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FINANCIAL STATEMENTS

Volksbank

Banca Popolare dell’Alto Adige
Joint-stock company

Registered office and head office: Via del Macello, 55 – I-39100 Bolzano
Share Capital as at 31 December 2017: Euro 199,439,716 fully paid in
Tax code, VAT number and member of the Business Register of Bolzano no. 00129730214
The bank adheres to the inter-bank deposit protection fund and the national guarantee fund
ABI 05856.0
www.volksbank.it

Das war 2017

Die Volksbank hat das Geschäftsjahr 2017 mit einem sehr guten Bilanzergebnis abgeschlossen. Es ist uns gelungen, in unserem Kerngeschäft quer über das gesamte Einzugsgebiet zu wachsen. Für unsere Aktionäre schlägt sich das erfreuliche Ergebnis in einer Dividende von 0,20 Euro/Aktie nieder.

Sehr geehrte Aktionäre

2017 haben wir ein sehr gutes Ergebnis für unsere Aktionäre erwirtschaftet. Unser Jahresgewinn liegt bei 24,3 Millionen Euro. Das Ergebnis ist für uns nicht überraschend: Wir sind quer über alle Provinzen, in denen wir tätig sind, gewachsen. Wir konnten bei Einlagen und Ausleihungen zulegen – das gilt für unseren Heimatmarkt Südtirol gleichermaßen wie für die anderen Provinzen, in denen wir tätig sind. Sowohl Zinsmarge als auch Kommissionsgeschäft sind 2017 gestiegen. Das ist angesichts des extrem niedrigen Zinsniveaus ein beachtliches Ergebnis.

Das Jahresergebnis ist eine sehr erfreuliche Botschaft für Sie, die Eigentümer der Bank. Nur eine Bank, die Gewinne macht, ist auch in der Lage, Dividenden auszuschütten. Der Verwaltungsrat der Volksbank schlägt der Hauptversammlung eine Dividende im Umfang von 0,20 Euro pro Aktie vor. Das entspricht einer Ausschüttungsquote von 40 Prozent und wir setzen damit die Dividendenpolitik der Bank um.

Wir haben 2017 hart und konsequent an unseren Zielen gearbeitet. Insbesondere ist es uns gelungen, die Zahl der Problemkredite deutlich zu reduzieren. Der Anteil der notleidenden Kredite ist unter 13 Prozent der Bruttokredite gesunken. Damit sind wir mehr als zufrieden. Im Vorjahr lag diese Quote noch bei 15,5 Prozent. Wir liegen damit deutlich besser, als wir es im Strategieplan als Ziel festgesetzt hatten. Der Deckungsgrad bei den notleidenden Krediten liegt bei 43,5 Prozent – ein guter Wert. All dies ist auf umfassende Maßnahmen im Workout, d. h. der Kreditabwicklung, zurückzuführen. Darüber hinaus haben wir in Summe rund 55 Millionen Euro an Wertberichtigungen getätigt.

2017 haben wir die ersten Früchte aus der Integration der Banca Popolare di Marostica geerntet. Der Integrationsprozess ist nun endgültig abgeschlossen – der Kauf hat sich als eine strategisch gute Entscheidung sowie als gutes Investment erwiesen und ist Grundlage für neues Wachstum in den kommenden Jahren.

Zum Zeitpunkt, da ich diesen Aktionärsbrief schreibe, kann ich Ihnen von einem guten Start in das Geschäftsjahr 2018 berichten. Wir sehen laut Budget für das laufende Jahr einen Reingewinn von rund 34 Millionen Euro vor. Dieses Wachstum wollen wir bei anhaltender Kosten- und Risikodisziplin erreichen. Die Konjunktur zieht wieder an und die nötigen Weichen haben wir gestellt. Das heißt, die Volksbank hat das große Potenzial, weitere Marktanteile dazuzugewinnen und zu wachsen. Dies auch im Interesse unserer über 60.000 Aktionäre. Unser Ziel ist es – selbstverständlich immer auf Basis der geltenden aufsichtsrechtlichen Vorgaben – in den nächsten Jahren zwischen 40 und 50 Prozent der Gewinne als Dividende auszuschütten.

Die Volksbank-Aktie handelt seit vergangenem Herbst auf der Plattform Hi-MTF (MiM). Der Verwaltungsrat hat damals den Richtpreis bei 15,30 Euro/Aktie festgelegt. Dies ist der Buchwert der Bank (tangible book value) zum 31.12.2016.

Verwaltungsrat und Management nehmen keinen Einfluss auf die Preisbildung auf der Plattform – der Preis bildet sich durch Angebot und Nachfrage, bzw. durch die Käufe und Verkäufe auf der Plattform. Derzeit liegt der Preis unter dem Buchwert der Bank.

Unter welchen Voraussetzungen wird der Preis steigen? Es braucht eine höhere Nachfrage. Diese entsteht, wenn die Bank durch ihre guten Ergebnisse das Interesse der Anleger weckt. Verwaltungsrat und Management werden mit vollem Einsatz in diese Richtung arbeiten. Es braucht jedoch noch Zeit, bis der Einzelne diese Entwicklung in eine Anlageentscheidung übersetzt.

Danke für Ihre Unterstützung und Ihr Vertrauen.

Ihr

Otmar Michaeler
Präsident des Verwaltungsrates

„Die Volksbank hat mit dem ausgezeichneten Geschäftsergebnis von 2017 ihre Fähigkeit zur Wertschöpfung erneut unter Beweis gestellt und im Kerngeschäft sowohl Margen als auch Volumina deutlich gesteigert. Die Ziele des Strategieplans für 2018 mit einem angepeilten Nettogewinn von rund 34 Millionen Euro sind bestätigt, auch dank der sehr guten Performance im Vorjahr."

Otmar Michaeler

This was 2017

2017 closed with very positive financial results for Volksbank. We were able to strengthen our core business throughout our reference market. For the shareholders, this significant result translates into a dividend of Euro 0.20 per share.

Esteemed Shareholders,

In 2017 we achieved a very positive result for our shareholders. Profit reached Euro 24.3 million. This result does not surprise us: we recorded growth across all provinces in which we operate. Both funding and lending rose in our traditional market in Alto Adige, as well as in the other provinces in which we have a presence. The interest margin rose, as did net interest and other banking income. This is a truly remarkable result, if we take into account the extremely low level of interest rates.

The result for the year is a very positive indicator for you, who own the Bank. Only a profitable bank is capable of distributing dividends. The Board of Directors of Volksbank would therefore like to propose a dividend of Euro 0.20 per share to the shareholders' meeting. This corresponds to 40% of the profit, in line with the Bank's dividend policy.

In the course of the year, we worked with a constant commitment to achieving our preestablished objectives. In particular, we managed to considerably cut impaired loans, which declined to less than 13% of total gross loans. We can therefore consider ourselves more than satisfied. In the previous year, this share came to 15.5%. The result we achieved marked a clear improvement over what was estimated in the Business Plan. The coverage level for impaired loans was 43.5% - a positive figure. All of this was due to the significant initiatives taken in terms of loan work-outs and processing. We also recognised a total of Euro 55 million in value adjustments.

In 2017, we were able to take advantage of the initial benefits of the integration of Banca Popolare di Marostica. The merger process has now definitively concluded; the acquisition has shown itself to be a good strategic decision and a good investment, and will form the basis for new growth in the coming years.

We can also confirm that we have started the year 2018 on a positive note. According to the budget for the current year, we expect a net profit of roughly Euro 34 million. We are striving to achieve this growth through strict cost measures and stable risk governance. The economy is recovering and the path we are taking is the right one. This means that Volksbank will be able to grow and conquer additional market shares; also in the interest of our more than 60,000 shareholders. For the coming years, we are aiming - naturally always in compliance with regulatory and supervisory provisions in force - to distribute dividends amounting to between 40% and 50% of profits.

The Volksbank share has been traded on the Hi-MTF (soon to be named MiM) platform since last autumn. The Board of Directors determined an initial trading price of Euro 15.30, representing the tangible book value of the Bank at 31 December 2016.

The Board of Directors and the Management have no influence whatsoever over the formation of the price on the platform; the price is established by supply and demand factors. Currently, the bid price is lower than the book value of the Bank.

Under what conditions will the price begin to rise? It is necessary for demand to increase. And it will do so when the Bank, thanks to the robust results achieved, arouses investor interest. The Board of Directors and the Management will make great efforts to work in this direction. However, we need time for these developments to translate into investment decisions taken by individuals.

To conclude, I would like to thank you for your support and trust.

Sincerely,

Otmar Michaeler

Chairman of the Board of Directors

"With the excellent financial results achieved in 2017, Volksbank has again demonstrated its capacity to generate value, while in its core business it significantly boosted margins as well as volumes. The objectives of the 2018 Business Plan which, inter alia, call for a net profit of roughly Euro 34 million, are confirmed, also thanks to the good performance in the previous year".

Otmar Michaeler

2017 ANNUAL FINANCIAL REPORT

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VOLKSBANK
OUR NETWORK

BANCA POPOLARE DELL'ALTO ADIGE
Joint-stock company
Member of the Business Register of Bolzano, no. 00129730214
The bank adheres to the inter-bank deposit protection fund ABI 05856.0

HEAD OFFICE AND BRANCHES

Bolzano, Via del Macello 55 – Bozen, Schlachthofstraße 55
Tel. + 39 0471 – 996111 – Telefax 0471 – 979188
www.volksbank.it – gsinfo@volksbank.it

BRANCHES

BOLZANO PROVINCE	
Appiano – Eppan Via J. G. Plazer 56 - J.-G.-Plazer-Straße 56	tel. 0471-944270
Bolzano – Bozen Galleria Telser 1 - Telsergalerie 1	tel. 0471-944190
Bolzano – Bozen Piazza Mazzini 2 - Mazziniplatz 2	tel. 0471-944020
Bolzano – Bozen Via C. Augusta 5 - C.-Augusta-Straße 5	tel. 0471-944250
Bolzano – Bozen Via del Macello 55 Schlachthofstraße 55	tel. 0471-944310
Bolzano – Bozen Via del Ronco 15 Neubruchweg 15	tel. 0471-944260
Bolzano – Bozen Via Galvani 3/f - Galvanistraße 3/f	tel. 0471-944320
Bolzano – Bozen Via Leonardo da Vinci 2 Leonardo-da-Vinci-Straße 2	tel. 0471-996151
Bolzano – Bozen Via Resia 132/b Reschenstraße 132/b	tel. 0471-944290
Bolzano – Bozen Via Roma 45 - Romstraße 45	tel. 0471-944200
Bolzano – Bozen Viale Druso 64 - Drususallee 64	tel. 0471-944340
Bolzano – Bozen Vicolo Gumer 7 (administrative branch) Gumergasse 7 (Schatzamtsschalter)	tel. 0471 996123
Bressanone – Brixen Portici Maggiori 2 Große Lauben 2	tel. 0472-811213
Bressanone – Brixen Via J. Durst 28 J.-Durst-Straße 28	tel. 0472-811600
Bressanone – Brixen Via Plose 38/b Plosestraße 38/b	tel. 0472-811560
Brunico – Bruneck Bastioni 24 - Graben 24	tel. 0474-544700
Brunico – Bruneck Via S.Nicolò 14 St.-Nikolaus-Straße 14	tel. 0474-544790
Cadipietra – Steinhaus Cadipietra 105 Steinhaus 105	tel. 0474-544800
Caldaro – Kaltern Piazza Principale 13 Marktplatz 13	tel. 0471-944220
Caldaro – Kaltern Via Stazione 10 Bahnhofstraße 10	tel. 0471-944230
Campo Tures - Sand in Taufers Via Municipio 4 Rathausstraße 4	tel. 0474-544740
Chienes – Kiens Via Chienes 1 - Kiener Dorfweg 1	tel. 0474-544730
Chiusa – Klausen Piazza Tinne 5 - Tinneplatz 5	tel. 0472-811540
Dobbiaco – Toblach Viale S. Giovanni 23 St.-Johannes-Straße 23	tel. 0474-544770
Egna – Neumarkt Largo Municipio 32 Rathausring 32	tel. 0471-944280
Fiè allo Sciliar - Völs am Schlern Via Bolzano 3 Bozner Straße 3	tel. 0471-944080
Fortezza – Franzensfeste Via Brennero 7/c Brennerstraße 7/c	tel. 0472-811530
La Villa – Stern Via Colz 56 - Colz Straße 56	tel. 0471-944010
Laces – Latsch Via Stazione 1/b Bahnhofstraße 1/b	tel. 0473-254440
Laives – Leifers Via Kennedy 123 Kennedystraße 123	tel. 0471-944240
Lana Piazza Tribus 17 - Tribusplatz 17	tel. 0473-254350
Lasa – Laas Via Venosta 44 - Vinschgaustraße 44	tel. 0473-254310
Lazfons – Latzfons San Giacomo 3 - St. Jakob 3	tel. 0472-811620
Luson – Lüsen Vicolo Dorf 19 - Dorfgasse 19	tel. 0472-811590
Malles Venosta – Mals Via Stazione 9/b Bahnhofstraße 9/b	tel. 0473-254400
Merano – Meran Piazza del Grano 3 - Kornplatz 3	tel. 0473-254111
Merano – Meran Via Goethe 74/a Goethestraße 74/a	tel. 0473-254300
Merano – Meran Via Matteotti 43 Matteottistraße 43	tel. 0473-254330
Merano – Meran Via Monte Tessa 34 Texelstraße 34	tel. 0473-254390
Merano – Meran Via Roma 278 Romstraße 278	tel. 0473-254420
Monguelfo – Welsberg Via Parrocchia 13 Pfarrgasse 13	tel. 0474-544750
Naturno – Naturns Via Principale 37/b Hauptstraße 37/b	tel. 0473-254370
Nova Levante – Welschnofen Via Roma 8 Romstraße 8	tel. 0471-944090
Ora – Auer Via Stazione 8 - Bahnhofstraße 8	tel. 0471-944040
Ortisei - St. Ulrich Piazza S. Durich 3 S.-Durich-Platz 3	tel. 0471-944330
Racines – Ratschings Stanghe 18 Stange 18	tel. 0472-811610
Renon – Ritten Via del Paese 14, Frazione Collalbo Dorfstraße 14, Fraktion Klobenstein	tel. 0471-944370
Rio di Pusteria – Mühlbach Via K. Lanz 50 K.-Lanz-Straße 50	tel. 0472-811520
Rio di Pusteria – Mühlbach Via Konrad von Hobe 1 Konrad-von-Hobe-Straße 1	tel. 0472-811660
S. Leonardo in Passiria - St. Leonhard in Passeier Via Passiria 14 - Passeirer Straße 14	tel. 0473-254380
S. Lorenzo di Sebato - St. Lorenzen Via Josef Renzler 17 - Josef-Renzler-Straße 17	tel. 0474-544780
Scena – Schenna Piazza Arciduca Giovanni 7 Erzh.-Johann-Platz 7	tel. 0473-254430
Selva Gardena – Wolkenstein Via Meisules 155/a Meisulesstraße 155/a	tel. 0471-944000
Silandro – Schlanders Via Covelano 10 Göflaner Straße 10	tel. 0473-254410

