	–
+ Short positions	–	(2,000)	(3,848)	–	–	–	–	–
4. Other off-balance sheet transactions	**(276,467)**	**81**	**61**	**223**	**47,999**	**59,278**	**168,825**	**–**
+ Long positions	–	81	61	223	47,999	59,278	168,825	–
+ Short positions	(276,467)	–	–	–	–	–	–	–

Currency: Other

Type/Residual life *(thousands of Euro)*	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified life
1. Cash assets	**1,925**	**20,309**	**9,850**	**467**	**77**	**–**	**–**	**–**
1.1 Debt securities	–	–	–	–	–	–	–	–
– With option of early redemption	–	–	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–	–
1.2 Loans to banks	1,164	–	–	–	–	–	–	–
1.3 Loans to customers	761	20,309	9,850	467	77	–	–	–
– Current accounts	29	–	–	–	–	–	–	–
– Other loans	732	20,309	9,850	467	77	–	–	–
– with option of early redemption	732	20,309	9,850	467	77	–	–	–
– other	–	–	–	–	–	–	–	–
2. Cash liabilities	**52,317**	**60,226**	**536**	**940**	**–**	**–**	**–**	**–**
2.1 Due to customers	50,438	–	–	–	–	–	–	–
– Current accounts	48,527	–	–	–	–	–	–	–
– Other payables	1,911	–	–	–	–	–	–	–
– with option of early redemption	–	–	–	–	–	–	–	–
– other	1,911	–	–	–	–	–	–	–
2.2 Due to banks	1,879	60,226	536	940	–	–	–	–
– Current accounts	1,126	–	–	–	–	–	–	–
– Other payables	753	60,226	536	940	–	–	–	–
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	–	24,818	–	–	–	–	–	–
+ Short positions	–	(24,818)	–	–	–	–	–	–

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 Euro 6.639 million on 31 December 2015.

2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General considerations, exchange risk management processes and measurement methods

Exchange risk represents the risk connected with a change in value of positions in foreign currency as a result of unexpected changes in currency cross rates.
Support for business activities in foreign currency and foreign securities trading are the Bank's main generating source of exchange risk.
Exchange rate risks are managed centrally by the Treasury; exposures to exchange rate risks are limited.
Automatic network systems linked to a single position keeping system allow the Treasury Service to perform constant, real time monitoring of currency cash flows transmitted immediately to the Forex interbank market.
The integrated Treasury IT system (Murex) then permits efficient flow management of spot, futures and options within a pre-established framework of operating limits, defined in the "Investment Policy" and the annual "Operating Plan".
All positions in currency are revalued on a daily basis to the reference exchange rates of the European Central Bank and constitute the economic contribution from exchange activities to general Bank profitability.

B. Exchange risk hedging

Exposure to foreign exchange risk is limited by the extremely prudent attitude of the 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.

1. *Currency distribution of assets, liabilities, and derivatives*

Items *(thousands of Euro)*	Currency				
	US dollar	**Swiss franc**	**GB pound**	**Yen**	**Other currencies**
A. Financial assets	**5,470**	**23,207**	**55**	**3,682**	**214**
A.1 Debt securities	–	–	–	–	–
A.2 Equity securities	–	–	–	–	–
A.3 Loans to banks	738	107	55	50	214
A.4 Loans to customers	4,732	23,100	–	3,632	–
A.5 Other financial assets	–	–	–	–	–
B. Other assets	**567**	**937**	**174**	**20**	**246**
C. Financial liabilities	**89,367**	**19,472**	**740**	**1,608**	**716**
C.1 Due to banks	42,382	17,438	–	1,602	42
C.2 Due to customers	46,985	2,034	740	6	674
C.3 Debt securities	–	–	–	–	–
C.4 Other financial liabilities	–	–	–	–	–
D. Other liabilities	**–**	**–**	**–**	**–**	**–**
E. Financial derivatives	**83,153**	**(4,788)**	**525**	**(2,132)**	**376**
– Options	–	–	–	–	–
+ long positions	–	–	–	–	–
+ short positions	–	–	–	–	–
– Other derivatives	83,153	(4,788)	525	(2,132)	376
+ long positions	121,228	205	525	655	512
+ short positions	(38,075)	(4,993)	–	(2,787)	(136)
Total assets	**127,265**	**24,349**	**754**	**4,357**	**972**
Total liabilities	**127,442**	**24,465**	**740**	**4,395**	**852**
Difference (+/-)	**(177)**	**(116)**	**14**	**(38)**	**120**

2. *Internal models and other methods of sensitivity analysis*

The exchange rate risk generated from the trading portfolio and from the banking book is monitored through an internal VaR model, described in the section “Interest rate risk and price risk – regulatory trading portfolio” where the values assumed by the indicator are presented in addition to the “Interest rate risk and price risk – banking book” section.

2.4 *Derivative instruments*

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading portfolio: year-end notional values

Underlying assets / Derivative types *(thousands of Euro)*	**31.12.2015**		**31.12.2014 (*)**	
	Over the counter	**Central counterparties**	**Over the counter**	**Central counterparties**
1. Debt securities and interest rates	38,796	15,250	55,399	25,250
a) Options	16,609	–	17,633	–
b) Swaps	21,000	–	32,000	–
c) Forwards	1,187	–	766	–
d) Futures	–	15,250	5,000	25,250
e) Other	–	–	–	–
2. Equity securities and share indexes	–	–	–	–
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	162,427	–	93,920	–
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	162,427	–	93,920	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Commodities	–	–	–	–
5. Other underlying assets	–	–	–	–
Total	**201,223**	**15,250**	**149,319**	**25,250**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

A.2 Banking book: year-end 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)*	**31.12.2015**		**31.12.2014 (*)**	
	Over the counter	**Central counterparties**	**Over the counter**	**Central counterparties**
1. Debt securities and interest rates	5,848	–	188,569	–
a) Options	–	–	15,000	–
b) Swaps	5,848	–	173,569	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
2. Equity securities and share indexes	–	–	–	–
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
3. Currency and gold	–	–	–	–
a) Options	–	–	–	–
b) Swaps	–	–	–	–
c) Forwards	–	–	–	–
d) Futures	–	–	–	–
e) Other	–	–	–	–
4. Commodities	–	–	–	–
5. Other underlying assets	–	–	–	–
Total	**5,848**	**–**	**188,569**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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

Underlying assets / Derivative types *(thousands of Euro)*	Positive fair value			
	31.12.2015		31.12.2014 (*)	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio	**1,466**	**–**	**1,827**	**–**
a) Options	137	–	102	–
b) Interest rate swap	137	–	216	–
c) Cross currency swap	–	–	–	–
d) Equity swap	–	–	–	–
e) Forwards	1,192	–	1,509	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
B. Banking book – hedging	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity swap	–	–	–	–
e) Forwards	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. Banking book – other derivatives	**2,802**	**–**	**5,752**	**–**
a) Options	–	–	–	–
b) Interest rate swap	2,802	–	5,752	–
c) Cross currency swap	–	–	–	–
d) Equity swap	–	–	–	–
e) Forwards	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**4,268**	**–**	**7,579**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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

Underlying assets / Derivative types *(thousands of Euro)*	Negative fair value			
	31.12.2015		31.12.2014 (*)	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio	**3,107**	**–**	**3,303**	**–**
a) Options	–	–	–	–
b) Interest rate swap	2,369	–	3,314	–
c) Cross currency swap	–	–	–	–
d) Equity swap	–	–	–	–
e) Forwards	738	–	169	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
B. Banking book – hedging	**–**	**–**	**–**	**–**
a) Options	–	–	–	–
b) Interest rate swap	–	–	–	–
c) Cross currency swap	–	–	–	–
d) Equity swap	–	–	–	–
e) Forwards	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
C. Banking book – other derivatives	**23**	**–**	**99**	**–**
a) Options	–	–	–	–
b) Interest rate swap	23	–	99	–
c) Cross currency swap	–	–	–	–
d) Equity swap	–	–	–	–
e) Forwards	–	–	–	–
f) Futures	–	–	–	–
g) Other	–	–	–	–
Total	**3,130**	**–**	**3,402**	**–**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