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

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

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

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

TRENTO PROVINCE	
Ala Via della Roggia 10	tel. 0464-912520
Arco Via S. Caterina 20	tel. 0464-912510
Borgo Valsugana Via Hippoliti 11/13	tel. 0461-211060
Cavalese Viale Libertà 7	tel. 0462-248500
Cles Piazza Navarrino 16/17	tel. 0463-840510
Fondo Via Cesare Battisti 39	tel. 0463-840500
Lavis Via Rosmini 65	tel. 0461-211070
Mezzolombardo Via A. Degasperi 4	tel. 0461-211030
Moena Piaz de Ramon 24	tel. 0462-248510
Mori Via della Terra Nera 48/d	tel. 0464-912500
Pergine Viale Venezia 44	tel. 0461-211050
Riva del Garda Viale Damiano Chiesa 4/g-h	tel. 0464-912560
Rovereto Via G. M. Della Croce 2	tel. 0464-912530
Tione Via Circonvallazione 56	tel. 0465-338500
Trento Piazza Lodron 31	tel. 0461-211000
Trento Via Brennero 302/a	tel. 0461-211080
Trento Via Enrico Fermi 11	tel. 0461-211090
Villa Lagarina Via degli Alpini 8	tel. 0464-912540

TREVISO PROVINCE	
Casale Sul Sile Via G. Marconi 3	tel. 0422-508170
Castelfranco Veneto Borgo Treviso 62	tel. 0423-974610
Conegliano Via Cavour 11	tel. 0438-907770
Conegliano Via Cesare Battisti 5	tel. 0438-907740
Crocetta del Montello Via Andrea Erizzo 64	tel. 0423-974620
Loria - Ramon di Loria Via Poggiana 4	tel. 0423-974670
Mogliano Veneto Via degli Alpini 16/g/f/e	tel. 041-5446660
Montebelluna Via Montegrappa 24/c	tel. 0423-974660
Motta Di Livenza - Via P. L. Bello/Ang. Via Cigana 1	tel. 0422-508180
Oderzo Via degli Alpini 24/26	tel. 0422-508100
Paese Via Cesare Battisti 3	tel. 0422-508140
Pieve di Soligo Via Nubie 3/d	tel. 0438-907700
Preganziol Piazza Gabbin 16	tel. 0422-508120
Quinto Di Treviso Via Vittorio Emanuele 11	tel. 0422-508190
S. Zenone Ca' Rainati Via Montegrappa 32	tel. 0423-974630
Spresiano Piazza Luciano Rigo 49	tel. 0422-508130
Treviso Viale Brigata Treviso 1	tel. 0422-508210
Treviso Via San Vito 12	tel. 0422-508150
Treviso Viale IV Novembre 13/a	tel. 0422-508110
Treviso Viale Montegrappa 46	tel. 0422-508201
Valdobbiadene Foro Boario 21-23-13	tel. 0423-974600
Vittorio Veneto Galleria Tintoretto 3	tel. 0438-907710

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

VICENZA PROVINCE	
Asiago Piazza Carli 42	tel. 0424-596090
Bassano Del Grappa Piazza Garibaldi 8	tel. 0424-596100
Bassano Del Grappa Piazzale Firenze 2	tel. 0424-596060
Bassano Del Grappa Villaggio S. Eusebio 94/a	tel. 0424-596080
Belvedere di Tezze sul Brenta Via Nazionale 47	tel. 0424-596020
Breganze Piazza Mazzini 2	tel. 0445-617050
Breganze Via S. Felice 21 – Loc. Maragnole	tel. 0445-617020
Bressanvido Via Roma 94	tel. 0444-577000
Calvene Via Roma 22	tel. 0445-617030
Camisano Vicentino Piazza Pio X 2	tel. 0444-577010
Cassola Via Martiri del Grappa 3	tel. 0424-596040
Cassola Via Pio X/Angolo G. D'Arezzo – Loc. S. Giuseppe	tel. 0424-596240

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

CORPORATE OFFICERS AND INDEPENDENT AUDITORS

BOARD OF DIRECTORS

Chairman
Otmar MICHAELER

Deputy Chairmen
Lorenzo SALVÀ (**)
Maria Giovanna CABION

Directors
Marcello ALBERTI (**)
Lorenzo BERTACCO (*) (***)
David COVI (*) (***)
Philip FROSCHMAYR
Lukas LADURNER (**)
Alessandro MARZOLA (***)
Giuseppe PADOVAN (**)
Margit TAUBER (*) (***)
Gregor WIERER (***)

GENERAL MANAGEMENT

General Manager
Johannes SCHNEEBACHER

Deputy General Manager
Stefan SCHMIDHAMMER

MANAGER RESPONSIBLE FOR THE PREPARATION OF CORPORATE ACCOUNTING DOCUMENTS

Alberto CALTRONI

INDEPENDENT AUDITORS

BDO Italia S.p.A.

BOARD OF STATUTORY AUDITORS

Chairman
Heinz Peter HAGER

Standing Auditors
Joachim KNOLL
Georg HESSE

Substitute Auditors
Emilio LORENZON
Markus WISTHALER

(*) Members of the Independent Directors Committee
(**) Members of the Credit Committee
(***) Members of the Risk Committee

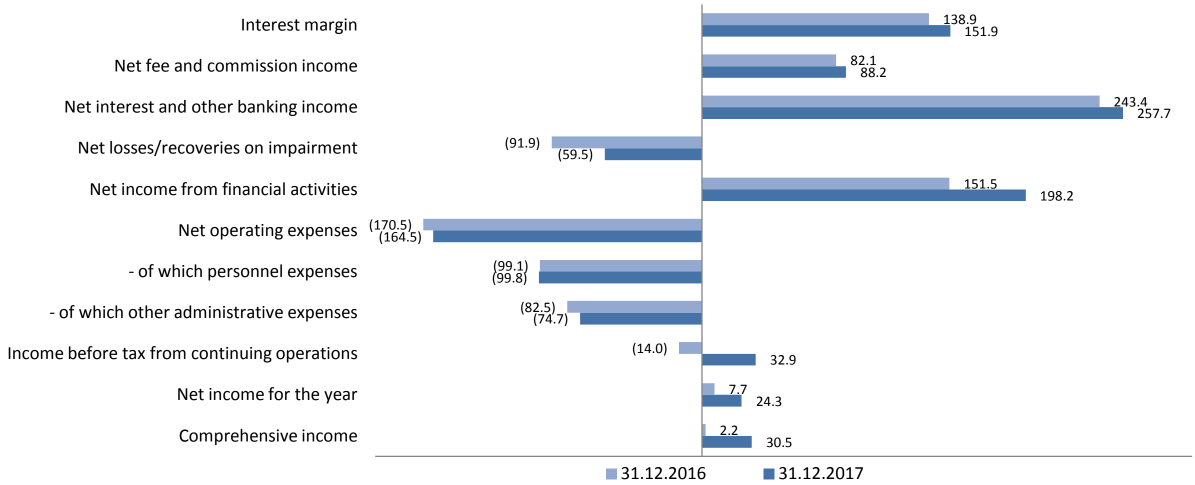
COMPANY REPORTS AND FINANCIAL STATEMENTS

SUMMARY DATA AND ALTERNATIVE PERFORMANCE INDICATORS

SUMMARY DATA AND ALTERNATIVE PERFORMANCE INDICATORS

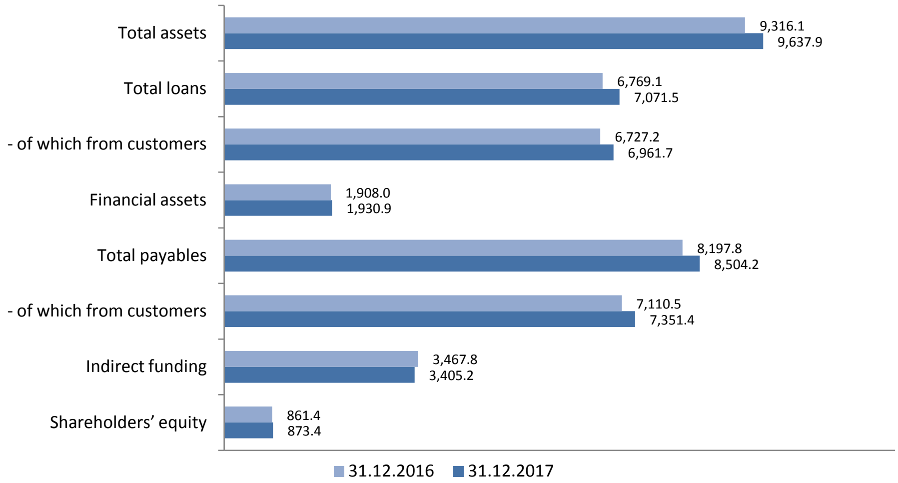
Below is an outline of bank data and ratios calculated on the basis of accounting records.

Main Income Statement Figures



Income Statement Figures	31.12.2017	31.12.2016	Changes	
(millions of Euro)			Abs.	%
Interest margin	151.9	138.9	13.0	9%
Net fee and commission income	88.2	82.1	6.1	7%
Net interest and other banking income	257.7	243.4	14.3	6%
Net losses/recoveries on impairment	(59.5)	(91.9)	32.4	-35%
Net income from financial activities	198.2	151.5	46.7	31%
Net operating expenses	(164.5)	(170.5)	6.0	-4%
- of which personnel expenses	(99.8)	(99.1)	(0.7)	1%
- of which other administrative expenses	(74.7)	(82.5)	7.8	-9%
Income before tax	32.9	(14.0)	46.9	-334%
Net income for the year	24.3	7.7	16.6	214%
Comprehensive income	30.5	2.2	28.3	1290%

Main Balance Sheet Figures



Balance Sheet Figures	**31.12.2017**	**31.12.2016**	**Changes**	
(millions of Euro)			**Abs.**	**%**
Total assets	9,637.9	9,316.1	321.9	3.5%
Total loans	7,071.5	6,769.1	302.3	4.5%
- of which to customers	6,961.7	6,727.2	234.5	3.5%
Financial assets	1,930.9	1,908.0	23.0	1.2%
Total payables	8,504.2	8,197.8	306.4	3.7%
- of which to customers	7,351.4	7,110.5	240.9	3.4%
Indirect funding	3,405.2	3,467.8	(62.6)	-1.8%
Shareholders' equity	873.4	861.4	11.9	1.4%

Main Ratios

Economic and financial ratios and other information	31.12.2017	31.12.2016
Financial Indicators		
Structural ratios		
Loans to customers / direct funding from customers (retail)	103.6%	103.7%
Fixed assets / total assets	2.7%	2.9%
Total risk-weighted assets (RWA) / total assets	62.6%	66.3%
Goodwill / total assets	1.0%	1.1%
Direct funding / total assets	76.3%	76.3%
Managed funding / indirect funding	65.0%	56.0%
Leverage ratio (transitional)*	6.95	6.95
Leverage ratio (fully phased)*	6.92	6.92
Inter-bank balance (thousands of Euro)	(1,040,914)	(1,043,090)
Number of employees	1,366	1,372
Number of bank branches	176	184
Profitability ratios		
ROTE and its components (**)		
1. ROA (net profit / total assets)	0.3%	0.1%
- interest margin/total assets	1.6%	1.5%
- non-interest income/total assets	1.3%	1.4%
- operating expenses/total assets	2.0%	2.1%
Net adjustments to loans / net loans to customers	0.7%	1.3%
- net other income/total assets	-0.2%	0.3%
- loans to customers/total assets	73.5%	74.6%
- ROA (before adjustments to loans)	0.8%	1.1%
2. Leverage (total assets/tangible equity)	12.6	12.8
- tangible equity/total assets	7.9%	7.8%
3. ROTE = ROA x Leverage	3.2%	1.1%
Cost to income ratio	65.6%	72.2%
Cost of risk (Net adjustments to loans / gross loans to customers)	70 BP	123 BP
Basic EPS (earnings per share - earnings per share basis)	0.49	0.16
Diluted EPS (earnings per share - earnings per diluted share)	0.49	0.15
Risk ratios		
Net non-performing loans / net loans to customers	7.8%	9.9%
Gross non-performing loans / gross loans to customers (***)	12.9%	15.5%
Texas ratio (net non-performing loans / tangible equity)	71.9%	90.3%
Degree of doubtful loan hedging (***)	53.7%	50.8%
Degree of non-performing loan hedging (***)	43.5%	40.2%
Degree of performing loan hedging	0.8%	0.8%
Regulatory capital (thousands of Euro) and capital ratios		
Common Equity Tier 1 (CET 1)	715,365	724,068
Total own funds	821,514	724,068
Total risk-weighted assets (RWA)	6,032,971	6,176,347
CET 1 Ratio - Tier 1 capital (transitional)	11.9%	11.7%
Total capital ratio - Total own funds (transitional)	13.6%	11.7%
CET 1 Ratio - Tier 1 capital (fully phased)	11.8%	11.7%
Total capital ratio - Total own funds (fully phased)	13.5%	11.7%
Non-Financial Indicators		
Productivity ratios (in Euro)		
Direct funding per employee	5,381,733	5,182,614
Loans to customers per employee	5,096,422	4,903,223
Assets under management per employee	1,620,554	1,416,168
Administered assets per employee	872,262	1,111,370
Net interest and other banking income per employee	188,625	177,376

(*) (*) The Leverage Ratio is defined as the ratio between a capital measure, in the numerator, and an exposure measure in the denominator. It is expressed as a percentage.
Leverage ratio = Capital measure/Exposure measure
For the leverage ratio, the capital measure is Tier 1 capital - comprehensive of the Common Equity Tier 1 and the additional Tier 1 instruments - as defined in the Basel 3 framework. The capital measure used for the leverage ratio is therefore the Tier 1 Capital applicable at each moment on the basis of the framework. The exposure measure for the leverage ratio is defined in line with the instructions of the Inter-bank Group at the Bank of Italy.
(**) ROTE - Expresses net profit as a ratio of average tangible equity. Tangible equity is calculated by deducting intangible assets from shareholders' equity.
(***) for doubtful loans the comparative figure relating to 2016 is restated net of default interest.