A.5 OTC financial derivatives: regulatory trading portfolio – notional values, gross positive and negative fair values for counterparties – contracts that do not fall 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	**–**	**–**	**40,743**	**–**	**–**	**8**	**1,060**
– notional value	–	–	37,759	–	–	8	1,029
– positive fair value	–	–	274	–	–	–	21
– negative fair value	–	–	2,369	–	–	–	10
– future exposure	–	–	341	–	–	–	–
2) Equity securities and share indexes	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
3) Currency and gold	**–**	**–**	**157,866**	**–**	**–**	**7,488**	**34**
– notional value	–	–	155,140	–	–	7,253	34
– positive fair value	–	–	1,139	–	–	32	–
– negative fair value	–	–	596	–	–	133	–
– future exposure	–	–	991	–	–	70	–
4) Other securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–

A.6 OTC financial derivatives: regulatory trading portfolio – notional values, gross positive and negative fair values for counterparties – contracts that fall 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	**–**	**–**	**8,691**	**–**	**–**	**–**	**–**
– notional value	–	–	5,848	–	–	–	–
– positive fair value	–	–	2,802	–	–	–	–
– negative fair value	–	–	22	–	–	–	–
– future exposure	–	–	19	–	– –		–
2) Equity securities and share indexes	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
3) Currency and gold	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–
4) Other securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– notional value	–	–	–	–	–	–	–
– positive fair value	–	–	–	–	–	–	–
– negative fair value	–	–	–	–	–	–	–
– future exposure	–	–	–	–	–	–	–

A.8 OTC Financial derivatives: banking book – notional values, gross positive and negative fair values for counterparties – contracts that come under offsetting agreements

As at the balance sheet date, as in the previous financial year, there are no financial derivatives that come under offsetting agreements.

A.9 Residual life of OTC financial derivatives: notional values

Underlying / Residual life *(thousands of Euro)*	Under 1 year	From 1 to 5 years	Over 5 years	Total
A. Regulatory trading portfolio	**174,683**	**5,741**	**20,799**	**201,223**
A.1 Financial derivatives on debt securities and interest rates	12,256	5,741	20,799	38,796
A.2 Financial derivatives on equity securities and share indexes	–	–	–	–
A.3 Financial derivatives on exchange rates and gold	162,427	–	–	162,427
A.4 Financial derivatives on other stocks	–	–	–	–
B. Banking book	**2,000**	**3,848**	**–**	**5,848**
B.1 Financial derivatives on debt securities and interest rates	2,000	3,848	–	5,848
B.2 Financial derivatives on equity securities and share indexes	–	–	–	–
B.3 Financial derivatives on exchange rates and gold	–	–	–	–
B.4 Financial derivatives on other stocks	–	–	–	–
Total 31.12.2015	**176,683**	**9,589**	**20,799**	**207,071**
Total as at 31.12.2014 (*)	**293,631**	**22,219**	**22,038**	**337,888**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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 Bank might not be able to meet its own payment commitments at the due date, which would compromise day-to-day operations or the financial situation of the Bank itself. Under this risk there are the following definitions for each component of liquidity risk:

- the refinancing risk in turn can be broken down into:
  - funding liquidity risk, i.e., the risk that the bank is unable to fulfil its payment commitments when they come due because of the incapacity or impossibility of procuring the necessary funds;
  - liquidity contingency risk i.e., the risk that future contingencies may require an amount of liquidity in excess of that expected, such as the non repayment of loans, the need to fund new activities, the withdrawal risk, i.e., an unexpected, greater than anticipated withdrawal of deposits by customers, the credit line utilisation risk, that is an unexpected, greater than anticipated utilisation of the credit facilities by the customers;
- rollover risk, i.e., the potential risk of rising loan costs due, for example, to changes in the bank's rating (internal factor) or expansions of credit spreads (market factor);
- market liquidity risk, which is the risk that the bank is not able to dispose of assets thereby generating losses due to market conditions; these risks are managed by the departments in charge of the various trading portfolios and, as a result, are measured and monitored according to econometrics for market risk management;
- liquidity concentration risk which can be broken down in turn into:
  - flow concentration risk, i.e. the concentration risk of inflows and outflows of expected cash – and the resulting imbalances or surpluses – over predefined expiry bands; in this case there is inadequate discontinuity in the expiry dates with potential negative impacts on the exposure to liquidity risk;
  - funding contingency risk, i.e. the risk of dependence on a single market or an excessively limited number of markets/counterparts or concentration on certain technical forms, to the extent that the withdrawal of funds by a limited number of counterparts, or the loss of a funding channel could lead to a substantial review of the controls necessary to deal with liquidity risk;
- liquidity mismatch risk, i.e., is the risk of inconsistency between the amounts and/or timeframes between incoming and outgoing cash flow;
- margin calls liquidity risk, which refers to a situation where the Bank is required by contract to supplement warranties and/or margins for certain financial instruments;
- operational liquidity risk, i.e., the risk of not fulfilling payment obligations due to errors, violations, interruptions or damages caused by internal processes, personnel, systems or external events, despite the bank remaining solvent.

Liquidity risk management is described in the document "Liquidity and Funding Policy", reviewed, and approved annually by the Board of Directors. In detail it defines:

- the organisational model, that assigns roles and responsibilities to the offices involved in the liquidity management and control process;

- policies for managing operational and structural liquidity, indicating the models and metrics used to assess, monitor and control liquidity risk and for performing stress tests;
- Contingency Funding Plan (CFP), which provides the organisational processes and interventions undertaken to restore standard conditions in liquidity management in addition to providing a description of indicators to determine any critical situations.

In particular, the policy concerns the provisions regarding the governance and management of liquidity risk contained in Bank of Italy Circular no. 298 of 17 December 2013 and subsequent updates. These rules and regulations are based on the principle that an adequate 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 regarding matters of organisation and internal controls, as well as the adoption of precise management instruments and public disclosure obligations, which although proportional to the operational size, to the organisational complexity, and to the type of the activities performed by the individual banks, require a significant commitment on the part of the latter.

The management of liquidity risk is allocated to the Treasury Service, which operates under the direct management of the Finance Department. The definition and control of the respect for operating limits instead rests with the risk management department. General Management is responsible for liquidity governance, both as regards compliance with the limits defined and as regards tactical and structural funding strategies. In the event of liquidity emergencies, General Management is also responsible for activation, management, and coordination of the Bank's Contingency Funding Plan.

An essential element is the distinction between short-term operational liquidity (under 12 months) and medium/long-term structural liquidity (over 12 months). The former is to deal with unexpected critical situations due to specific shocks in the Bank or market; the latter meets the need to ensure optimal management from a strategic standpoint, transformation of maturities between funding and loans, by balancing asset and liability maturities in order to prevent any future crisis in liquidity.

The containment of exposure to liquidity risk is pursued primarily through a structured set of guidelines, operational decisions, and organisational control, the most relevant of which are:

- ensure the capacity to meet foreseen and unforeseen cash payment commitments by maintaining a sustainable ratio between incoming and outgoing cash flow;
- maintain an adequate ratio between overall liabilities and medium/long term assets aimed at avoiding pressure on current and prospective sources in the short-term;
- centralise liquidity management;
- diversify the sources of funding in terms of funding instruments, counterparties, in geographic terms, and currency;
- keep a sufficient stock of assets on hand that can be easily liquidated and used to guarantee loan transactions or that are directly disposable in pressurised situations; specifically, it is expected that the trading portfolio will be invested mainly in listed financial instruments with a strong rating, based on precise, pre-established limits in quantity and quality terms. The listing and strong rating help to rapidly unfreeze the financial instruments;
- manage the short-term liquidity in compliance with the regulatory framework;

- issue financial instruments so as to maintain prudent capital ratio targets;
- have and maintain an IT system suitable to monitor and manage liquidity.

Measurement and control of operational liquidity and structural liquidity were defined by means of a system of indicators, limits, and reports, including daily. In particular, a so-called maturity ladder was prepared; that is, surveillance system for the net financial position which allows the balances and therefore the imbalances between expected inflows and outflows over predefined time bands and, through the formation of cumulative imbalances, the calculation of the net financial requirement (or surplus) in the time horizon considered.

To measure the Bank's liquidity risk, the so-called Liquidity-at-Risk (LaR) model is used; this is based on observing the "independent" negative net flows of liquidity – taking into consideration the historical series of the last 5 years – applying the Extreme-Value-Theory, which allows accuracy to be improved for high confidence levels. More specifically, the following daily balances are used: mandatory reserve at the Bank of Italy, interbank deposits, bond issues, securitisations, movement of securities owned, extraordinary flows. The data is processed to prevent determination of daily cash flow linked solely to decisions not under the direct control of the Bank (Treasury Service) and so resulting from customer conduct. The 3 confidence levels in question should represent the Bank's liquidity needs under normal conditions (up to the LaR value at 99% confidence), stress (up to 99.9%) and critical (up to 99.99%) at 1 day, 1 week (5 business days), 2 weeks (10 business days) and at one month (20 business days).

Other fundamental liquidity risk management functions regard conducting a stress test program aimed at evaluating the bank's vulnerability to exceptional but plausible events. In particular stress testing is performed in terms of scenario analysis, consistent with the definition of liquidity risk adopted and attempting to simulate the behaviour of the bank's cash flow under unfavourable conditions making subjective assumptions based on the bank's experience and/or instructions provided by supervisory regulations and guidelines. The risk factors involved in the test include for example:

- increasing demand withdrawals
- revocation/non-renewal or reduction of credit lines received
- increase haircut of securities that can be readily liquidated
- non/limited roll-over of maturing loans and renewing lines of credit/credit openings
- reduction in rollover of interbank funding
- reduction in rollover of interbank funding
- revocation/non-renewal or reduction of credit lines received
- increase utilisation of credit lines granted
- increase haircut of securities that can be readily liquidated
- increasing haircut on cash loans

Moreover, the organisational layout of the structures and functions responsible for managing liquidity and the relative controls and contingency plans to be implemented in times of stress or crisis (CFP, Contingency Funding Plan) are clearly defined in the policy; a contingency is declared when there is problematic progression in a predefined series of external and internal factors.

As indicated by the relevant legislation mentioned above, a "Policy on the internal transfer price system" (TIT) of funds was also defined starting from 2011. The system sets the following objectives:

- the transfer of the interest rate and liquidity risks from the sales network to the treasury unit, so as to guarantee the centralised valuation and management of the bank's exposure to these types of risk;
- the transfer of the fees resulting from the transformation of maturities from the sales network to the treasury unit;
- the possibility of precisely assessing the actual fee at the level of each individual sales unit and each individual customer relationship.

The internal transfer rates on which the system is based, in addition to being differentiated by maturity (multiple TIT), and being based on market rates effectively tradable by the treasury, guarantee revenue margins for the operating units consistent with the bank's overall profitability, and are all composed of several components with different purposes:

- the "interest rate" (risk free TIT) component that transfers the interest rate risk from the sales unit to the treasury unit;
- the "liquidity" component (liquidity TIT), which takes into account the refinancing cost that the bank must face in the 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 2015, the analysis of the Bank's liquidity situation did not indicate any situations of short or long term stress, as is also shown by the weekly reports sent to the Bank of Italy.

1. *Time distribution by residual contract duration of financial assets and liabilities*

Currency: Euro

Items / Timescales *(thousands of Euro)*	**On demand**	**From 1 to 7 days**	**From 7 to 15 days**	**From 15 days to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Unspecified life**
Cash assets	**1,528,161**	**10,973**	**28,804**	**159,945**	**262,912**	**273,916**	**597,736**	**2,864,050**	**2,321,209**	**18,323**
A.1 Government securities	–	–	–	–	25,000	20,253	150,789	498,500	171,000	–
A.2 Other debt securities	28,460	–	70	207	7,408	1,482	32,230	379,328	166,853	–
A.3 UCITS units	183,339	–	–	–	–	–	–	–	–	–
A.4 Loans	1,316,362	10,973	28,734	159,738	230,504	252,181	414,717	1,986,222	1,983,356	18,323
– Banks	24,235	–	–	1,083	–	–	–	–	–	18,323
– Customers	1,292,127	10,973	28,734	158,655	230,504	252,181	414,717	1,986,222	1,983,356	–
Cash liabilities	**4,336,318**	**153,873**	**46,685**	**50,817**	**297,425**	**233,813**	**370,637**	**1,865,012**	**182,805**	**–**
B.1 Deposits and current accounts	4,269,812	25,836	15,899	33,305	107,816	94,597	111,379	31,234	–	–
– Banks	74,027	20,000	–	–	–	–	–	–	–	–
– Customers	4,195,785	5,836	15,899	33,305	107,816	94,597	111,379	31,234	–	–
B.2 Debt securities	1,683	1,263	30,726	17,502	189,488	131,218	207,717	930,561	80,832	–
B.3 Other liabilities	64,823	126,774	60	10	121	7,998	51,541	903,217	101,973	–
Off-balance sheet transactions	**(2,379)**	**19,510**	**(16,052)**	**(22,785)**	**(106,443)**	**(58,811)**	**(167,922)**	**47,997**	**228,163**	**–**
C.1 Financial derivatives with exchange of principal amount	–	19,591	(16,052)	(22,785)	(58,524)	408	685	(2)	60	–
– Long positions	–	36,077	229	131	1,800	609	956	401	60	–
– Short positions	–	(16,486)	(16,281)	(22,916)	(60,324)	(201)	(271)	(403)	–	–
C.2 Financial derivatives without exchange of principal amount	(2,095)	–	–	–	(1)	(2)	(5)	–	–	–
– Long positions	274	–	–	–	–	2	3	–	–	–
– Short positions	(2,369)	–	–	–	(1)	(4)	(8)	–	–	–
C.3 Deposits and loans to be received	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.4 Irrevocable commitments to disburse funds	(284)	(81)	–	–	(47,918)	(59,217)	(168,602)	47,999	228,103	–
– Long positions	–	–	–	–	81	61	223	47,999	228,103	–
– Short positions	(284)	(81)	–	–	(47,999)	(59,278)	(168,825)	–	–	–
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)*	**On demand**	**From 1 to 7 days**	**From 7 to 15 days**	**From 15 days to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Unspecified life**
Cash assets	**1,929**	**185**	**555**	**3,814**	**15,694**	**10,038**	**470**	**88**	**–**	**–**
A.1 Government securities	–	–	–	–	–	–	–	–	–	–
A.2 Other debt securities	–	–	–	–	–	–	–	–	–	–
A.3 UCITS units	–	–	–	–	–	–	–	–	–	–
A.4 Loans	1,929	185	555	3,814	15,694	10,038	470	88	–	–
– Banks	1,164	–	–	–	–	–	–	–	–	–
– Customers	765	185	555	3,814	15,694	10,038	470	88	–	–
Cash liabilities	**52,317**	**5,344**	**10,832**	**41,797**	**846**	**268**	**470**	**–**	**–**	**–**
B.1 Deposits and current accounts	51,564	5,344	10,832	41,264	–	–	–	–	–	–
– Banks	1,126	5,344	10,832	41,264	–	–	–	–	–	–
– Customers	50,438	–	–	–	–	–	–	–	–	–
B.2 Debt securities	–	–	–	–	–	–	–	–	–	–
B.3 Other liabilities	753	–	–	533	846	268	470	–	–	–
Off-balance sheet transactions	**–**	**4,538**	**16,603**	**1,840**	**55,101**	**(256)**	**(692)**	**–**	**–**	**–**
C.1 Financial derivatives with exchange of principal amount	–	(20,280)	16,603	22,966	58,793	(256)	(692)	–	–	–
– Long positions	–	20,558	17,526	24,010	60,623	202	206	–	–	–
– Short positions	–	(40,838)	(923)	(1,044)	(1,830)	(458)	(898)	–	–	–
C.2 Financial derivatives without exchange of principal amount	–	–	–	–	–	–	–	–	–	–
– Long positions	–	–	–	–	–	–	–	–	–	–
– Short positions	–	–	–	–	–	–	–	–	–	–
C.3 Deposits and loans to be received	–	24,818	–	(21,126)	(3,692)	–	–	–	–	–
– Long positions	–	24,818	–	–	–	–	–	–	–	–
– Short positions	–	–	–	(21,126)	(3,692)	–	–	–	–	–
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	–	–	–	–	–	–	–	–	–	–

INFORMATION IN INVESTMENTS IN HEDGE FUNDS

The Hedge Fund portfolio amounted to 0.3 million as at 31 December 2015.