DIRECTORS' REPORT

DIRECTORS' REPORT

1.1 FINANCIAL ENVIRONMENT AND MARKETS ([1])

1.1.1 THE INTERNATIONAL AND NATIONAL ECONOMIC ENVIRONMENT

International Economy

The gradual trend reversal witnessed in the global economy starting in mid-2016 has continued to strengthen. Roughly 120 countries, equal to three-quarters of global GDP, grew in 2017, the broadest and most synchronised growth seen since 2010. Amongst the advanced economies, in 2017 growth was particularly positive in Germany, Japan, Korea and the United States. Growth has also been recorded amongst the key emerging markets and the major developing economies, including Brazil, China and South Africa. Current indicators and investor sentiment indicate that this trend is also expected to continue in 2018.
Growth has been particularly strong in recent months, supported by growth in investments, particularly amongst the advanced economies. Business sentiment indicators are positive, supported by positive development in the consumer confidence rate, at the basis of robust demand for consumption.
At October 2017, global trade recorded average growth of +4.3% compared to 12 months prior, a net increase compared to +1.4% in 2016.
Also in October 2017, industrial production recorded average growth of +3.4% compared to 12 months prior, up compared to +1.8% in 2016. In December 2017, the PMI3 indicator came to 54.4. The sub-index relating to the manufacturing sector rose from 54.1 to 54.5; while that relating to the services sector went from 53.7 to 53.9. In November 2017, global inflation rose from 3.6% to 3.8%, remaining above the average of 2016.
In December 2017, global stock exchanges showed increases of +2.1% on a monthly basis (+18.4% yoy). In the last 12 months, this market rose on average by +15.9% (compared to +15% in the previous month), a sizeable increase compared to -3.2% in 2016.
In 2017, economic growth, uncertainties in the Middle East and the extension of the OPEC+ agreement to limit production supported increasing oil prices, which rose by 20% above 60 dollars per barrel, a trend that continued in early 2018 as well.
In the month of December 2017, the price of oil was 63.6 dollars per barrel. In early 2018, prices remained stable. Futures prices take into consideration an oil price expected to fluctuate around 67 dollars in the coming months.
In the third quarter of 2017, GDP in the United States recorded an annualised quarterly change of +3.1%, a slight increase over the figure of +3% in the previous quarter. The unemployment rate in December 2017 stood at 4.1%, while the employment rate remained stable at 60.1%. In the third quarter of 2017, Chinese GDP grew +6.8% on an annual basis, marking a slight decline compared to the previous quarter (+6.9%). Price dynamics remained very limited, with the December report indicating +1.8% on an annual basis. Growth in Indian GDP in the third quarter of 2017 was +6.3%, down compared to +5.7% in the previous quarter. In November, inflation rose by 4.9%, up compared to +3.6% in the previous month.
In the third quarter of 2017, Brazil's GDP posted an improvement of +1.4% (compared to 0.8% in the previous quarter). Consumer inflation in December showed an annual variation of +2.1%, a net decline compared to 6.6% at the end of 2016. In the third quarter of 2017, Russian GDP grew +1.8%. Consumer price growth began to slow: in December, inflation recorded an annual rate of change of +2.5% (compared to 5.4% at the end of 2016).

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

Eurozone and Italy

In the third quarter of 2017, Eurozone GDP grew +2.4% on an annualised basis. Specifically, in the third quarter Germany posted growth of +3.3%, while France showed a slowdown to +2.2%. The OECD leading indicator relating to the Eurozone stood at 100.6 in October 2017, a slight increase compared to 99.9 twelve months prior.
Overall, industrial production in the Eurozone demonstrated a quarterly rise of +1% in November 2017, while the annual increase came to +3.3%. In November, the industrial production index dropped compared to October by -0.5% in France while it rose by +3.4% in Germany.
Compared to twelve months prior, production in Germany increased +5.7% and in France by +2.5%. In October, new manufacturing orders showed an increase in the Eurozone of +8.9%.
Retail sales in the Eurozone in November posted an annual growth trend of +2.7%, with a change of +1.5% on a quarterly basis. The business confidence index recorded a value of +9.1 in the Eurozone in December 2017. In the Eurozone, the consumer confidence index rose from 0 in November to +0.5 in December. The unemployment rate was 8.7% in the Eurozone in November 2017. In the second quarter of 2017, the employment rate rose to 66.3% (65.3% in the second quarter of 2016).
In November 2017, Eurozone inflation showed a change of +1.54% (+0.97% twelve months earlier). The core component (excluding the most volatile elements) for the same month instead demonstrated a smaller increase to +1.13% over +1.1% in the previous month (+0.37% in the same month in 2016).
In November 2017, on average the euro was worth 1.17 US dollars on a monthly basis. The British pound/euro exchange rate was 0.89 on average. Compared to the Swiss franc, the average exchange came to 1.16, while the Japanese yen recorded an average exchange of 132.42.

Monetary Policy

At its meeting on 14 December 2017, the European Central Bank left policy rates unchanged, with the reference rate (“refinancing rate”) at zero, the deposit rate at -0.40% and the marginal lending facility at 0.25%.
The forward guidance was also confirmed, which expects interest rates to remain at levels equal to the current rates for a prolonged period of time and well beyond the time horizon of net purchases of assets.
The ECB began to reduce its net asset acquisitions (“tapering”) starting in January; asset purchases declined to Euro 30 billion per month from Euro 60 billion in 2017. The ECB intends to maintain reference rates at current levels - at historical lows - until the end of quantitative easing. If inflation underperforms with respect to expectations, the ECB has confirmed that it will evaluate an extension of the asset buying plan in terms of amount as well as duration. The bond markets did not react significantly to this change in outlook, with yield curves showing a trend towards flattening when short-term rates rose more than long-term rates, in line with the still weak expectations of inflation growth. Equity prices in advanced economies continued to rise, with the support of generally favourable expectations concerning corporate profitability, the expectation of a gradual normalisation in monetary policies within a context of still weak inflation, and forecast volatility still weak in terms of the fundamentals.
According to the President of the ECB, in order to fully exploit the benefits deriving from monetary policy measures, other policies must provide a decisive contribution to the strengthening of longer-term growth potential and the reduction in vulnerabilities. In addition, the implementation of structural reforms will need to be accelerated considerably to consolidate the capacity to retain stability, reduce structural unemployment and strengthen growth potential and productivity in the Eurozone. Furthermore, he deems that stronger budget policies intended to achieve a better composition of public finances would provide a further contribution to economic growth.
In mid-2017, the Federal Reserve hiked interest rates, signalling that monetary policy tightening would continue, therefore confirming the expected path for interest rates. At the end of 2018, the Fed Funds rate should be between 2% and 2.25% (median of 2.125%), and at 3% at the end of 2019, corresponding to the level of long-term equilibrium.

At the start of November 2017 - for the first time since 2007 - the Bank of England raised interest rates to 0.5% from 0.25%, in order to limit inflation which had reached 3%, surpassing expectations and well above the 2% target specified by the BoE.
In December 2017, the three-month Euribor was confirmed as negative at -0.33% (-1 basis point compared to December 2016).

1.1.2 FINANCIAL MARKETS

The average benchmark rate on the 10-year maturity in December came to 2.41% in the US, 0.35% in Germany and 1.77% in Italy (1.89% twelve months earlier). The spread between the returns on 10-year Italian and German bonds was 142 basis points.
In December the Merrill Lynch financial bonds index showed a yield of 0.82% in the Eurozone and 3.08% in the United States.
In October 2017, gross government bond issues amounted to Euro 35.5 billion (Euro 42.6 billion in the same month of the previous year), while net issues were Euro +7.8 billion (Euro +8.2 billion the year before). Gross corporate bond issues amounted to Euro 8.6 billion (Euro 9 billion 12 months earlier), while net issues amounted to Euro 593 million (Euro -478 million 12 months prior). Gross bank bond issues amounted to Euro 4.8 billion (Euro 7.2 billion one year earlier), while net issues amounted to Euro -11.1 billion (Euro -4 billion one year prior).
The equity markets all recorded positive performance. On an annual basis, the Dow Jones Euro Stoxx rose by +8.1%, the Nikkei 225 by +19.3%, the Standard & Poor's 500 by +18.6%, the Cac40 by +12.7%, the London Stock Exchange's Ftse100 by +7.5%, the Dax30 by +16.5% and the Ftse Mib by +19.7%.
In December 2017, the capitalisation of the Eurozone stock market rose by +17.3% compared to one year before. Within the Eurozone, the capitalisation of the Italian stock market was 9% of the total, while France made up 30.9% and Germany 27.6%. Also in December, the overall capitalisation of the Italian stock market was equal to Euro 629 billion, up by Euro 129 billion compared to the end of 2016.

1.2 THE BANKING SYSTEM ([2])

1.2.1 BANK DEPOSITS

According to initial ABI estimates at the end of 2017, deposits of customers in all the banks in Italy, represented by resident customer deposits and net bonds, fell by Euro 158 million on an annual basis, marking a decline of -0.01%. Bank deposits from resident customers totalled Euro 1,727.9 billion, of which Euro 1,024.5 billion in deposits from customers and Euro 524.5 billion in bonds.
There continues to be a net difference between short-term and medium/long-term sources. Resident customer deposits at the end of 2017 rose +3.6% on an annual basis compared to the end of 2016, with an increase of Euro 50.5 billion in absolute value. At the end of 2017, deposits reached Euro 1,444.7 billion.
Bonds declined by -15.2% compared to the end of 2016 (Euro -51 billion). The amount of bonds is equal to roughly Euro 283.1 billion. The trend in deposits from abroad is also on the downturn: in particular, those of Italian banks came to around Euro 301 billion, 1% less than one year prior. In November 2017, net foreign deposits posted a yearly decline of -12.4%.
The harmonised statistics of the European System of Central Banks show that the average rate on bank deposits from customers amounted to 0.89% in December 2017. The deposit rate in Euros applied to families and non-financial companies stood at 0.39%, the rate on bonds was 2.60%, and the rate on repurchase agreements was 1.15%.

1.2.2 LOANS

The bank lending trend accelerated in December 2017; on the basis of initial estimates, total loans to residents in Italy came to Euro 1,785.9 billion, up by +2.4% compared to the end of 2016. Loans to residents in Italy in the private sector stood at +2.2%.

Loans to families and non-financial companies stood at Euro 1,376.5 billion also at the end of 2017. Loans to families and businesses grew by an estimated +2.3% annually, confirming the trend of total loans outstanding.

In November 2017, loans to non-financial companies were up by +0.3%. Industrial and service business investment plans are pointing to a further increase in expenditure (+2.8%). Compared to the March 2017 report, companies have stated that they are more optimistic about the current general economic situation and medium-term expectations have been confirmed as favourable. ISTAT's economic survey on the orders of manufacturing companies, referring to the first 9 months of 2017, shows a gradual improvement for the centre-north thanks to the recovery in domestic consumption and the positive trend in orders from abroad. In the south, more favourable expectations arose only in the third quarter and are firmly linked to domestic demand.
The yearly trend in loans to families marked growth of +2.8% on an annual basis in November 2017, while the total amount of outstanding mortgages to families recorded growth of +3.4%, confirming the recovery in the mortgage market.
The expansion of consumer credit is supported by rising spending on durable goods, while the expansion of mortgages for the purchase of homes benefitted from income growth, continuing low interest rates and favourable outlooks in the real estate market.
The distribution of bank credit by area of economic activity shows that manufacturing, mineral extraction, and services accounted for roughly 55.7% of the total in November 2017. Trade financing and loans to hospitality businesses represent around 21.3% of the total, while construction and agriculture account for 14.2% and 5.2%, respectively, of the total.
CERVED data show that in the second quarter of 2017 the signs of improvement already emerging in previous quarters were reinforced. Overall, between January and June, 36.5 thousand companies opened default or voluntary closure procedures, 5.3% less than in the previous year and the lowest level since 2009. The number of bankruptcies was down significantly. Between January and June 2017, 6,284 companies went bankrupt, 15.6% less than in the same period of 2016. The improvement was seen across the peninsula and in all economic sectors. Only the construction sector continues to have a high level of bankruptcies.
Lastly, according to the latest survey on bank credit in October 2017 (Bank Lending Survey), in the course of the third quarter of 2017 growth continued, although to a more limited extent, in trends of demand for loans for businesses linked to investments. The weighted average rate on the total of loans to families and non-financial companies calculated by the ABI was 2.69%, the all-time low, in December 2017. The interest rate on loans to families to buy homes remained at particularly low levels and equal to the all-time low of 1.90%. Also, the interest rate on new loans in Euro to non-financial companies stood at an historic low in December 2017 of 1.45%.

1.2.3 INTEREST RATE TREND

The spread between the average rate on loans and the average rate on deposits to families and non-financial companies was 180 BP in December 2017. On average in 2017, the differential was 1.84 bps.
Margins on loans to businesses recorded a value of 91 bps in Italy, roughly 133 bps in Germany, around 130 bps in France and around 182 bps in Spain. For the families segment, there was a margin of around 139 bps in Italy, roughly 177 bps in Germany, roughly 145 bps in France and around 177 bps in Spain.
At the end of the year, the differential between the average rate on interest-bearing assets denominated in Euro related to families and non-financial companies and the average rate on customer deposits from families and non-financial companies was 1.66 percentage points. In particular, at the end of the year, the average rate on interest-bearing assets related to families and non-financial companies was 2.55%, while the average rate on customer deposits from families and non-financial companies was 0.89%. On average in 2017, the differential was 1.62 percentage points.

([2]) Source: ABI Monthly Outlook

1.2.4 ADMINISTERED AND MANAGED ASSETS

The amount of total administered assets at Italian banks both managed and held directly, was equal to roughly Euro 1,211 billion, of which around 24.5% held by consumer families (annual change of -19.9%), 23.7% by financial institutions (-4.9%), 41.3% by insurance companies (annual change of +6.1%), 5.7% by non-financial companies (-0.2%) and about 2.7% by the public administration and family businesses.
Overall, the individual assets under management of banks, stock brokerage companies and UCITS in Italy stood at roughly Euro 821.4 billion at the end of the first half of 2017, an increase of +0.5% over one year earlier.
The assets under management of stock brokerage companies, amounting to around Euro 14.5 billion, marked a yearly change of +51.6% (Euro +4.9 billion compared to the end of the second quarter of 2016), while those of UCITS, equal to Euro 691 billion, showed a yearly change of -0.8% (Euro -5.7 billion compared to the end of the second quarter of 2016).
In November 2017, the open-end fund assets governed by Italian and foreign law rose to around Euro 1,007.4 billion (around Euro +3.6 billion from the previous month).
These assets are made up for 25.7% by Italian governed funds and for the remaining 74.3% by funds governed by foreign law.
In November 2017, the share of balanced funds amounted to 9.6% (against 8.3% one year earlier), that of flexible funds was 23.6% (from 24.2%), that of bond funds was 41% (it was 42.1%) and that of hedge funds, 0.4% (it was 0.5%). The share of money market funds declined from 4% to 3.3%. The share of equity funds rose from 20.9% to 22.1%.

1.2.5 FINANCIAL ASSETS OF FAMILIES

From an analysis of the latest available data on the financial assets of families in Italy, in the second quarter of 2017 this aggregate amounted to Euro 4,229 billion, a rise of 5.9% on an annual basis. The main trends of its components may be summarised as follows.
Stable and on the rise:
- the trend in banknotes, currency and bank deposits (both on demand and term) are up by +2.8% on a yearly basis. The percentage of this aggregate with respect to total financial assets of families is 31.4% (down slightly from 32.4% one year earlier);
- the proportion of mutual funds was up +8.1% on an annual basis, equivalent to 11.7% of total financial assets of families (up slightly compared to 11.4% in the same period of the previous year);
- life insurance, pension funds and post employment benefits are up by +12.2%. The percentage of this aggregate is 22.6% (21.3% in the same period of the previous year);
- shares and equity investments are up by +18% on an annual basis, and are equal to 22.8% of total financial assets (up compared to 20.4% twelve months earlier).