The Hedge Fund portfolio saw trading losses of 0.3 million. Capital losses of 0.7 million were recorded, distributed over 4 positions.

Section 4 OPERATIONAL RISKS

QUALITATIVE INFORMATION

A. General considerations, operational risk management processes and measurement methods

In line with the supervisory provisions, operational risk is defined as the risk of incurring losses due to errors, violations, interruptions, exogenous events or damages deriving from malfunctions in the internal processes or the unsuitability of people and/or systems. Operational risks include, among other things, the ensuing losses from theft and fraud, human errors, interruptions of operations, the unavailability of systems, executions of transactions, breaches of contract, data processing, damage to real property, and natural catastrophes.

These risks will be monitored, within the scope of the Internal 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;
- mitigate the expected effects of these events;
- enhance the overall operational efficiency;
- protect the bank's reputation and image.

Certain types of operational risks, due to their significance or singularity, are considered as separate types of risk and their coverage is also ensured by dedicated control functions:

- legal, judicial and non-compliance risks;
- risks of erroneous financial disclosure;
- risks of conditioning by influential parties;
- outsourcing risks;
- IT risk;
- model risk.
- conduct 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 Bank has been a member of the ABI's DIPO (Italian database of operating losses) interbank consortium, and is therefore regularly involved in operating loss data collection activities.

The internal operating loss database records all events involving an operating loss of over Euro 500. These reports originating from the network and the internal organisation units are integrated with losses deriving from legal action and customer complaints; both types of events are systematically recorded and monitored as they evolve on special internal databases under management of the Legal Department and the Compliance department respectively.

Whenever, subsequent to a legal and accounting analysis, facts emerge that imply probable future disbursements of economic resources, appropriate precautionary allocations of funds are made to the provisions for risks and charges, in addition to implementing settlement polices.

The information gathered from the internal and external databases (DIPO), the detailed analysis of the most significant loss events according to their impact and/or frequency of occurrence, the countermeasures already implemented or to be implemented are discussed quarterly within the 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 Bank also has a sophisticated business continuity plan, operationally reviewed and audited annually; it establishes principles, objectives, and procedures aimed at reducing the damage resulting from accidents and catastrophes to a level deemed acceptable.

The Risk Management department also carries out analyses and digital processing activities, based entirely on the data on the internal database of operational losses, 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 2015, the model estimated the potential operational losses in 1 year as Euro 3.422 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 regulatory provisions of EU Regulation 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;
- risk monitoring;

and the aim is to guide and support the departments involved in pursuing the strategic goals.

The assessment of intrinsic and residual operational risks is carried out through a 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 performed by the control departments;
- other information regarding the probability of a new risk and the possible financial consequences that may result;
- risks where there has not been enough information regarding the event probability and potential damage may be subject to qualitative analyses.

Control management processes

Within the Internal 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 the priority initiatives 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 function 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 department (as the department that manages risk) and the Compliance department (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 department.

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 2015 recorded 108 new reports with a gross loss of Euro 1,989,238, of which 18.5% of cases were due to internal or external fraud (amounting to 32.7% of the value), 39.8% from processing errors (41.3% of the value), 41.7% due to other factors, forged banknotes, system errors, and legal disputes etc. (26% of the value). By way of comparison, 131 events occurred in 2014, corresponding to gross losses equal to Euro 1,226,278.

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 prospective capital strength therefore takes into account both the regulatory and operational constraints.

Capital adequacy over time therefore reflects the capital requirements correlated with the multiyear objectives set in the strategic plan. In the process of defining the objectives for the annual budget, a compatibility test is performed with the level of capitalisation, as a function of the expected dynamics of the balance-sheet and income statement aggregates.

Capital adequacy is the result of several managerial decisions, such as the 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.

Banca Popolare · Volksbank's shareholders' equity, including the effect of the incorporation of the Banca Popolare di Marostica Group, the valuation reserves and the net profit for the year, as at 31 December 2015, amounts to 777.2 million, an increase over the previous year's figure of 639.8 million.

B. QUANTITATIVE INFORMATION

B.1 Company capital: breakdown

Items/Amounts ***(thousands of Euro)***	**31.12.2015**	**31.12.2014 (*)**
1. Share capital	**179,536**	**152,508**
2. Share premium reserve	**307,527**	**202,459**
3. Reserves	**267,738**	**262,857**
– retained earnings:	237,595	232,714
a) legal	113,000	110,800
b) extraordinary	109,773	105,456
c) treasury shares	–	–
d) other	14,822	16,458
– other	30,143	30,143
4. Equity instruments	**–**	**–**
5. (Treasury shares)	**–**	**–**
6. Valuation reserves	**(16)**	**1,751**
– Financial assets available for sale	1,636	4,622
– Property and equipment	–	–
– Intangible assets	–	–
– Foreign investment hedges	–	–
– Cash flow hedges	–	–
– Exchange differences	–	–
– Discontinued operations	–	–
– Actuarial gains (losses) relating to defined benefit	–	
– pension plans	(1,652)	(2,871)
– Portion of valuation reserves relating to		
– equity-accounted investees	–	–
– Special revaluation laws	–	–
7. Net income (loss)	**22,368**	**20,247**
Total	**777,153**	**639,822**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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

Asset/Value	**31.12.2015**		**31.12.2014 (*)**	
(thousands of Euro)	**Positive reserve**	**Negative reserve**	**Positive reserve**	**Negative reserve**
1. Debt securities	5,504	(841)	2,951	(233)
2. Equity securities	1,241	(9)	973	(12)
3. UCITS units	413	(4,672)	1,129	(186)
4. Loans	–	–	–	–
Total	**7,158**	**(5,522)**	**5,053**	**(431)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

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	**2,718**	**961**	**943**	**–**
2. Positive changes	**4,280**	**271**	**134**	**–**
2.1 Increases in fair value	4,264	271	1	–
2.2 Reclassification of negative reserves in income statement	16	–	133	–
– from impairment	–	–	–	–
– from disposal	16	–	133	–
2.3 Other changes	–	–	–	–
3. Negative changes	**2,335**	**–**	**5,336**	**–**
3.1 Decrease in fair value	1,021	–	5,152	–
3.2 Losses on impairment	–	–	–	–
3.3 Reclassification to income statement from positive reserves: from disposal	1,314	–	184	–
3.4 Other changes	–	–	–	–
4. Closing balance	**4,663**	**1,232**	**(4,259)**	**–**

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

(thousands of Euro)	31.12.2015		31.12.2014 (*)	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
Defined benefit plans	–	(1,652)	–	(2,871)
Total	**–**	**(1,652)**	**–**	**(2,871)**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

(thousands of Euro)	2015
1. Opening balance	**(2,871)**
2. Positive changes	**1,676**
2.1 Profits from changes to discount rates	1,676
2.2 Other changes	–
3. Negative changes	**457**
3.1 Decrease in fair value	–
3.2 Other changes	457
4. Closing balance	**(1,652)**

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/UE (CRD IV) and in Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which were followed by the provisions issued by the Bank of Italy under Circular No. 286 dated 17 December 2013 – 6th update dated 7 August 2015, by means of which the harmonised provision for banks and insurance companies was reviewed and under Circular No. 285 dated 17 December 2013 – 14th update dated 24 November 2015, by means of which the instructions for the compilation of prudent reporting were indicated.

2.1 Own funds

A. QUALITATIVE INFORMATION

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

- Class 1 capital, in turn broken down into:
    - 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 are fully included in CET1.