On the decline:
- bonds marked a decline (-18.9%), a trend shared by the bank component (-32.1%), while public bonds remained unchanged. The percentage of this aggregate with respect to total financial assets of families is 8% (10.4% in the previous year).

1.3 LONG-TERM TRENDS

1.3.1 DEVELOPMENT OF PRUDENTIAL REGULATIONS

Basel 3 has focused on the objectives of financial system stability, increasing the quality and quantity of regulatory capital as well as liquidity. It increased capital thresholds, with the Tier 1 capital increasing to 6% from the previous 4%, introducing additional capital buffers and minimum regulatory leverage requirements, introducing the Common Equity TIER 1 Ratio (“CET 1”) requirement of 4.5%.
Subsequent to the entry into force of Basel 3, the Basel Committee began to review the transparency and consistency of risk measures in the various approaches, in the various jurisdictions and in banks. In 2014, the Committee began the publication of proposals for the review of the standardised approach to credit risk (“SA”) and simpler approaches for the measurement of operational risk, which in 2016 resulted in the proposal of a new standardised approach (“SMA”) for the measurement of operational risk.
A discussion also began on the minimum thresholds (“floors”) of the IRB models, in the wake of observations concerning the broad variability of RWAs deriving from the application of internal models. In the meantime, the Basel Committee launched a review of the market risk framework, the fundamental review of the Trading Book (“FRTB”), the standard for which was published in January 2016.
The evolution towards the new set of rules, identified as “Basel IV”, will impact regulatory capital requirements, although the Group of Central Bank Governors and Heads of Supervision specified that it does not intend to significantly increase capital requirements at aggregate level. However, it recognised that the impact could be considerable for specific banks.
Some of the main foreseeable impacts of the new regulation include:

Initiatives	**Main potential impacts**
Requirements for the calculation of the determination of the endowment of own funds for market risks (“Fundamental Review Of Trading Book”)	Assuming the standardised approach to market risk increase in RWAs. Postponement of the entry into force of the FRTB from 2019 to 1 January 2022.
Standard approach for the weighting of credit risks (“Revised credit risk standardized approach – SA”)	Introduction of greater differentiation in risk weighting in place of lump-sum rates, in particular for residential and commercial property positions secured by mortgages depending on the loan and an expansion of valuation obligations in the case of the use of external ratings: - Regulatory risk weighting based on the rating; - Impact on positions that do not exceed the required minimum rating; - Greater weighting for the SME/Corporate sector; - Regulatory weights for mortgages based on loan-to-value, with an impact for exposures whose cash flows depend on the property; - Qualified revolving exposures and other retail non-SME exposures receive a weighting of 75%; - Exposures representative of equity and exposures to subordinated instruments receive a weighting of between 150% and 250%.
Abolition of the IRB method for specific asset classes	- Abolition of the advanced IRB principle for specific classes of positions, in particular for positions with large businesses and financial institutions: - Financial institutions fall within the F-IRB; - Large corporate with turnover exceeding Euro 0.5 bn fall within the F-IRB; - Specialised lending remains under the A-IRB; - Equity exposure falls within the standardised approach.
IRB RWA floor	Determination of the Output Floor for internal models at at least 72.5% of risk-weighted assets on the basis of standard approaches.
Revised operational risk	Replacement of the previous approach for the amount of own funds against operational risks (basic indicator approach, standard approach and institution specific approach) with a standard approach based on historical revenue and loss components.
IFRS 9	Impact on CET1 directly in shareholders’ equity due to higher provisions based on the revised expected-credit-loss model.
Leverage ratio	Adjustment of the methodology for calculating the Leverage Ratio and introduction of a Leverage ratio buffer for global systematically important banks (G-SIBs).

In addition, the banking system will need to deal with new regulatory adjustments and discussions which do not directly affect Pillar 1 requirements. These mandates include, inter alia, Risk Data Aggregation and IT (BCBC 239), the regulatory review on banking book interest rate risk ("IRRBB") and the introduction of the IFRS 9 accounting standard.
This new regulatory environment will require banks to develop significant implementation programs. Adequate resources will need to be planned to cover one-off costs and additional provisions. Furthermore, the additional capital requirements established by the supervisors, for example during the Supervisory Review and Evaluation Process ("SREP"), will increase the required capital thresholds, and in addition the new TLAC/MREL absorbing requirements will entail higher financing costs following the issue of new liability instruments capable of absorbing losses.
The Markets in Financial Instruments Directive II ("MiFID II") and the proposals of new European Union regulations to establish "Intermediate holding companies" similar to those required under US law will constitute a significant priority for banks. In addition, the second Payments Service Directive ("PSD2") may have significant effects, including in supranational contexts.
From the operational perspective, this regulatory evolution will require supplementing regulatory compliance objectives - in terms of responsibility and verifiability - with strategic initiatives like growth, operational simplification, risk management and cost efficiency. Compliance will need to be aligned with the business strategy. The positive integration of these objectives is critical for respecting compliance obligations and achieving adequate performance.
Regulatory compliance will also need to play a prominent role within the "portfolio of changes" that banks will have to implement and manage.

1.3.2 CUSTOMER EXPECTATIONS AND TECHNOLOGY CHANGES

The distribution of retail banking services relies, to an increasing extent, on the digital realm, with customers increasingly accessing services via smartphones and PCs. Advanced services such as advisor chat sessions and advisory services via remote video connection are also being adopted gradually. However, despite the increasing significance of digital service distribution, the retail banking market will not become entirely digital, and in the coming years direct contact will continue to be a relevant and pivotal component for the majority of customers.
The adaptation to this new distribution model is accelerated by increasing customer willingness to take advantage of these new channels. Innovation regarding the form of the distribution network, new formats, new customer contact methods, remote advisory services and sales through digital channels, are the areas in which greater growth is expected. Some of the main challenges forecast on the digital innovation front have already been identified:

- reforming the distribution strategy;
- introducing new channels;
- supporting a new approach to sales;
- introducing a digital component within all channels.

The progressive alteration of customer preferences will make it necessary to redefine distribution channels, in terms of target as well as functioning methods. These initiatives will need to be oriented towards ensuring that the mix of interactions with customers will increasingly acquire a digital and remote component. This shift towards digital channels will in part take place naturally, guided by changing customer preferences, and in part will be guided by the banks themselves.
The new role of the branch will be primarily to provide advisory services and manage/offer services connected with complex transactions, while progressively reducing the traditional focus on transactions and cash movements. This shift will be facilitated by the gradual optimisation of the branch layout and the distribution network structure. Several factors are capable of accelerating this change:

- the need to control costs will entail a progressive reduction in the share of employees dedicated to the offer of services and transactions;
- reallocation of branches to less burdensome locations which are easier for customers to access;
- branch automation with a complete set of tools, including ATMs, cash deposit systems, money counting machines, digital banking tablets, cash withdrawal stations, etc.;

- progressive orientation of branches towards solutions able to offer all services within a single location, or those specialised by individual segment or activity (advisory services, private banking, affluent customers, only retail).

Branch network optimisation requires a detailed customer analysis, aside from an analysis of the profit aspects linked to branch changes. The capacity to redesign and optimise the distribution network will be able to provide significant benefits in terms of volumes of traditional services provided, frequency of customer access and growth in the share of complex services rendered.

These changes will also require changes in the skills of people working in direct contact with customers, in terms of increased expertise and flexibility.

1.3.3 FINTECH

The Fintech sector continues to drive innovation in the banking sector by increasingly refining customer support solutions. The banking system will need to meet this challenge, along the lines of what Fintech companies are developing, by responding with equally innovative solutions and integrating and incorporating the most effective solutions, also through a mix of strategies leveraging on one hand customers capable of adapting to specific characteristics and on the other market positioning.

As things currently stand, although the Fintech sector has introduced significant elements of innovation capable of changing the competitive context, it has not yet significantly undermined the market leadership of banks, for which a significant disintermediation effect has not yet been observed. In this context, certain factors are particularly important, including the high degree of sector regulation, which constitutes a significant barrier to entry, the natural inertia of customers to change and the high amount of required capital.

However, the Fintech sector has shown that it is able to develop innovative solutions capable of raising the service level expected by customers. In any event, this new sector is potentially able to constitute a factor of profound change in the banking system. On one hand, the major tech players, which can enter the banking sector by directly acquiring banking companies, will need to adapt to regulatory compliance levels and acquire new customers, and on the other hand Fintech companies will be able to develop services supporting banks, particularly in the areas of data sourcing, data analytics and customer analysis systems.

Comprehension on the part of banks of the solutions developed by the Fintech sector will make it possible to rethink competitive benchmarking. Fintech and other technological companies are progressively entering various banking market segments (loans, payments, wealth management, etc.), leading to a natural evolution towards more advanced services and rendering the banking sector more resilient.

1.4 THE BUSINESS PLAN

On 4 November 2016, the Board of Directors decided on the 2017 - 2021 Strategic Plan, which identifies the guidelines and actions for the next few years.
The plan identified certain strategic levers, which are essential in realising the objectives established.
Growth in the Retail segment. The Bank envisages growth in the Small Business department and expansion of the base of Affluent customers by:
- simplification and standardisation of products and services offered;
- greater use of virtual channels and expansion of online banking;
- development of a mobile sales network and a commercial Contact Centre.

The implementation of these strategic initiatives will lead to the reduction of administrative activities as well as processes that are leaner and more robust. In the Retail segment, the plan provides for the maintenance of diversified credit risk and a rate spread that is higher than the Corporate segment.
Strengthening of the Private segment. Within the Private segment, the plan envisages an increase in the number of Upper Private customers (financial assets > Euro 500,000) through personalised financial and insurance solutions.
Activation of a Corporate structure. Management envisages a higher degree of specialisation in sectors in order to monitor target market groups through the use of specific sector strategies.
Additionally, the plan provides for an increase in cross-selling and a focus on activities with low capital absorption.
Moreover, the Bank seeks to focus on achieving the following strategic objectives:
- businesses with turnover > Euro 3 million belonging to various sectors (e.g., tourism);
- consultancy approach: highly skilled "sparring partner" with in-depth knowledge of the sector and business model through greater sector specialisation;
- take advantage of potential opportunities for the Private business line;
- additional consultancy: payment systems, lending, import-export, liquidity management, risk hedging/ insurance. In particular cases, consultancy in capital markets (e.g., arranger role for bonds);
- selective involvement of specialists in foreign areas and CoB@ / e-commerce.

Activation of a Workout Department. Creation of a structure that is able to implement the envisaged strategic levers, expressed in the following actions:
- credit control: efficient early warning system in loans and workout/management of impaired loans from "past-due" to "unlikely to pay";
- debt collection: workout/collection of doubtful positions and management of legal processes and private settlements;
- portfolio management: analysis of portfolio quality and performance as well as KPI monitoring of the Design business line and realisation of extraordinary transactions (e.g., sales);
- Real Estate active workout: definition and implementation of individual management & sale strategies and active participation in real estate auctions;
- back office: administrative support and reporting;

Discretional portfolio positioning. The plan envisages a structured strategic orientation in the following asset classes:
- liquidity reserve: regulatory obligation with high liquidity and low weighting, ECB eligibility, increase in risk rate/duration, taking advantage of the classification possibilities of "HTM" and "held to collect";
- capitalisation contracts: stable but diminishing rate; Diversify: diversification of risk concentration in Italy, focus on stable dividends through equity funds, ETFs, European real estate, % share component maximum 5%, sustainability criteria to mitigate higher credit risk.

Strengthen the Head Office. The plan includes a focus on developing the skills of employees as the most important resource and determining factor, necessary for achieving the plan's objectives.
In addition, the plan includes:
- development of a real estate strategy through the sale of valuable owned property that no longer represents a strategic asset. These sales are part of a programme to provide greater flexibility to the retail network;
- implementation of a multi-channel strategy, following which, the Bank will selectively close certain branches over the planning time horizon;

- reduction of operating costs by trimming structural costs, including through the use of tools such as pensioning, natural turnover, incentives, and new hires;
- pursuit of cost curtailment through optimising the internal structure (e.g., product catalogue) and implementing guided and standardised processes.

The Bank expects to retain its structure as a regional bank, achieving decisive but measured growth in the new areas, with a sales strategy focused on the customers traditionally served.
Furthermore, the Bank envisages a programme to optimise RWA over the plan period through a policy of increasing the admissible guarantees and growth in loans focused on home mortgages and mortgage loans to SMEs in the Retail business line.

1.5 SIGNIFICANT EVENTS DURING THE YEAR

Shareholders' Meeting of 1 April 2017

On 1 April, the Ordinary Shareholders' Meeting was held, which approved, inter alia:

- the appointment of the Board of Directors for the 2017-2019 period as per articles 20 and 21 and transitional 43 of the articles of association. The articles of association establish that members of the Board of Directors need to be appointed every three years. By the deadline specified in the articles of association, a single list was submitted and all candidates are the outgoing members of the 2014-2016 Board of Directors. For the 2017-2019 period, the shareholders' meeting confirmed the following directors:
    - Otmar Michaeler, born in Bressanone (BZ) on 20.04.1967;
    - Lorenzo Salvà, born in Merano (BZ) on 10.08.1961;
    - Maria Giovanna Cabion, born in Marostica (VI) on 22.06.1961;
    - Giuseppe Padovan, born in Bassano del Grappa (VI) on 10.05.1965;
    - Lorenzo Bertacco, born in Marostica (VI) on 24.07.1969;
    - David Covi, born in Merano (BZ) on 19.02.1973;
    - Margit Tauber, born in Bressanone (BZ) on 29.05.1974;
    - Lukas Ladurner, born in Silandro (BZ) on 4.06.1980;
    - Philip Froschmayr, born in Bressanone (BZ) on 4.05.1968;
    - Marcello Alberti, born in Bolzano (BZ) on 25.03.1965;
    - Alessandro Marzola, born in Bolzano (BZ) on 25.01.1969;
    - Gregor Wierer, born in Brunico (BZ) on 2.09.1968.
- the "Remuneration and incentive policies for the year 2017" and the "Disclosure on the implementation of the Remuneration policies in 2016";
- the proposed annual remuneration and attendance allowance for Board of Directors and Board Committee meetings to be paid to directors in the 2017-2019 period;
- the proposed Compensation Plan pursuant to art. 114-bis of the Consolidated Law on Finance (TUF) in implementation of the remuneration policies for the year 2017;
- the authorisation to the Board of Directors to submit a request to the Bank of Italy for the authorisation to purchase treasury shares pursuant to arts. 77 and 78 of Regulation (EU) no. 575/2013 ("CRR") and any other applicable EU and/or domestic provision, for a predetermined amount equal to the value of the Banca Popolare dell'Alto Adige S.p.A. shares of the withdrawing shareholders not acquired subsequent to 21 April 2017, i.e., after the exercise of the option and pre-emption rights attributed to shareholders not withdrawing from the Bank, as well as after any placement with third parties, to the maximum extent permitted under art. 29, paragraph 3 of Delegated Regulation (EU) no. 241/2014. It also authorised, pursuant to and in accordance with art. 2357 of the Italian Civil Code, the execution, on a single occasion, of deeds for the purchase of treasury shares for the purposes of what is laid out in art. 2437-quater, paragraph 5 of the Italian Civil Code, under the following terms:
    - duration of the authorisation granted as of the date of the shareholders' meeting resolution and for the eighteen subsequent months;
    - the treasury shares subject to purchase by the Bank may only be the Banca Popolare dell'Alto Adige S.p.A. ordinary shares of the withdrawing shareholders not acquired subsequent to 21 April 2017, i.e., after the exercise of the option and pre-emption rights attributed to shareholders not withdrawing from the Bank, as well as after any placement with third parties, and in any event up to the maximum number of treasury shares authorised by the Bank of Italy under arts. 77 and 78 of Delegated Regulation (EU) no. 575/2013 of 26 June 2013 ("CRR") and any other applicable EU and/or domestic provision;
    - the authorised purchase price for each of the treasury shares is equal to Euro 12.10.
- It lastly authorised, pursuant to and in accordance with art. 2357-ter of the Italian Civil Code, the execution, on one or more occasions, of subsequent deeds for the disposal of treasury shares (including sale), under the following terms:
    - the duration of the authorisation is granted as of today's resolution with no time limits;
    - the sale of treasury shares may take place in any form permitted by regulations in force and deemed suitable on a case by case basis by the Board of Directors, in any event in compliance with applicable legal and regulatory provisions;

- the treasury share sale price may be no less than the higher of: (i) Euro 12.10; and (ii) in the case of the admission of the shares to a regulated market or a multilateral trading facility, the official price recorded in the last session prior to each transaction, with a maximum reduction of 10% (ten percent). This consideration shall not apply in the case of deeds of disposal other than sale and in particular in the case of exchange or contribution as well as at the time of share capital transactions or financing transactions implying the assignment or disposal of treasury shares, or in cases of assignment of treasury shares in connection with share-based incentive plans; in such cases, the value shall be determined with different criteria in line with the purposes pursued in each case and in compliance with applicable legal and regulatory provisions, if applicable taking into account permitted market practices.

Issue of subordinated Tier 2 instruments

During the year, Volksbank issued Tier II Subordinated Bonds pursuant to and in accordance with the provisions laid out in Part II, Title I, Chapter 4, arts. 62, 63 and 77 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26/06/2013 relating to prudential requirements for credit institutions and investment firms ("CRR") and Bank of Italy Circular no. 285 of 17 December 2013 "Application in Italy of Regulation (EU) no. 575/2013 (CRR) and directive 2013/36/EU (CRD 4)", Part II, Chapter I. The main characteristics of the instruments issued are provided below:

	Issue 17.08.2017	**Issue 06.10.2017**
Degree of Subordination	Eligible Tier 2 subordinated liabilities	Eligible Tier 2 subordinated liabilities
Amount	5,000,000	100,000,000
Issue Date	17.08.2017	06.10.2017
Maturity Date	17.08.2029	06.10.2027
Currency	EUR	EUR
Rate	5.625%	5.625% per annum, payable on a deferred basis until 06.10.2022 (equal to 5yr MS + 536.8 bps), then rate reset at mid-swap fixing + margin of 536.8 bps
Price	99.25	99.56
Listing	No	Luxembourg Stock Exchange

Disposal of impaired loans

Between October and December, Volksbank completed the disposal without recourse of several impaired positions denominated in euro.

Sale of non-performing loan portfolio	**2017**
(figures in Euro)	
No. Doubtful positions sold	609
No. Unlikely to pay positions sold	2
Gross value of Doubtful loans	73,169,127
Default Interest on Doubtful loans	5,410,230
Total Doubtful loans	**78,579,357**
Gross value Unlikely to pay	**10,196,725**

The disposal does not include any guarantee from the seller of solvency of the borrowers, nor of their guarantors, if applicable, for any reason, and hence, there is no guarantee on the total or partial collection of said loans. The loans were cancelled from the financial statements effective from the date of disposal. The total price paid by the purchasers was Euro 16.5 million.

Payment of the price for withdrawing shareholders following transformation into a joint-stock company

Due to the transformation into a joint-stock company, as a result of art. 2437, paragraph 1, lett. b) of the Italian Civil Code, the shareholders that did not vote in favour of the resolution for transformation into a joint-stock company approved by the extraordinary shareholders' meeting of 26 November 2016 were granted the right to withdraw.
Pursuant to art. 2437-ter, paragraphs 2 and 5 of the Italian Civil Code, the Bank determined the settlement value of any shares subject to withdrawal as Euro 12.10 and provided the Bank's members and shareholders with a report dated 7 November 2016 containing a description of the methods for determining this value.
At the end of the period, the withdrawal right was exercised for 2,645,188 shares. The above-mentioned shares were therefore offered under option to the other members and shareholders that did not exercise the right to withdraw, pursuant to art. 2437-quater, paragraphs 1-3, of the Italian Civil Code. At the end of the option period, options were exercised on a total of 823,077 shares.
With reference to the remaining 1,822,111 shares subject to withdrawal and not liquidated, 1,533,352 shares relate to shareholders who did not contest the settlement value originally established by the Bank, while 289,081 shares relate to shareholders who contested the settlement value. With reference to the shares for which the settlement value was not contested, once authorisation was received from the Supervisory Body, the Bank paid the relative price to the shareholders on 14 August 2017.

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

Consistent with the provisions of the DGS Directive regarding the protection of deposits, art. 24, paragraph 1 of the Articles of Association of the Inter-Bank Deposit Protection Fund envisages that the fund constitutes available financial resources until it has reached the objective level of 0.8% of total deposits protected by 3 July 2024, through ordinary contributions from member banks.
With its letter of 20 November 2017, the Fund's Board established that the total contribution from member banks for 2017 would be Euro 506.7 million, broken down as follows:

- an ordinary contribution of Euro 406.7 million;
- allocation to the Solidarity Fund of Euro 100 million.

In particular, pursuant to art. 10 of the appendix to the Articles of Association, the Fund's member banks must pay the ordinary annual contribution as at 30 September of each year. The contribution amounts are calculated in reference to the contributing base recognised as at 30 September of the year underway and are adjusted for risk based on the operating indicators for the most recent six-month report available.
The amount due from Volksbank for 2017 was Euro 3.0 million, broken down as follows:

- ordinary contribution of Euro 2.4 million;
- contribution to the Solidarity Fund of Euro 587 thousand.

The contribution for 2017 was supplemented with the amount of adjustments for the years 2015 and 2016, deriving from the risk correction resulting from the application of the new model of operating indicators. The further charge amounted to Euro 290 thousand.
The amount was fully recognised in the income statement for 2017.

Contribution to Single Resolution Mechanism

The regulation establishing the Single Resolution Mechanism (Directive 2014/806/EU) became effective on 1 January 2016, which manages banking crises in EU member countries at a centralised level, by instituting and overseeing the Single Resolution Fund (SRF). In fact, beginning on said date, the national funds of all states belonging to the monetary union, established in 2015 in accordance with the BRRD, were combined in the Single Resolution Fund. This Fund is managed centrally by the new Single Resolution Board (SRB) headquartered in Brussels.
The Single Resolution Fund (SRF) will reach, beginning from 1 January 2016 and no later than 31 December 2023, a period of 8 years, an objective level of resources equivalent to at least 1% of the amount of protected deposits at all authorised entities in the European Union. The objective level of the SRF is currently estimated at Euro 55 billion.

Hence, the banks of the member states of the banking union, which in 2015 paid their contributions to National Resolution Funds, will contribute to the Single Resolution Fund from 2016 until 2023. The banks that do not belong to the banking union will continue to make contributions to the National Resolution Funds of their respective countries.
The rules for calculating the contributions due are contained in the Commission Delegated Regulation no. 63 of 2015, supplemented by the Council Implementing Regulation no. 81 of 2015 for the period 2016-2023.
Following the receipt of the letters with the contribution amounts, Euro 2.9 million was charged to the income statement, recognised in full in 2017.

Contribution to the Voluntary Programme of the Inter-Bank Deposit Protection Fund

With the amendments to the Articles of Association resolved on 26 November 2015 by the Extraordinary Shareholders' Meeting of the Inter-Bank Deposit Protection Fund, in implementation of the resolution adopted by the Board of the Fund in its meeting of 11 November 2015, a Voluntary Intervention Programme was introduced that provides the Fund with the necessary resources to carry out interventions to support banks in crisis and Fund members.
The programme was developed to respond to the observations put forth by the European Commission regarding the nature of the Inter-Bank Deposit Protection Fund. In particular, in December 2015, after the audit launched in February 2015, the European Commission declared that the support intervention carried out in 2014 by the Inter-Bank Deposit Protection Fund for Banca Tercas, as the mandatory system of deposit guarantee, constitutes state aid that is incompatible with European regulations, and ordered its recovery.
In light of this decision by the Commission and in order to protect Banca Tercas from its negative effects, and in particular, in order to avoid the risk of recourse to the Single Resolution Mechanism, the banking system decided to establish a Voluntary Intervention Programme, in which Volksbank participated.
The Voluntary Programme is an additional tool to the Mandatory Programme, and is not subject to the restrictions of European community and European Commission regulations.
The Voluntary Programme is governed by a specific Title (Title II) of the Articles of Association of the Inter-Bank Deposit Protection Fund (Mandatory Programme) and consists of the participation of almost all member banks, representing 99.6% of protected deposits (against the minimum envisaged by the Articles of Association of 95%).
During the Extraordinary Meeting of member banks, convened on 7 September 2017 for the approval of the increase in the Programme's capital from Euro 700 to 795 million and the resulting amendment of art. 45, paragraph 2 of Title II of the Articles of Association, so as to support the bailout of Cassa di Risparmio di San Miniato, Cassa di Risparmio di Cesena and Cassa di Risparmio di Rimini, Volksbank exercised its right to withdraw from the Voluntary Programme.

1.6 RESULTS OF OPERATIONS

1.6.1 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:

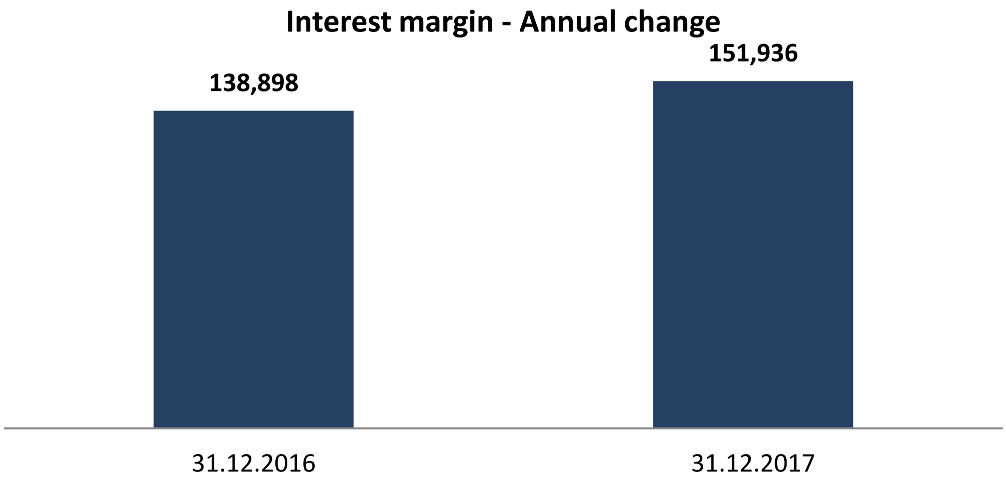
- the item "Dividends and profits (losses) on investments carried at equity" includes the income statement item "Dividends and similar income" and the item "Profits (losses) on investments in associates and companies subject to joint control";
- the "Profits (losses) on hedging activities", indicated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

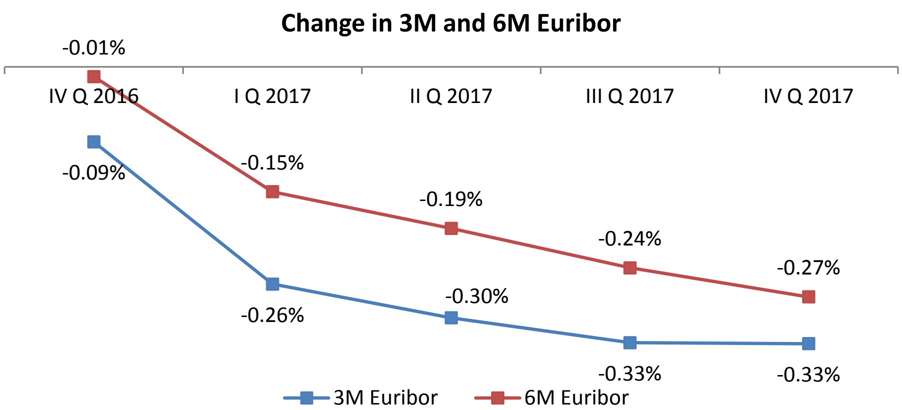
Overall development of the economic result

Reclassified income statement	**31.12.2017**	**31.12.2016**	**Changes**	
(thousands of Euro)			**Abs.**	**%**
Net interest	151,936	138,898	13,038	9.4%
Dividends and profits (losses) on investments carried at equity	3,409	8,893	(5,484)	-61.7%
Financial margin	**155,345**	**147,791**	**7,554**	**5.1%**
Net fee and commission income	88,206	82,094	6,112	7.4%
Net financial result	15,914	16,171	(258)	-1.6%
Other operating income/expenses	21,000	20,951	50	0.2%
Other operating income	**125,120**	**119,216**	**5,904**	**5.0%**
Net operating income	**280,464**	**267,007**	**13,457**	**5.0%**
Personnel expenses	(99,771)	(99,090)	(681)	0.7%
Administrative expenses	(74,655)	(82,474)	7,820	-9.5%
Net adjustments to property and equipment and intangible assets	(8,379)	(9,217)	838	-9.1%
Operating expenses	**(182,805)**	**(190,781)**	**7,976**	**-4.2%**
Operating profit (loss)	**97,659**	**76,226**	**21,433**	**28.1%**
Net adjustments to loans, guarantees and commitments	(54,970)	(89,889)	34,919	-38.8%
Net adjustments to other assets	(7,403)	(2,260)	(5,143)	227.5%
Net provisions for risks and charges	(2,690)	(672)	(2,018)	300.3%
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	307	2,554	(2,247)	-88.0%
Profit (loss) on continuing operations	**32,904**	**(14,041)**	**46,945**	**-334.3%**
Taxes on income from continuing operations	(8,626)	21,763	(30,389)	-139.6%
Net income (loss) for the year	**24,277**	**7,722**	**16,556**	**214.4%**

Volksbank closed 2017 with a net profit of Euro 24.3 million. This result was achieved in a scenario that, for all of 2017 as well as the previous year, was characterised by particular uncertainty, marked by persistent volatility in financial markets, interest rates that continue at historically low levels, and notably high cost of risk.
Net operating income rose to Euro 280.5 million. Operating profit (loss) amounts to Euro 97.7 million.
In 2017, the non-recurring components, or those not directly related to the core business, are primarily associated with the disposal of non-strategic equity investments and the TLTRO II benefit (Euro +9.6 million).