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

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

1. Common Equity Tier 1 Capital (CET 1)

The Common equity tier 1 capital (CET1) is made up of the following positive and negative elements:

- Share capital and associated share premium reserve;
- Retained earnings;
- Former OCI positive and negative valuation reserves;
- Other reserves;
- Previous CET1 instruments subject to transitory provisions (grandfathering);
- Prudential filters;
- Deductions.

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

2. Additional Tier 1 capital (AT1)

Additional tier 1 capital (AT1) is made up of the following positive and negative elements:

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

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

3. Tier 2 capital (T2)

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

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

Banca Popolare · Volksbank does not have instruments included in T2.

B. QUANTITATIVE INFORMATION

		31.12.2015	31.12.2014 (*)
A.	**Common Equity Tier 1 capital (CET1) before application of prudential filters**	**762,192**	**628,384**
–	of which CET1 instruments subject to transitory provisions	–	–
B.	**CET1 prudential filters (+/–)**	**81**	**127**
C.	**CET1 gross of deductible elements and effects of the transitory regime (A +/– B)**	**762,273**	**628,511**
D.	**Elements deductible from CET1**	**(116,633)**	**(37,379)**
E.	**Transitory regime – Impact on CET1 (+/–)**	**(3,691)**	**(4,622)**
F.	**Total common equity tier 1 capital (CET1) (C – D +/–E)**	**641,949**	**586,510**
G.	**Additional Tier 1 capital (AT1) gross of deductible elements and effects of the transitory regime**	**–**	**–**
–	of which AT1 instruments subject to transitory provisions	–	–
H.	**Elements deductible from AT1**	**–**	**–**
I.	**Transitory regime – Impact on AT1 (+/–)**	**–**	**–**
L.	**Total additional tier 1 capital (AT1) (G – H +/– I)**	**–**	**–**
M.	**Tier 2 capital (T2) gross of deductible elements and effects of the transitory regime**	**–**	**–**
–	of which T2 instruments subject to transitory provisions	–	–
N.	**Elements deductible from T2**	**–**	**–**
O.	**Transitory regime – Impact on T2 (+/–)**	**–**	**1,232**
P.	**Total Tier 2 capital (T2) (M – N +/– O)**	**–**	**1,232**
Q.	**Total own funds (F + L + P)**	**641,949**	**587,742**

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

Since the conditions envisaged by Article 26.2 of EU Regulation No. 575 dated 26 June 2013 (CRR) were met for its inclusion in common equity tier 1 capital, account was taken of the profit for the year and, consequently, the estimate of the dividends in relation to the 2015 result, taking the last dividend resolved as a reference.
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 2015 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 a minimum requirement and 2.5% by way of capital maintenance reserve. As from 1 January 2016, the minimum requirement will also comprise the countercyclical capital buffer.
Following the completion of the Supervisory Review and Evaluation Process, the Bank of Italy determined the capital which Banca Popolare · Volksbank must hold, in addition to the minimum requirement in relation to the exposure to risks pursuant to the applicable regulations. In particular, Banca Popolare · Volksbank will be required to continuously meet the following capital requirements:

- CET 1 Ratio of 7%, including 2.5% in the form of the capital conservation buffer. This ratio is binding, pursuant to art. 53 bis of the Consolidated Banking Act, at 5.8%, of which 4.5% in respect of the minimum regulatory requirements and 1.3% in respect of additional requirements determined as a result of the SREP);
- TIER 1 capital ratio of 8.5%, including 2.5% in the form of the capital conservation buffer. This ratio is binding, pursuant to art. 53 bis of the Consolidated Banking Act, at 7.8%, of which 6.0% in respect of the minimum regulatory requirements and 1.8% in respect of additional requirements determined as a result of the SREP);
- Total Capital Ratio of 10.5%, including 2.5% in the form of the capital conservation buffer. This ratio is binding, pursuant to art. 53 bis of the Consolidated Banking Act, at 10.3%, of which 8.0% in respect of the minimum regulatory requirements and 2.3% in respect of additional requirements determined as a result of the SREP).

Bank of Italy, by means of communication date 30 December 2015, indicated that the countercyclical capital buffer (CCyB) was fixed at 0% for the first quarter of 2016.
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 on 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	
		31.12.2015	31.12.2014 (*)	31.12.2015	31.12.2014 (*)
A.	**RISK ASSETS**				
A.1	**Credit risk and counterparty risk**	**9,057,571**	**6,874,083**	**5,332,079**	**4,069,682**
	1. Standard method	9,057,571	6,874,083	5,332,079	4,069,682
	2. Internal rating-based method	–	–	–	–
	2.1 Basic	–	–	–	–
	2.2 Advanced	–	–	–	–
	3. Securitisations	–	–	–	–
B.	**REGULATORY CAPITAL REQUIREMENTS**				
B.1	**Credit risk and counterparty risk**			**426,566**	**325,575**
B.2	**Risk of adjustment of the credit assessment**			**–**	**–**
B.3	**Regulation risk**			**–**	**–**
B.4	**Market risk**			**764**	**1,765**
	1. Standard method			764	1,765
	2. Internal models			–	–
	3. Concentration Risk			–	–
B.5	**Operational risk**			**33,129**	**24,754**
	1. Basic method			–	–
	2. Standard method			33,129	24,754
	3. Advanced method			–	–
B.6	**Other calculation items**			**–**	**–**
B.7	**Total prudential requirements**			**460,459**	**352,094**
C.	**RISK ASSETS AND SUPERVISORY RATIOS**				
C.1	Risk-weighted assets			5,755,746	4,401,166
C.2	Common equity tier 1 capital/Weighted risk assets (CET1 capital ratio)			11.15%	13.32%
C.3	Tier 1 capital/Weighted risk assets (Tier I capital ratio)			11.15%	13.32%
C.4	Total own funds/ Weighted risk assets (Total capital ratio)			11.15%	13.35%

(*) Do not include the data relating to the Banca Popolare di Marostica Group.

PART G BUSINESS COMBINATIONS CONCERNING COMPANIES OR BUSINESS BRANCHES

Section 1 BUSINESS COMBINATIONS CARRIED OUT DURING THE YEAR

The main information relating to the acquisition of the Banca Popolare di Marostica Group, completed on 1 April 2015, is provided below, as well as additional information relating to the incorporation of Banca di Treviso S.p.A., of which Banca Popolare · Volksbank acquired control due to the acquisition of the Banca Popolare di Marostica Group.
The shareholding in Banca di Treviso S.p.A., as at 1 April 2015, the date control was acquired, was 86.67% and on 5 October 2015, the effective date of the merger, it was 96.20%. As an entity under common control, the provisions of IFRS 3 were not applicable to the incorporation of Banca di Treviso S.p.A..

Description of the transaction

The deed of merger by incorporation of Banca Popolare di Marostica Soc. coop. p.a. in Banca Popolare · Volksbank was signed on 23 March 2015, effective from 1 April 2015 for legal, accounting and tax purposes.
At the effective date of the merger, Banca Popolare · Volksbank performed a share capital increase of Euro 26,625,012, through the issuing of 6,656,253 ordinary shares with a nominal value of Euro 4.00 each, attributed to the shareholders of Banca Popolare di Marostica based on a share swap ratio of 2,656 ordinary Banca Popolare · Volksbank shares with a nominal value of Euro 4.00 for every ordinary Banca Popolare di Marostica Soc. coop. p.a. share with a nominal value of Euro 2.58 each. The ordinary Banca Popolare di Marostica shares were cancelled.
The international accounting standards require a purchaser to be identified for any business combination. With reference to the business combination in question, Banca Popolare · Volksbank was identified as the purchaser pursuant to IFRS 3, taking into account quantitative factors relating to the number of new shares issued and the dimensions of the two parties involved in the transaction, given Banca Popolare · Volksbank was the entity that issued the shares.
1 April 2015, the date the merger took effect for legal purposes, was identified as the date of acquisition of control by Banca Popolare · Volksbank pursuant to IFRS 3 and, therefore, the date on which the transactions of Banca Popolare di Marostica and of the subsidiary Banca di Treviso were recognised in the financial statements of the merging entity.
The governing bodies of Banca Popolare · Volksbank did not have, before the effective date of the merger for legal purposes, of powers able to shape the management of merged company, also due to the absence of agreements between the parties suited to establishing effective assumption of control. Therefore, the relevant event for the purposes of the assumption of control of Banca Popolare di Marostica by Banca Popolare · Volksbank is the moment in which the share swap took place.
The newly issued shares were assigned to Banca Popolare di Marostica shareholders on 1 April 2015, with the simultaneous cancellation of Banca Popolare di Marostica shares held by them. As of said date, the merged company was struck off the Business Register and the winding-up of the associated corporate bodies became effective. As of said date, the merging company took over all rights and obligations of the merged company.
The process of accounting recognition of the business combination governed by IFRS 3 sets out that the cost of a business combination is determined as the sum of the fair value, as at the effective date of the merger, (i) the assets disposed, (ii) the liabilities incurred and (iii) the equity instruments issued by the acquirer in exchange for obtaining control over the acquiree.