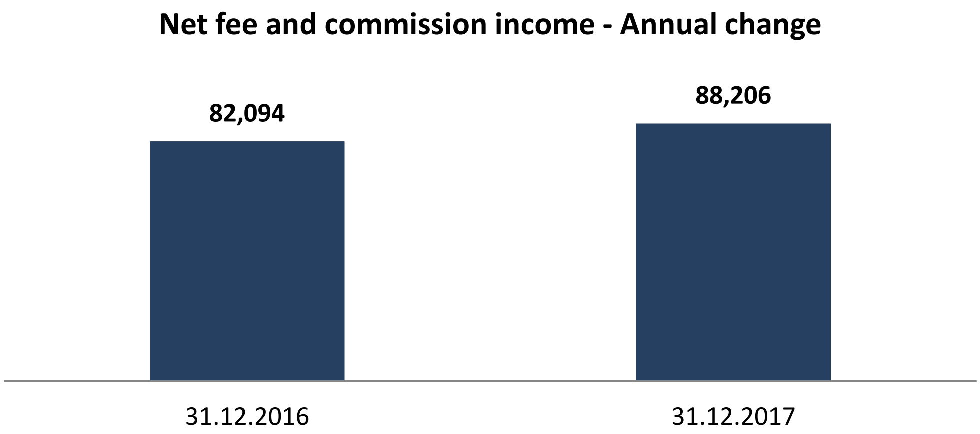
As more fully described in the section on significant events for the year, there was also a notable impact from charges connected with ordinary contributions to the deposit guarantee system, ordinary contributions to the National Resolution Fund, as well as the loss in value of the Atlante fund, totalling Euro -13.6 million ([3]).
Despite the persistence of the deeply rooted crisis and the lack of economic growth that has continued for a particularly long period, day-to-day operations continued to make a significant contribution towards overall profitability.
In 2017, net operating income includes net interest of Euro 151.9 million and net fee and commission income of 88.2 million. Dividends and profits from investments carried at equity total Euro 3.4 million, the net financial result is Euro 15.9 million, and net operating income is Euro 21.0 million.
Interest was again characterised by historically low interest rates, also associated with a phase of recession that has not yet been overcome. In this context, lending volumes increased, even though it was necessary to keep strict control over the assumption of risk. Interest income from customers is Euro 181.3 million, while interest expense on amounts due to customers and debt securities issued is Euro 26.9 million. Interest expense on fair value financial liabilities amounts to Euro 329 thousand.



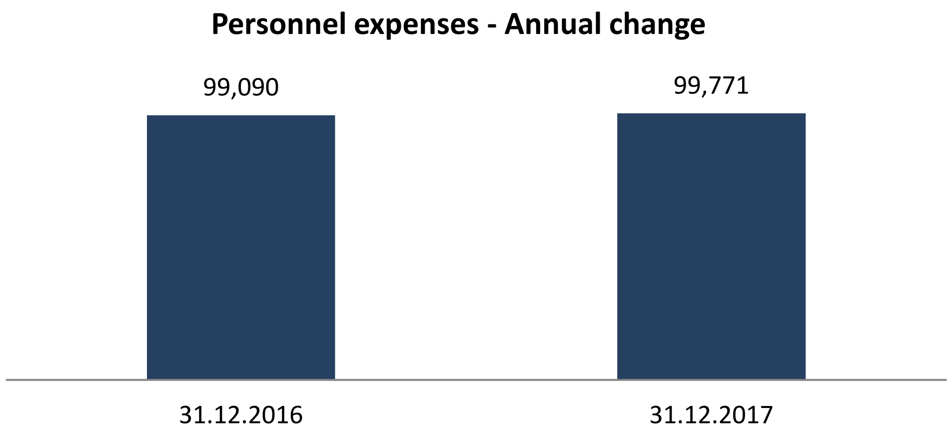


([3]) This amount includes the contribution to the deposit guarantee system, the Single Resolution Mechanisms, the National Resolution Fund, and the effects of recognising impairment on the Bank's portion of the equity investment in Cassa di Risparmio di Cesena through the Voluntary Programme of the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

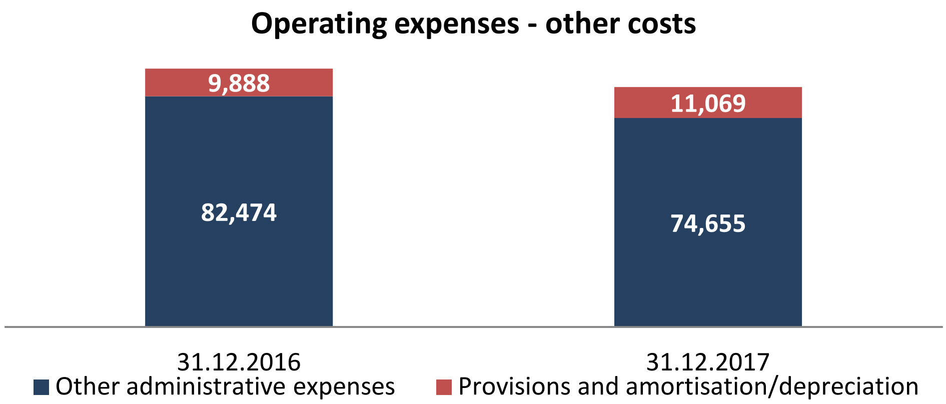
Dividends and profits (losses) on investments carried at equity include the dividends approved in the year and the losses recorded in 2017 by the subsidiaries Voba Invest S.r.l. in liquidation and Valpolicella Alta Società Agricola S.r.l. In 2017, dividends collected on equity investments, unconsolidated investments, and profits from investments carried at equity total Euro 4.5 million.
Net fee and commission income, equivalent to Euro 88.2 million, represents 31.4% of net operating income. The most important elements include management, brokerage and consulting services, which stand at Euro 26.9 million, income from collection and payment services at Euro 8.0 million, net income from current account holding and management of Euro 41.8 million, and, lastly, commissions from other services of Euro 15.4 million.



The net financial result is significantly positive at Euro +15.9 million. In particular, against a profit in trading of Euro 2.3 million in a particularly complex and highly volatile market, there is a highly positive result from instruments classified as AFS, with a net profit of Euro +13.3 million, as well as positive residual components for trading of financial liabilities.
Maintenance of interest rates at historically low levels in 2017 made it necessary to identify the sectors that could ensure a positive result. Aside from the capital gain realised from the disposal of the equity investment in Consorzio Triveneto, the best performance was achieved on stock and bond portfolios of peripheral Eurozone issuers. Adequate portfolio diversification in line with the past, albeit with a prevalence of Italian securities, meant that the performance was positive.
The diversification of the bond portfolio and investment funds with a share component was further balanced with alternative investment products in order to optimise the risk/return profile.
The profit on financial assets and liabilities designated at fair value are minor and related to the net result from trading and measurement of the financial instruments (derivatives and issues 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 21.0 million benefitted from fees for rapid processing and amounts recovered from third parties for costs incurred. Negative components include, in particular, contingent liabilities totalling Euro 1.6 million.
Overall, other operating income stands at Euro 125.1 million. Net operating income is Euro 280.5 million.
Operating expenses are Euro 182.8 million and include personnel expenses of Euro 99.8 million. Staff-related expenses are Euro 98.5 million.

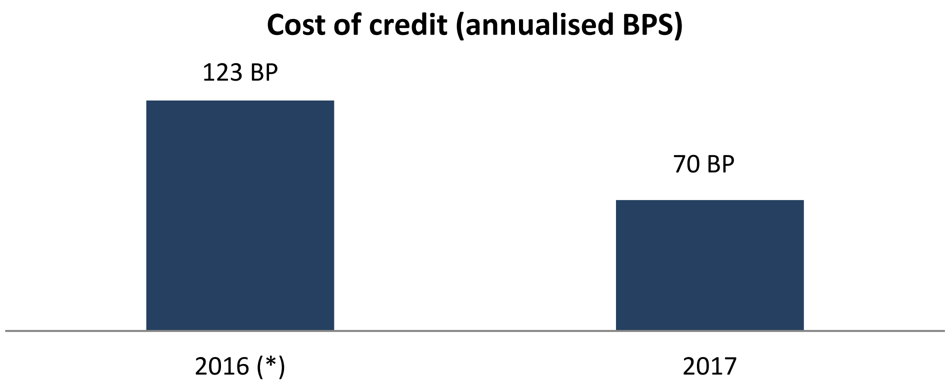


Other administrative expenses amount to Euro 74.7 million, primarily consisting of charges for IT services to the SEC consortium of Euro 11.2 million, amounts paid to professionals for Euro 7.3 million, rental expense for Euro 4.5 million, and maintenance of Euro 4.6 million. The expenses associated with Directive 2014/59/EU - Recovery and Resolution of Credit Institutions and Investment Firms and Directive 2014/49/EU - Deposit Guarantee Schemes (DGS) total Euro 2.9 million.



Net adjustments to/recoveries on property and equipment and intangible assets are Euro 8.4 million. They include, among other items, Euro 4.2 million for depreciation on property, Euro 3.2 million for depreciation of movable assets and plants, as well as Euro 1.0 million for amortisation of the client relationship recognised during the merger with Banca Popolare di Marostica.

Net losses on impairment of loans and other financial assets stands at Euro 59.5 million. The amount for the prior year is mainly attributable to impairments on non-performing loans. In particular, impairments were a result of the constant monitoring of credit risk measurement, in a context of persisting economic stagnation experienced also in 2017, in which the Bank continued to strengthen its valuation controls, confirmed by the degree of hedging of non-performing loans reached for the year, as better described below.



The cost of credit (net adjustments to loans/gross loans to customers) is 70 bps. During the year, the monitoring of credit risk resulted in an increase in hedging percentages in all areas.

Total adjustment provisions amount to 6.3% of gross loans (6.9% as at 31 December 2016). The hedging of doubtful loans is 53.7%, compared to 50.8% as at 31 December 2016, increasing mainly as a result of the growth in the aforementioned monitoring, also considering the effects of the sale in the second half of the year of 609 doubtful loans, for a gross value of Euro 73.2 million, and of 2 positions classified as unlikely to pay for a gross value of Euro 10.2 million, already greatly written down. The hedging of unlikely to pay loans is up to 25.7%, compared to 23.3% in the previous year, for past-due loans the hedging percentage is 8.1% against 9.0% twelve months earlier, whilst for performing loans the write-down percentage is 0.75%, compared to 0.77% at the end of 2016.

Non-performing loan hedging	**31.12.2017**	**31.12.2016 (*)**
Hedging of doubtful loans	53.70%	50.85%
Hedging of unlikely to pay loans	25.71%	23.28%
Hedging of past-due loans	8.13%	8.98%
Hedging of performing loans	0.75%	0.77%

(*) for doubtful loans the comparative figure relating to 2016 is restated net of default interest.

In addition, this item includes impairments on other financial assets of Euro 52 thousand, mainly in reference to impairments on guarantees issued and commitments.

Impairments on financial assets available for sale, equivalent to Euro -7.4 million, are for securities classified as available for sale, for which the recoverable amount at the end of the year is lower than the carrying amount. This includes the loss of Euro 1.2 million for the equity investment in share capital of Cassa di Risparmio di Cesena held as a result of participation in the Voluntary Programme of the Inter-Bank Deposit Protection Fund and that of Euro 3.1 million relating to the stake in the Atlante Fund.

Net provisions for risks and charges amount to Euro 2.7 million. Losses on equity investments relate to the recognition in shareholders' equity of the losses for the year of the subsidiaries Voba Invest S.r.l. in liquidation, Valpolicella Alta Società Agricola S.r.l. and Quartiere Brizzi.

Taxes totalled Euro 8.6 million.

Net profit for the year amounts to Euro 24.3 million compared to Euro 7.7 million in 2016.

1.6.2 FINANCIAL POSITION

Presentation of the financial position

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

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

Reclassified assets	**31.12.2017**	**31.12.2016**	**Change**	
(thousands of Euro)			**Abs.**	**%**
Cash and cash equivalents	71,359	59,171	12,188	20.6%
Financial assets and investments	1,930,948	1,907,951	22,997	1.2%
Due from banks	109,746	41,917	67,829	161.8%
Loans to customers	6,961,712	6,727,223	234,489	3.5%
Property and equipment	139,577	142,476	(2,899)	-2.0%
Intangible assets	119,214	120,370	(1,156)	-1.0%
Other assets	305,381	316,979	(11,597)	-3.7%
Total assets	**9,637,936**	**9,316,086**	**321,850**	**3.5%**

Reclassified liabilities	**31.12.2017**	**31.12.2016**	**Change**	
(thousands of Euro)			**Abs.**	**%**
Due to banks	1,150,659	1,085,006	65,653	6.1%
Due to customers, debt securities issued and liabilities designated at fair value	7,351,447	7,110,547	240,900	3.4%
Financial liabilities held for trading	2,075	2,270	(195)	-8.6%
Other liabilities	260,386	256,842	3,544	1.4%
Shareholders' equity:				
- Share capital and reserves	849,092	853,699	(4,607)	-0.5%
- Net income (loss)	24,277	7,722	16,556	214.4%
Total liabilities and shareholders' equity	**9,637,936**	**9,316,086**	**321,850**	**3.5%**

Bank payables and receivables

Inter-bank relations	**31.12.2017**	**31.12.2016**	**Change**	
(thousands of Euro)			**Abs.**	**%**
Due from banks	109,746	41,917	67,829	161.8%
Due to banks	1,150,659	1,085,006	65,653	6.1%
Net banking position	***(1,040,913)***	***(1,043,089)***	***2,176***	***-0.2%***

As regards treasury activity, the net liquidity position on the inter-bank market at the end of the year shows a negative balance of Euro 1,041.0 million, stable compared to Euro 1,043.1 million at the end of 2016.

Direct funding

Direct funding from customers amounts to Euro 7,351.4 million, a rise of +240.9 million (+3.4%) over the figure as at 31 December 2016 (7,110.5 million).

Direct funding	31.12.2017	31.12.2016	Change	
(thousands of Euro)			**Abs.**	**%**
Savings and current accounts, certificates of deposit	5,640,041	5,183,712	456,329	8.8%
Debt securities issued	954,575	1,108,761	(154,186)	-13.9%
Other payables	584,073	644,072	(59,999)	-9.3%
Repurchase agreements on securities	172,758	174,002	(1,244)	-0.7%
Total	**7,351,447**	**7,110,547**	**240,900**	**3.4%**

Breaking down the figure, there is an increase in demand deposits, comprising current accounts and demand deposits (Euro +456.3 million and +8.8%), which makes up 76.7% of direct funding, against a reduction (-13.9% and Euro -154.2 million) in time deposits, essentially comprising debt securities issued.
Other payables shows a decrease to Euro 584.1 million (-9.3%). Repurchase agreements, which amount to Euro 172.8 million at the end of the year, are stable compared to the end of 2016 (Euro -1.2 million).

Indirect funding

As at 31 December 2017, indirect funding from private customers amounts to around Euro 3,405.2 million, down -1.8% compared to Euro 3,467.8 million in the previous year (Euro -62.6 million).

Indirect funding - technical form	31.12.2017	31.12.2016	Change	
(thousands of Euro)			**Abs.**	**%**
Administered indirect funding	1,191,509	1,524,800	(333,291)	-21.9%
Investment funds	1,592,926	1,399,983	192,943	13.8%
Insurance products	620,750	543,000	77,750	14.3%
Total	**3,405,186**	**3,467,783**	**(62,597)**	**-1.8%**

Administered indirect funding amounts to Euro 1,191.5 million, a decrease of -21.9% compared to the previous year.
Assets under management, at Euro 2,213.7 million, are up +13.9% compared to 1,943.0 million at the end of 2016 (+270.7 million).
Indirect funding net of shares of the Bank held by customers amounts to Euro 2,775.6 million, a rise of +10.2 million over the figure at the end of 2016 (Euro 2,518.1 million; Euro +257.5 million).

Loans to customers

Customer lending amounts to Euro 6,961.7 million, up 3.5% compared to 31 December 2016, when the item stood at Euro 6,727.2 million (Euro +234.5 million).

Financing	31.12.2017	31.12.2016	Change	
(thousands of Euro)			**Abs.**	**%**
Current accounts	1,359,048	1,452,954	(93,906)	-6.5%
Repurchase agreements	-	-	-	-
Mortgages	4,836,447	4,446,475	389,972	8.8%
Credit cards, personal loans and loans on salary	118,494	115,111	3,383	2.9%
Other transactions	478,963	547,994	(69,031)	-12.6%
Debt securities	168,760	164,689	4,071	2.5%
Total	**6,961,712**	**6,727,223**	**234,489**	**3.49%**

Short-term loans (current accounts, repurchase agreements, other transactions) amount to Euro 1,838.0 million, down -8.1% (Euro -162.9 million) compared to the Euro 2,000.1 million at the end of the previous year. Medium- and long-term loans, mainly represented by mortgages and personal loans, show an increase of +8.6% to Euro 4,954.9 million (Euro +393.4 million) from the previous year.
In reference to loans to customers, mortgage loans comprise 69.5% of net lending, up compared to 66.1% as at 31 December 2016.
Current accounts represent 19.5% of net customer lending, down from last year's 21.6%.
Gross impaired loans at 31 December 2017 amounted to 959.5 million, down by -14.3% compared to Euro 1,119.4 million in the previous year. The percentage of gross non-performing loans on the total gross loans to customers was 12.9%, down from 15.5% in the previous year.

Loans and receivables	**31.12.2017**	**31.12.2016 (*)**	**Changes**	
(thousands of Euro)			**Abs.**	**%**
A) Doubtful loans				
gross amounts	614,893	695,935	(81,042)	-11.65%
minus specific adjustments	(330,216)	(353,874)	23,658	-6.69%
Net amount	**284,677**	**342,061**	**(57,384)**	**-16.78%**
% hedging	53.7%	50.8%		
B) Unlikely to pay				
gross amounts	334,507	409,391	(74,884)	-18.29%
minus specific adjustments	(85,994)	(95,321)	9,327	-9.78%
Net amount	**248,513**	**314,070**	**-65,557**	**-20.87%**
% hedging	25.7%	23.3%		
C) Past-due exposures				
gross amounts	10,118	14,058	(3,940)	-28.03%
minus specific adjustments	(823)	(1,263)	440	-34.84%
Net amount	**9,295**	**12,795**	**-3,500**	**-27.35%**
% hedging	8.1%	9.0%		
Subtotal of non-performing exposures				
gross amounts	959,518	1,119,384	(159,866)	-14.28%
minus specific adjustments	(417,033)	(450,458)	33,425	-7.42%
Net amount	**542,485**	**668,926**	**-126,441**	**-18.90%**
% hedging	43.46%	40.24%		
D) Performing exposures				
gross amounts	6,467,784	6,105,355	362,429	5.94%
minus specific adjustments	-	-	-	-
minus lump-sum adjustments	(48,557)	(47,057)	(1,500)	3.19%
Net amount	**6,419,227**	**6,058,298**	**360,929**	**5.96%**
% hedging	0.75%	0.77%		
Total exposures				
gross amounts	7,427,302	7,224,739	202,563	2.80%
minus specific adjustments	(417,033)	(450,458)	33,425	-7.42%
minus lump-sum adjustments	(48,557)	(47,057)	(1,500)	3.19%
Net amount	**6,961,712**	**6,727,224**	**234,488**	**3.49%**
% hedging	6.27%	6.89%		

(*) for doubtful loans the comparative figure relating to 2016 is restated net of default interest.

Net doubtful loans declined by -16.8% to Euro 284.7 million, compared to Euro 342.1 million in 2016. The degree of hedging is 53.7% compared to 50.8% in 2016. The percentage of net doubtful loans to the total of net lending was 4.09%, down from 5.08% in the previous year.
Net unlikely to pay loans amounted to Euro 248.5 million, down -20.9% on the Euro 314.1 million recorded last year. The hedging percentage stands at 25.7%, up from 23.3% in the previous year. The percentage of net unlikely to pay loans over net lending is 3.6%, down from 4.7% in the previous year.
Net past-due loans amount to Euro 9.3 million, a decrease from Euro 12.8 million in the previous year. The percentage of write-downs stands at 8.1%, down from 9.0% in the previous year. Past-due exposures show a decrease for the fourth consecutive year, due in part to the constant credit risk oversight that begins in the initial phases of impairment.
Net non-performing loans totalled Euro 542.5 million, down -18.9% on the Euro 668.9 million recorded at the end of 2016. The percentage of write-downs stands at 43.5%, up from 40.2% in the previous year. The percentage of net non-performing loans over net lending stands at 7.8%, down compared to 9.9% in the previous year.
Net performing loans amount to Euro 6,419.2 million, a 6.0% increase from Euro 6,058.3 million in the previous year. The estimated collective impairment of performing loans led to a Euro 48.6 million adjustment, up from the Euro 47.1 million of 2016. The percentage of collective write-downs is 0.75%, stable with respect to 0.77% in the previous year.
The main asset quality indicators are shown below:

Asset quality	31.12.2017	31.12.2016 (*)
Gross impaired loans / gross loans	12.92%	15.49%
Net impaired loans / net loans	7.79%	9.94%
Gross doubtful loans / gross loans	8.28%	9.63%
Net doubtful loans / net loans	4.09%	5.08%
Gross unlikely to pay loans / gross loans	4.50%	5.67%
Net unlikely to pay loans / net loans	3.57%	4.67%

(*) for doubtful loans the comparative figure relating to 2016 is restated net of default interest.

Financial assets

Treasury securities portfolio	31.12.2017	31.12.2016	Change	
(thousands of Euro)			Abs.	%
Financial assets held for trading (HFT)	11,531	14,394	(2,863)	-19.9%
Financial assets available for sale (AFS)	1,090,652	1,625,719	(535,068)	-32.9%
Investments held to maturity (HTM)	822,972	260,924	562,048	215.4%
Investments	5,793	6,913	(1,120)	-16.2%
Total	**1,930,948**	**1,907,951**	**22,997**	**1.2%**

This segment showed the following trends:

- financial assets held for trading, consisting of Euro 8.3 million in debt securities and Euro 3.2 million in financial trading derivatives (of which Euro 2.9 million pertaining to the fair value option), amounts to Euro 11.5 million, down by -19.9% compared to Euro 14.4 million at the end of 2016;
- financial assets available for sale, consisting of Euro 1,028.3 million in debt securities, Euro 18.8 million in equity securities and Euro 43.6 million in UCITS, amount to Euro 1,090.7 million, a decline compared to Euro 1,625.7 million at the end of 2016 (-32.9%);
- financial assets that the Bank can and intends to hold to maturity amount to Euro 823.0 million, a significant increase on the Euro 260.9 million of 2016.

Investments

The following equity investments were held as at 31 December 2017:

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 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 Volksbank.
The corporate purpose of Valpolicella Alta Società Agricola S.r.l is the exclusive exercise of agricultural activities as set out under article 2135 of the Italian Civil Code. The company currently owns two vineyards located in the municipalities of S. Ambrogio di Valpolicella (VR) and Trezzolano (VR).

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

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

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

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.
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.

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).
Volksbank holds a 30.00% interest in the share capital.

Property and equipment

Property and equipment amount to Euro 139.6 million, a Euro -2.9 million decrease compared to Euro 142.5 million at the end of 2016 (-2.0%). Expenditures for capitalised improvements amount to a total of Euro 0.8 million for the year. Other increases for Euro 3.7 million can be attributed mainly to the purchase of electronic systems. Depreciation recorded amounts to a total of Euro 7.0 million.

Intangible assets

As part of the merger of Banca Popolare di Marostica Group, intangible assets associated with customers were identified as "client relationships", linked to the valuation of AUM-related activities, including the placement of insurance contracts and funding through core deposit management. At year end, this item totals Euro 19.4 million, after amortisation of Euro 1.0 million.
The item "Goodwill" amounts to Euro 99.6 million, unchanged from the prior year. Goodwill is not subject to amortisation and impairment tests are performed when preparing the financial statements. For further information concerning impairment tests on goodwill see "Section 12 – Intangible Assets" in the notes to the accounts.
There were no significant investments in intangible assets during the year. Amortisation amounts to Euro 1.3 million.

Shareholders' equity

At the end of the year, share capital amounts to Euro 199.4 million, divided into 49,859,929 ordinary shares with no par value. A total of 1,533,352 shares subject to withdrawal were repurchased in the course of the year, for a total of Euro 18.6 million.
Shareholders' equity as at 31 December 2017, including year-end profit of Euro 24.3 million, amounts to Euro 873.4 million. Own funds total Euro 821.5 million.

Total own funds	**31.12.2017**
(thousands of Euro)	
Common Equity Tier 1 (CET 1)	715,365
Tier 1 Capital	715,365
- Tier 2 Instruments	105,000
- Transitory regime - Impact on T2	1,149
- Elements deductible from Tier 2	-
Total Tier 2 Capital	106,149
Total own funds	**821,514**

The ratio between Common Equity Tier 1 capital (CET 1) and total risk-weighted assets (Common Equity Tier 1 Ratio) is 11.9%, an increase compared to 11.7% as at 31 December 2016. The ratio between regulatory capital and total weighted assets (Total Capital Ratio) is 13.6%, up from 11.7% in the previous year.

Total own funds	31.12.2017	31.12.2016
(thousands of Euro)		
Common Equity Tier 1 Ratio	11.9%	11.7%
Total capital ratio	13.6%	11.7%
Risk-weighted assets (RWA)	6,032,971	6,176,347

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

1.7 RATING

Standard & Poor's

On 31 October 2017, S&P Global Ratings announced that it had raised the long-term rating of Volksbank from "BB" to "BB+", with a "stable" outlook. At the same time, it confirmed the "B" creditworthiness rating for the short term.
According to the Agency, Volksbank benefits from its good positioning in the Trentino-Alto Adige region, which traditionally has had pro-capita GDP that is higher than average and lower levels of unemployment. S&P also highlights the Bank's solid funding profile as a further point of strength.
S&P deems that Volksbank will be capable of maintaining asset quality higher than the average of the Italian banking system with no impacts on its capitalisation and, at the same time, the level of non-performing assets is expected to decline as a percentage of the loan portfolio.
The factors weighing down on the S&P rating include limited diversification and market hedging, the modest internal generation of capital and the limited capacity to absorb losses.

DBRS

On 15 June 2017, DBRS Ratings Limited (DBRS) confirmed its rating for Volksbank, or the "Long-Term Issuer Rating", "Long-Term Senior Debt" and "Long-Term Deposits" long-term ratings of BBB ("low") and the "Short-Term Issuer Rating", "Short-Term Debt" and "Short-Term Deposits" short-term ratings of R-2 (middle). The trend on the ratings remains "negative".
According to the Agency, the confirmation of this rating reflects the stable market positioning in the province of Bolzano in Trentino-Alto Adige, the progress made in the integration of Banca Popolare di Marostica, as well as the adequacy of funding and the liquidity position. DBRS has also taken into consideration the measures taken by Volksbank to strengthen its risk management and improve profitability. The Agency justified the negative trend with asset quality performance, which in the near future will represent a challenge for the bank's profitability.

1.8 CORPORATE GOVERNANCE

1.8.1 THE ARTICLES OF ASSOCIATION OF THE JOINT-STOCK COMPANY

As of 12 December 2016, the date of registration of the minutes of the Shareholders’ Meeting concerning the transformation of 26 November 2016, Banca Popolare dell’Alto Adige became a joint-stock company.
The Company that resulted from the transformation is owned by a broad shareholding base of nearly 60,000 shareholders, with considerably fragmented ownership and, traditionally, high levels of participation in company events.
Each share entails (1) voting right in Shareholders’ Meetings.
In order to vote in Shareholders’ Meetings, the law allows shareholders to aggregate votes; typically, depending on the characteristics of the associated interests, voting rights may be organised through the following institutions:

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

Regardless of the forms of aggregation that may be activated by shareholders, parties with voting rights, excluding Directors, Auditors, and employees of the Bank and its subsidiaries, may exercise up to 200 voting proxies, without prejudice of the right to participate through legal representation of individuals who are minors or incapacitated or in representation of legal entities.
The legal limit on the exercise of voting rights for shares that exceed 5% of share capital, set forth in art. 6, paragraph 2 of the Articles of Association, was revoked on 26 March 2017 without effects.
The prior notice of call of the Shareholders’ Meeting, for which the articles of association requires at least 20 days, is fulfilled by the Bank within a more beneficial term for shareholders of at least 30 days. The Shareholders’ Meeting is held under the terms of the law and Articles of Association, normally in a single call for both the ordinary and extraordinary session, and in single call, is validly constituted regardless of the portion of share capital attending in ordinary and extraordinary session when at least 1/5 of the voting rights are present or represented or, on the share capital issued at 31 December 2017, 9,971,985 rights.
The Articles of Association allow multiple calls at the discretion of the Board of Directors, in which case, with the specific constitution and resolution quorums, and govern with an enhanced quorum the matters indicated in art. 16, paragraph 3.
The Shareholders’ Meeting resolves openly with the majority of voting rights established, with the exception of the appointment of corporate bodies, which is carried out through list voting according to the provisions of the Articles of Association, art. 21 for the Board of Directors and art. 33 for the Board of Statutory Auditors.
Corporate bodies are renewed every three years, with the mandates in effect in 2017, for:

- the Board of Directors, with the approval of the financial statements as at 31 December 2019;
- the Board of Statutory Auditors, with the approval of the financial statements as at 31 December 2018.