Therefore, in the business combination between Banca Popolare · Volksbank and Banca Popolare di Marostica, the cost of the acquisition is represented by the fair value, recorded at the legally effective date of the merger, of the shares that the merging company Banca Popolare · Volksbank issued in exchange for the shares of the merged entity. The fair value is represented by the value of the shares determined by the shareholders' meeting of Banca Popolare · Volksbank of 28 March 2015, which set the amount at Euro 19.55, of which Euro 4.00 as nominal value and Euro 15.55 as share premium.

Therefore, the purchase cost was calculated at 130.2 million. As set forth in paragraph 53 of IFRS 3, the costs related to the acquisition, such as advisory expenses, legal costs, charges for appraisals and other administrative costs were booked to the income statement.

The shareholders' equity of Banca Popolare di Marostica stood at 50.7 million as at 31 March 2015. Therefore, the "temporary merger difference", determined before the completion of the process of allocation of the acquisition cost, amounted to 79.5 million.

IFRS 3 requires the cost of the business combination to be allocated to the assets acquired and the liabilities assumed at the respective fair values at the acquisition date. What still remains after this allocation must be recorded as goodwill.

Paragraph 45 of IFRS 3 requires the allocation of the cost of the acquisition to be completed within twelve months from the acquisition date. Banca Popolare · Volksbank provided information in the half-yearly financial report as at 30 June 2015 relating to the temporary merger difference, including a specific item in the report layouts, not provided for in the mandatory schemes of the Bank of Italy, in which it recorded the provisional merger difference. The process of allocation of the acquisition cost concluded with the drafting of these financial statements.

On 5 October 2015, the incorporation under common control of Banca di Treviso S.p.A. took place, cancelling the value of the equity investment as at 1 April 2015 as a contra-item to the portion of shareholders' equity not pertaining to minority interests, generating a difference of 14.6 million.

Acquired entity ***(thousands of Euro)***	**Acquisition date**	**% interest acquired**	**Fair value of consideration**	**Fair value of equity items**	**Goodwill**
Banca Popolare di Marostica and merger under common control of Banca di Treviso	**01.04.2015**	**100%**	**132,166**		**59,210**

The following table shows the changes in goodwill compared to the previous year.

Goodwill ***(thousands of Euro)***	
Initial goodwill	40,392
Increases	
– Purchase of Banca Popolare di Marostica	59,210
Decreases	–
Closing goodwill	99,602

Allocation of purchase cost

The assets and liabilities booked to the financial statements of Banca Popolare · Volksbank, which were not already stated at fair value in the financial statements of the merged entity and for which the fair value was calculated, are attributable to:

- loans to customers;
- property;
- provision for employee termination indemnities;
- "client relationship".

Loans to customers were designated at fair value through the discounting to the current market rates of expected cash flows. The difference between the fair value and the book value is amortised over the residual useful life, using the effective original interest rate provided for in IAS 39.

The fair value of properties and land was determined by making use of the appraisals prepared by independent experts. The difference between the fair value and the book value of properties is amortised over the useful life of the same, re-determined at the time of the acquisition.

The value of the provision for employee termination indemnities was re-determined by making use of the calculation of an actuary.

Intangible assets were also identified attributable to the presence of a consolidated 'client relationship', relating to the custody and administration of securities, placement of asset management and insurance products as well as the collection of savings represented by 'core deposits'.

The core deposits represent an intangible asset connected to client relationships, particularly significant as part of retail banking activities. Their value is actually attributable to the future benefits which the acquirer of the volumes collected will be able to benefit from, thanks to lower-than-market costs that said form of funding permits. These benefits are essentially attributable to the availability of a volume of funding able to sustain its lending and investment activities.

The valuation of the core deposits is calculated by determining the expected profit margin, also taking account of other profit components directly related to deposits (commissions and management costs). This margin also takes account of the development of deposit rates and market rates and the trend in funds deposited. The valuation of assets presumes the identification of the structural component of deposits that have enough stability, excluding components that are highly volatile or, nonetheless, non-recurring. The intangible asset is considered finite life given that its valuation considers solely relationships in place at the acquisition date and not even the capacity to replace/ generate new relationships. The fair value of this asset is calculated through the discounting of profit margins generated by deposits over a period equal to the residual expected duration of the relationships in place at the acquisition date.

With reference to indirect deposits, an additional component was identified with the characteristics to be recorded in the "client relationship", attributable to the custody and administration of securities and the distribution of both financial and insurance products of third parties that Banca Popolare di Marostica carried out through its network. These two components were also considered finite life, given strictly related to the relationship with the end customer. The valuation was performed exclusively with reference to the relationships in place at the acquisition date. Also in this case, the fair value was calculated through the discounting of flows representative of profit margins generated by the asset over a period which conveys the residual expected duration of the relationships.

In respect of "core deposits" and indirect deposits, an intangible asset was recognised attributable to the overall "Client Relationship" in item "120. Intangible assets" of the balance sheet and amortisation (included in item "180. Net

losses/recoveries on impairment of intangible assets" in the income statement) is calculated on a straight-line basis over the period of flow of greater significance of the economic benefits expected from the asset (23 years).
On an annual basis, the aforementioned intangible assets are tested for impairment to verify, through a new calculation of their value in use using the same methods outlined above, the recoverability of the residual amount booked to the financial statements.
The difference between the total cost of the acquisition and the fair value of the assets and liabilities was allocated to goodwill under item "120. Intangible assets".
The table below provides a summary of the allocation of the cost of acquisition of the Banca Popolare di Marostica Group:

Main data relating to the combination ***(thousands of Euro)***	**01.04.2015**
Share capital increase	
– Number of shares issued by Banca Popolare · Volksbank for Banca Popolare di Marostica	6,656,253
– Unit price of Banca Popolare · Volksbank shares	19.55
Purchase cost (A)	130,197
Shareholders' equity of Banca Popolare di Marostica (B) (*)	50,673
Difference to be allocated (A – B)	**79,457**
– loans to customers	(23,312)
– property	(6,024)
– provision for employee termination indemnities	108
Fair value of assets and liabilities	**(29,228)**
– client relationship	(22,077)
Intangible assets booked	**(22,077)**
Deferred taxes	16,480
Difference from cancellation of equity investment in Banca di Treviso	14,579
Goodwill (**)	**59,210**
Difference allocated	**79,457**

(*) Shareholders' equity of Banca Popolare di Marostica stood as at 31 March 2015.
(**) The goodwill booked at the time of the allocation relates exclusively to the incorporation of the Banca Popolare di Marostica Group and does not include the goodwill already recorded in Banca Popolare · Volksbank's financial statements amounting to 40.4 million.

Merger by incorporation of Banca di Treviso

As part of the incorporation under common control of Banca di Treviso, completed on 5 October 2015, Banca Popolare · Volksbank performed a share capital increase of Euro 402.280, through the issuing of 100.570 ordinary shares with a nominal value of Euro 4.00 each, each attributed to the shareholders of Banca di Treviso based on a share swap ratio of 0,052 ordinary Banca Popolare · Volksbank shares with a nominal value of Euro 4.00 for every ordinary Banca di Treviso S.p.A. share with a nominal value of Euro 1.00 each. The ordinary Banca di Treviso shares held by Banca Popolare · Volksbank were cancelled.
The newly issued shares were assigned to Banca di Treviso shareholders on 5 October 2015, with the simultaneous cancellation of Banca di Treviso shares held by them. As of said date, the merged company was struck off the Business Register and the winding-up of the associated corporate bodies became effective. As of said date, the merging company took over all rights and obligations of the merged company.
The accounting and tax effects of the transaction were backdated to 1 April 2015, the date control of Banca di Treviso was acquired.

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

No business combinations were carried out after the end of the financial year.

Section 3 RETROSPECTIVE ADJUSTMENTS

No retrospective adjustments were made during the financial year.

PART H INFORMATION ON REMUNERATION AND 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)	**31.12.2015**
Directors	1,132
Key personnel	3,591
Statutory Auditors	504
Total	**5,227**

Remuneration of key personnel ***(thousands of Euro)***	**31.12.2015**
of which	
– short-term benefits	2,849
– post-retirement benefits	272
– long-term benefits	200
– employment termination benefits	270
– share-based payments	–
Total	**3,591**

The amount refers to the total cost incurred by the Company. Where the statutory auditors are remunerated, the amounts also include any VAT due.

2. Disclosure on transactions with related parties

Based on the specifications of IAS 24, applied to the bank's organisational and governance structure, the following natural and juridical persons are considered related parties:

- subsidiaries, companies over which the Bank directly or indirectly exercises control, as defined by IAS 27;
- associates, companies in which the Bank directly or indirectly exercises significant influence, as defined by IAS 28;
- joint ventures, companies over which the Bank directly or indirectly exercises joint control, as defined by IAS 31;
- the key management personnel and the supervisory body, i.e. the Directors, the Statutory Auditors, the General Manager, the Deputy General Manager;
- the other related parties, which include:
  - second degree close relatives and spouse or common-law spouse and children of Directors, Statutory Auditors, General Manager and the Deputy General Manager of the Bank;
  - subsidiaries, subject to joint control, or subject to significant influence by Directors, Statutory Auditors, the General Manager, and the Deputy General Manager of the bank. as well as their close relatives, as previously defined.

Transactions with subsidiaries and associated companies

The main balance sheet and income statement transactions in place with subsidiaries and associated companies are shown below.

Transactions with subsidiaries

(thousands of Euro)	**Loans granted**	**Subscribed bonds**	**Loans obtained**	**Bonds issued**	**Guarantees**	**Commitments**
31.12.2015	2,820	–	–	–	202	–
Impact	0.04%	0.00%	0.00%	0.00%	0.05%	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**
2015	34	–	–	–	24	–
Impact	0.02%	0.00%	0.00%	0.00%	0.03%	0.00%

Transactions with associated companies

(thousands of Euro)	**Loans granted**	**Subscribed bonds**	**Loans obtained**	**Bonds issued**	**Guarantees**	**Commitments**
31.12.2015	5,253	–	303	–	–	–
Impact	0.08%	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**
2015	160	–	(15)	–	13	–
Impact	0.08%	0.00%	(0.02%)	0.00%	0.02%	0.00%

Transactions with Directors, Statutory Auditors and Members of the General Management

The main balance sheet and income statement transactions in place with Directors, Statutory Auditors and members of General Management are reported hereunder.

(thousands of Euro)		**Directors**		**Statutory Auditors**		**Strategic managers**		**Total**
		Direct	**Indirect**	**Direct**	**Indirect**	**Direct**	**Indirect**	
Agreed credit limit		1,441	86,110	3,217	16,483	736	93	108,081
Commitments		1,128	56,105	3,202	14,652	667	91	75,845
	Impact	0.02%	0.87%	0.05%	0.23%	0.01%	0.00%	1.18%
Credit commitments		–	9,434	–	279	–	–	9,713
	Impact	0.00%	2.19%	0.00%	0.06%	0.00%	0.00%	2.25%
Direct funding		1,299	37,742	76	1,417	335	408	41,277
	Impact	0.19%	5.56%	0.01%	0.21%	0.05%	0.06%	6.08%
Indirect funding		1,323	9,393	34	52	82	159	11,043
	Impact	0.04%	0.31%	0.00%	0.00%	0.00%	0.01%	0.36%
Interest income		25	1,584	70	320	0	1	2,000
	Impact	0.01%	0.80%	0.04%	0.16%	0.00%	0.00%	1.01%
Interest expense		(11)	(491)	(2)	(11)	(4)	(4)	(523)
	Impact	(0.02%)	(0.75%)	(0.00%)	(0.02%)	(0.01%)	(0.01%)	(0.80%)
Fee and commission income and other income		3	216	4	96	–	1	320
	impact	0.00%	0.25%	0.00%	0.11%	0.00%	0.00%	0.37%

3. Management of transactions with Related Parties

Transactions with related parties are governed by the Consob Regulation pursuant to resolutions nos. 17221 of 12 March 2010 and 17389 of 23 June 2010 and the Provisions of the Bank of Italy dated 12 December 2011 "Risk assets vis-a-vis related parties".

The bank adopted – by means of a Board resolution, wit the prior favourable opinion of the Committee of independent directors and the Board of Statutory Auditors – the internal regulation called "Risk assets and conflicts of interest vis-a-vis related parties and the associated policies governing controls" authorised by the Board of Directors on 23 October 2015, published on the websites www.bancapopolare.it and www.volksbank.it.

Transactions with related parties, identified in accordance with the provisions of IAS 24, of the aforementioned Consob Regulation and of the provisions of the Bank of Italy, fall under the normal operations of the Bank.

No transactions entered into with related parties during the period in question had a significant impact on the balance sheet or income statement results of the bank. In addition, no changes and/or developments were recorded in related party transactions completed by 31 December 2015.

In 2015, no significant non-recurring transactions subject to the regulations governing associated parties/related parties were entered into. Furthermore, during the same period of time, there were no positions or transitions, i.e. those that do not form part of the normal day to day operations of the company, and which, due to their significance and/or relevance, nature of the counterparties, methods for calculating the transfer price or timing of the event, could give rise to doubts regarding the completeness of the information in the financial statements and safeguarding of the company assets and protection of shareholders.

PART I SHARE-BASED PAYMENT ARRANGEMENTS

As at the balance sheet date, there are no share-based payment arrangements.

PART L SEGMENT REPORTING

The disclosure concerning operating segments was prepared in accordance with the specifications of IFRS 8, which came into force starting from 2009, which provides for presentation of the disclosures consistent with the methods adopted by Bank management for making operational decisions. Therefore, the operating segments identified 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 analysing 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 identifying 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	16,423	104,020	12,035	–	132,478
Net fee and commission income	32,219	45,657	(334)	–	77,542
Financial margin	–	–	32,260	–	32,260
Net interest and other banking income	**48,642**	**149,677**	**43,961**	**–**	**242,280**
Net losses/recoveries on impairment	(636)	(45,429)	(421)	(1)	(46,487)
Net income from financial activities	**48,006**	**104,248**	**43,540**	**(1)**	**195,793**
Administrative expenses	–	–	–	(184,763)	(184,763)
Provisions for risks and charges	–	–	–	(6,187)	(6,187)
Amortisation of intangible assets and depreciation of property and equipment	–	–	–	(8,467)	(8,467)
Other operating income/expenses	–	–	–	26,821	26,821
Profits (losses) on investments in associates and companies subject to joint control / on disposal of investments	–	–	–	216	216
Income (loss) before tax from continuing operations	**48,006**	**104,248**	**43,540**	**(172,381)**	**23,413**

Analysis by business segments: balance sheet figures

(thousands of Euro)	Private individuals	Companies	Finance	Other	Total
Due from banks	–	–	44,804	–	44,804
Loans to customers	2,090,432	4,180,666	176,773	–	6,447,871
Own securities and investments	–	–	1,601,475	–	1,601,475
Due to banks	–	–	838,463	–	838,463
Direct funding	4,447,692	1,705,673	485,313	149,691	6,788,369
– Due to customers	2,964,788	1,620,573	482,313	140,316	5,207,990
– Securities issued	1,482,904	85,100	3,000	9,375	1,580,379
Indirect funding	2,908,197	131,052	–	–	3,039,249

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.

ANNEXES TO THE 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 2015 financial year for auditing services and for those other than auditing paid to the Independent Auditors or to companies within its network are shown below.

Type of service *(thousands of Euro)*	**Party that performed the service**	**Beneficiary**	**Consideration (1)**
Independent Audit	BDO Italia S.p.A.	Banca Popolare · Volksbank	78
Certification services	BDO Italia S.p.A.	Banca Popolare · Volksbank	26
Total			**104**

(1) The amounts are net of VAT and accessory expenses.

Financial Statements of the subsidiary VOBA Invest S.r.l. in liquidation

VOBA Invest S.r.l. in liquidation

Voba Invest S.r.l. – Single shareholder company in liquidation
Offices in Bolzano (BZ) Italy, Macello no. 55
Share capital of Euro 30,000, fully paid in
Listed in the Bolzano Business Register
Tax code 03340170277
A company under the management and coordination of
Banca Popolare dell'Alto Adige Soc. Coop. p.a. with registered offices in Bolzano – Italy

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2015
BALANCE SHEET

(amounts in Euro)

ASSETS	31.12.2015	31.12.2014
A. Share capital not paid in	**–**	**–**
B. Fixed assets		
I. Intangible assets		
II. Property and equipment		
1. Land and buildings	184,076	209,440
4. Other assets	29	182
Total	184,105	209,622
III. Financial investments		
1. Investments in:		
b. associated companies	1	1
3. Other securities	100	100
Total	*101*	*101*
Total fixed assets (B)	**184,206**	**209,723**
C. Current assets		
I. Inventories		
4. Finished products and goods for resale	1,124,277	1,110,274
Total	1,124,277	1,110,274
II. Loans and receivables		
1. Due from customers	1,221	1,897
3. From associated companies	32,465	–
4.bis Tax receivables	108,519	114,468
5. Other	66,595	6,065
Total	208,800	122,430
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)	**1,333,135**	**1,232,762**
D. Accrued income and prepayments	**8,449**	**10,300**
TOTAL ASSETS	**1,525,790**	**1,452,785**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2015
BALANCE SHEET

(amounts in Euro)

LIABILITIES			31.12.2015	31.12.2014
A. Shareholders' equity				
	I.	*Share capital*	30,000	30,000
	IV.	*Legal reserve*	–	6,000
	VII.	*Other reserves*		
	15.	Reserves from rounding off		
	16.	Reserves from tax amnesty		
	17.	Sundry other reserves	(45,000)	(45,000)
	VIII.	*Retained earnings/(accumulated losses)*	(182,378)	26,025
	IX.	*Net income (loss)*	(80,018)	(214,403)
	Total		**(277,396)**	**(197,378)**
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	1,739,252	1,573,053
	7.	Trade payables	525	13,701
	12.	Tax payables	–	–
	14.	Other payables	18,409	18,409
	Total		**1,758,186**	**1,605,163**
TOTAL LIABILITIES			**1,525,790**	**1,452,785**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2015
INCOME STATEMENT

(amounts in Euro)

INCOME STATEMENT ITEMS	31.12.2015	31.12.2014
A. Production value		
1. Revenues from sales and services	17,133	19,922
2. Change in inventories of work in progress semi-finished and finished products	14,003	1,026,621
5. Other revenues and income	9,179	4,677
Total	40,315	1,051,220
B. Production costs		
6. Raw, ancillary and consumable materials and goods for resale	–	1,026,008
7. Services	57,649	55,383
8. Use of third party assets	24,603	12,435
9. Personnel:		
a. salaries and wages	–	–
b. social security costs	–	–
e. other costs	–	–
10. Amortisation, depreciation and write-downs		
b. depreciation of property and equipment	*25,518*	*25,653*
d. write-down of current receivables and of liquid funds	–	*135,000*
	25,518	160,653
14. Other operating charges	12,205	10,436
Total production costs	119,975	1,264,915
Difference between production value and costs (A-B)	**(79,660)**	**(213,695)**
C. Financial income and expenses		
15. Income from investments	–	–
of which from associated companies		
16. Other financial income		
d. income other than the above	*465*	–
of which from associated companies		
17. Interest and other financial charges	822	708
of which from associated companies		
of which from parent companies		
Total financial income and expenses	(357)	*(708)*
D. Adjustments/recoveries on investments		
E. Extraordinary income and expenses		
21. Charges	1	–
Total extraordinary items	(1)	–
Income before taxes (A-B+C+D+E)	(80,018)	**(214,403**)
22. Taxes on income – current, deferred and prepaid	–	–
23. NET INCOME (LOSS)	**(80,018)**	**(214,403)**

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, Macello no. 55
Share capital of Euro 10,000, fully paid in
Listed in the Bolzano Business Register
Tax code 2625480211
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 2015
BALANCE SHEET

(amounts in Euro)

ASSETS	31.12.2015	31.12.2014
A. Share capital not paid in	**–**	**–**
B. Fixed assets		
I. Intangible assets	–	–
II. Property and equipment		
1. Land and buildings	*2,812,642*	*2,831,797*
4. Other assets	*1,246,054*	*1,310,410*
5. Construction in progress and advances		*50,000*
Total	*4,058,696*	*4,192,207*
III. Financial investments		
Total fixed assets (B)	**4,058,696**	**4,192,207**
C. Current assets		
I. Inventories		
II. Loans and receivables		
1. Due from customers	*236,686*	*124,371*
4.bis Tax receivables		*20,439*
5. Other	*699,459*	*700,359*
Total	*936,145*	*845,169*
III. Financial assets under current assets		
IV. Cash and cash equivalents		
1. Bank and post office deposits	*11,375*	*12,212*
3. Cash and equivalents on hand		*302*
Total	*11,375*	*12,514*
Total current assets (C)	**947,520**	**857,683**
D. Accrued income and prepayments	**1**	**1**
TOTAL ASSETS	**5,006,217**	**5,049,891**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2015
BALANCE SHEET

(amounts in Euro)

LIABILITIES	31.12.2015	31.12.2014
A. Shareholders' equity		
I. Share capital	10,000	10,000
IV. Legal reserve		
VII. Other reserves		
11. Payments to cover losses	4,660	3,796
16. Reserves from tax amnesty		
VIII. Retained earnings/(accumulated losses)		
IX. Net income (loss)	143,568	(234,136)
Total	**158,228**	**(220,340)**
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	997,363	1,180,361
5. Due to banks	3,081,429	3,353,970
7. Trade payables	8,514	36,263
12. Tax payables	51,606	–
14. Other payables	532	225
Total	**4,139,444**	**4,570,819**
E. Accrued expenses and deferred income	**9,133**	**–**
TOTAL LIABILITIES	**5,006,217**	**5,049,891**

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2015
INCOME STATEMENT

(amounts in Euro)

INCOME STATEMENT ITEMS	31.12.2015	31.12.2014
A. Production value		
1. Revenues from sales and services	*215,151*	*113,065*
5. Other revenues and income	*320,673*	*31,341*
Total	535,824	144,406
B. Production costs		
6. Raw, ancillary and consumable materials and goods for resale	*15,246*	*15,501*
7. Services	*121,509*	*112,724*
10. Amortisation, depreciation and write-downs		
a. amortisation of intangible assets		
b. depreciation of property and equipment	*64,356*	*63,738*
	64,356	*63,738*
12. Provisions for risks		
14. Other operating charges	*40,291*	*2,195*
Total production costs	241,402	194,158
Difference between production value and costs (A-B)	**294,422**	**(49,752)**
C. Financial income and expenses		
16. Other financial income		
d. income other than the above		
17. Interest and other financial charges	145,163	184,384
Total financial income and expenses	(145,163)	(184,384)
D. Adjustments/recoveries on investments		
E. Extraordinary income and expenses		
Income before taxes (A-B+C+D+E)	**149,259**	**(234,136)**
22. Taxes on income – current, deferred and prepaid	(5,691)	
23. NET INCOME (LOSS)	**143,568**	**(234,136)**

Banca Popolare
Volksbank