The lists of candidates for the election of directors and auditors are validly submitted, in accordance with relevant regulatory and statutory regulations, with the authenticated signature of a notary or rendered before a BPAA employee authorised to receive it, by a group of shareholders that together hold voting rights representing at least one (1) percent of share capital. This necessary and sufficient capital threshold is equivalent to 498,599 Banca Popolare dell’Alto Adige S.p.A. shares as at 31 December 2016.
For the formation of lists of candidates, the shareholders consult the Articles of Association, available on the website www.volksbank.it and the documentation published in conjunction with the renewal of the corporate bodies.
For purposes of the criterion for extracting from the list of candidates to form the Board of Directors or the Board of Statutory Auditors, the “majority” list is that which receives the greatest number of votes in the Shareholders’ Meeting, while the second- and third-ranked lists for the election of the Board of Directors or the second-ranked list for the election of the Board of Statutory Auditors are the “minority” lists when they have received votes equivalent to at least one (1) percent of share capital.
For more information, please refer to the Articles of Association published on the website www.volksbank.it.

1.8.2 THE SIZE AND GOVERNANCE MODEL OF THE BANK

The transformation into a joint-stock company does not have an impact on the size of Banca Popolare dell'Alto Adige, which is classified by supervisory authorities as a "medium-sized" bank, or banks that have assets between Euro 3.5 and 30 billion. BPAA is a cultural, local and cooperative regional bank with a retail commercial profile for households and small and medium sized enterprises and a linear offer of saving and lending services and products; the Bank has a simple distribution network organisation with 184 branches at 31 December 2017 in the provinces of Bolzano, Belluno, Padua, Pordenone, Trento, Treviso, Venice and Vicenza for which a significant functional restructuring project is under way.

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

1.9 THE DISTRIBUTION MODEL

1.9.1 INTEGRATED APPROACH TO CUSTOMERS AND MULTI-CHANNEL BANKING

Volksbank is involved in credit brokerage and provides financial services and investment services to its customers through a network of branches in its territory, with maximum added value given to the bank-client relationship and the bank-shareholder relationship, and maximising the potential of the specific aspects of the local area.
The distribution model is based on an integrated multi-channel concept, establishing constant dialogue with the customer who can use all the channels available, including innovative ones, and the services on offer (information, consultancy, contact and the sale of products) are integrated among the various channels.
The distribution network is focused on providing consultancy services and assistance to the customers with the aim of ensuring optimal service to every group of customers, thanks in part to the specific segmentation criteria that defined consultancy service models are assigned to, specifically trained collaborators and specialised consultancy centres for specific client segments.
The retail customers are mainly handled in the branches. The customer is followed on a 360° basis by a consultant who identifies the customer’s requirements and provides what is necessary through an integrated Customer Relationship Management (“CRM”) system.
Private customers and higher-potential companies are mainly handled in the consultancy centres and are followed by specially-selected consultants operating in a number of branch head offices.
The consultancy service is carried out in accordance with specific service level agreements (“SLAs”) which provide for an annual structured interview, among other things, supported by specific consultancy applications.
The multi-channel system and automation of services is increasingly freeing up the time available for the customers, to the benefit of the consultancy activities.
Specific commercial initiatives were developed to distinguish the Bank’s services from the competition, including to ensure that staff are used to their maximum potential, which constitutes the true added value to the product. A close relationship with customers means that their needs and requirements can be more easily identified. In that sense, Volksbank intends to ensure development of a demand-driven product mix.
Volksbank aims to constantly strengthen its territorial roots as a regional bank through close involvement by the local community as shareholders and as stakeholders of the Bank. Therefore, the Bank establishes itself as a business that can ensure an important contribution to develop the local economy.
For 2017, a multi-channel strategy was implemented, revised as part of the 2017-2021 Business Plan. This new approach involves four distribution channels of equal importance (branch, online banking, contact centre, and mobile consultancy). The customer will choose which channel to use based on his/her needs and preferences. New channels assume equal importance to the branch in terms of operations and customer management. The services offered by the contact centre are continuously expanded, taking into consideration customer requirements. The advisors working in the contact centre mainly come from the branches, so as to guarantee professionally qualified service to customers. The “mobile consultancy” channel is currently in the study phase.

BRANCHES	31.12.2017	31.12.2016
Territorial distribution of branches		
Trentino-Alto Adige	**78**	**79**
- Bolzano	60	61
- Trento	18	18
Veneto	**95**	**102**
- Belluno	19	20
- Treviso	22	23
- Venice	15	15
- Vicenza	33	38
- Padua	6	6
Friuli Venezia Giulia	**3**	**3**
- Pordenone	3	3
Total	**176**	**184**

1.9.2 THE TERRITORIAL NETWORK AND SALES ACTIVITIES

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

SALES NETWORK	31.12.2017	31.12.2016
Traditional branches	176	184
Corporate consultancy centres	2	6
Private consultancy centres	7	7
ATMs	204	210
POS	9,100	7,951

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

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

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

- seven areas are divided into individual markets;
- within each area, the geographic market is subdivided into market areas (Head Office) and branches with outlying sub-branches ("spokes") as necessary;
- in 2017 as part of continual efficiency improvement processes for the distribution network, one branch was closed in the province of Bolzano;
- in the traditional areas covered by Volksbank, there are two consulting centres for Private and high value Corporate customers for each area, which provide support in the form of specialist functions to the sales structure. In 2017, the consulting centres for corporate customers were grouped within a single corporate centre which reports directly to the sales manager;
- as part of the merger sales plan, a Corporate consulting centre was created for the Veneto Sales Centre, headed directly by the sales manager who oversees the entire reference geographic area.

1.9.3 CUSTOMERS

Private customers

The Volksbank consultant continuously monitors customer relations and follows the customer during the entire relationship cycle, with a section dedicated specially to young people, who are accompanied as they begin to be employed, and following through with adult customers, who are offered many different solutions to meet their specific requirements.
The Bank offers a professional consultancy service, aimed at the specific needs of the customer. This requires a careful, regular assessment of customer needs in order to adequately satisfy their various requirements.
The branches and consultancy centres of Volksbank manage about 233,000 private customers, 29,000 business customers and 6,000 other types of customers.

CUSTOMERS	31.12.2017	31.12.2016
Number of customers		
Private (incl. young customers)	233,290	226,998
Businesses	29,083	28,046
Other (public administration, associations, etc.)	6,097	7,778
Total	**268,470**	**262,822**

The commercial dealings of Volksbank revolve around "constructive dialogue" whereby the consultant identifies 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 needs linked to 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 contact centre to mobile solutions (for smartphones and tablets) to direct b@nking and stands at branches. 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 Volksbank is to provide companies with consultancy services and global assistance in accordance with their requirements. A meeting is therefore held periodically with each company in order to discover not only their short-term requirements, but also their medium and long-term requirements.
Based on criteria well-defined at Bank level, around 3,000 corporate customers were identified that are followed with a more targeted approach and greater frequency. At least once a year, these customers are invited to a meeting with their consultant. During this meeting, the customer's current position is analysed and some time is dedicated to discussing future plans. The Rating Report is also discussed with and handed to the customer, and both consultant and customer decide on measures to improve the rating.
The aim of this meeting is to get a comprehensive picture of the financial requirements of the business, from financing to risk hedging, to payment and collection systems.
In the course of 2017, specialisation by sectors was created to offer customers more targeted and highly professional consultancy service. As an example, consider the specialisation in the tourism segment: at regional level, various consultants were identified and received dedicated specialised training.

Young customers

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

One of these activities is the "Geo-Challenge", an educational quiz in which the pupils of one class test their geography knowledge against other classes. Over 460 classes from the entire catchment area of the Bank took part in the game in the 2017/2018 school year, with more than 40 events held involving more than 6,000 schoolchildren. The success of the event, which has increased constantly year after year in terms of the number of classes participating and in the acceptance by teachers supporting the initiative, is due not only to the Euro 300 class trip award for the winning class, but also to the educational content.

Given the Bank's strengths, the topic of financial education was also undertaken with an alternative and innovative approach. Along with the Austrian company "Three Coins", specialised in the development of educational systems to raise awareness on using money, the "CURE Runners" app for smart phones was introduced. A "jump 'n run" game was designed that would provide a new way to capture the attention of young people on a topic that is normally seen as boring and of little interest. Based on the decisions that players have to make during the adventure game and during later workshops held at the schools, participants are able to reflect more thoughtfully on their day-to-day spending.

Another key aspect that has been studied in recent years relates to support for schools on various banking topics. In fact, teachers have the option of requesting 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. The guided visits of our head office are also appreciated, especially by groups from junior and high schools.

To join any of the various initiatives proposed and designed for customers, 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.

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

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

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 Volksbank. Newborns can also have savings books opened in their own names, with an initial contribution of Euro 35, and a gift from the Bank.

Six-year-olds receive a birthday card on their birthday and a nice present they can collect from their local branch, along with an invitation to the "Blue" game initiative, an educational game for children aged 6 to 10 designed to raise awareness about savings. The accessories to this annual game contain information on different aspects related to saving and the current school programme. In the 2017/2018 academic year, 7,327 children took part. Comic books were also distributed to elementary schools with educational content on this topic, and they were given the option of taking part in a competition in which they could win a class trip connected with the game's theme. In the same year, there were 20,000 copies of the comic book printed and 364 classes took part in the competition.

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

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

1.10 BANKING ACTIVITIES

1.10.1 BANK PRODUCTS

Product Management

During 2017, product management services and virtual banking were primarily focused on the following areas:
- Analysis of the product range and ensuing optimisation of the product catalogue
- Introduction of new products based on expected sales results
- Strategic projects (multi-channels, home mortgages, digital payments, etc.)
- Digitalisation of sales and post-sales processes
- Expansion of the offer in on-line and mobile channels
- Support and assistance to the sales network
- Regulatory developments (compound interest, usury, EU Directive on mortgage lending, EU Directive on payment services ("PSD2"), cheque digitalisation, etc.)

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

Core products - Current accounts and savings books

In 2017, we focused on the corporate segment with the main view of strengthening the presence of our Bank amongst "Small Business" and "Small Economic Operator" customers within our catchment area. To reach this ambitious objective, we created specific commercial solutions in the form of welcome packets, to support new customer acquisition and increase the loyalty of new customers, thus furthering our Bank's market penetration.
We also expanded the functions of our term deposit account, Conto Plus. Customers now have the possibility to select from amongst medium-duration terms (18, 24, 36, 48 and/or 60 months) for the periodic receipt of interest.
In accordance with new regulatory provisions, the Bank had to address two sizeable interventions. First of all, the adjustment of computer systems and contractual documentation to the significant amendments made to the "Cheques Law" of 1933 with the digitalisation of bank cheques and banker's drafts. On the other hand, the second regards compliance with the decree transposing European Directive no. 2015/2366 relating to payment services in the European market - Payment Service Directive ("PSD2"). The standard promotes the development of an efficient, secure and competitive internal retail payments market by strengthening the protection of users of payment services, supporting innovation and boosting the level of security of electronic payment services.

Insurance and pension funds

The year 2017 closed with a positive result, with fees increasing further compared to 2016.
The year was marked by intense work focusing primarily on the analysis and definition of the new structural model at distribution as well as partnership level.
With a view to providing customers and advisors with simple and sustainable solutions, the agreement with the traditional partner Alps Optima was revised.
The matter of excellent consultancy was in turn subject to detailed analysis to seek out instruments capable of identifying, through access to various databases, the personal insurance needs of each individual customer so as to offer the corresponding coverage.
Particular attention was dedicated to the Corporate segment with the specific consultancy provided through the associates of the Broker Assiconsult.

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

Loans

The loans disbursed in the private construction segment in 2017 increased considerably as regards volumes as well as revenues.
The loan product range was expanded with the introduction of the option mortgage with an initial fixed rate for 10 years. This loan offers customers certainty as there is a constant payment for the first 10 years: after this period of time, the customer may select between a fixed or index-linked interest rate every five years.
A new rate structure was introduced in the corporate loans segment: Loans with an entry rate - where an initial fixed rate is followed by an index-linked rate - help customers with their financial planning, as the instalment is always the same in the earlier years.
Aside from traditional forms of financing, the Bank has in particular promoted the issue and placement of "Minibonds", financial instruments which may be issued by unlisted small and medium sized enterprises to obtain liquidity.
In 2017, the agreements with the main Confidi were updated: in addition addenda were entered into for the management of the counter-guarantees of the SME Guarantee Fund - Law 662/96, in order to generate positive effects on the Bank's equity ratios while taking advantage of the favourable weighting in the calculation of own capital necessary to cover risks.
From the regulatory perspective, the new European Mortgage Credit Directive, introduced in 2016, required further updates in products as well as systems in the course of 2017. The regulations on usury and transparency also entailed numerous changes in documents, contracts and procedures.

On-line banking

In 2017, strategic developments continued to be made in the multi-channel realm, as laid out in the business plan. The technological foundation has now been laid for the ideal integration between the "online banking", "contact centre" and "branch" service models, where "online banking" will become the centre of the distribution model.
Particular focus has been dedicated to the customer experience in digital services, an aspect that has played a fundamental role for example in the design of the new Jiffy service, which allows for quick and easy money transfers between smartphones.
In the corporate area, the electronic invoicing service integrated within the CoB@ web platform was strengthened, and it is now also available for B2B invoicing. This was done with a view to supporting businesses with process digitalisation, even significantly prior to when these procedures will become required by the government, beginning in 2019.

1.10.2 PROVISION OF INVESTMENT SERVICES

In the course of 2017, activities continued in preparation for the entry into force of the "MiFID II" (Directive 2014/65/EU) expected for 3 January 2018. The objective is to improve, develop, and optimise investment services by introducing a new suitability mechanism that assesses the portfolio adequacy (rather than only on a single financial instrument) by identifying, through product governance, the correct customer target to which to provide the specific recommendation, with impacts on various roles that the Bank assumes (manufacturer/distributor) as well as on the range of financial products sold.
The process for providing investment services remains unchanged. This begins with understanding the customer's requirements, followed by determining the investment profile, and is then finalised in a specific recommendation that aims to satisfy the comprehensive (portfolio consultancy) or specific (individual goal) needs.
The Bank offers investment consultancy at various levels (light, full, plus) though its branch network. Particular attention is placed on higher-potential customers through 7 dedicated consultancy centres.
The primary objective of supporting our customers in all knowledgeable and rational investment choices through simple and sustainable solutions was further strengthened: special focus was given to managed savings products as a response to market conditions that were difficult to interpret and hence, met with products characterised by high levels of diversification and various risk/yield profiles.
In terms of investment services in the second half of 2017, the specific training established in the MiFID II aiming to further develop the twelve areas of technical and specialised knowledge and certify roughly 850 consultants in the network, who are authorised to provide all investment services to customers, took place in collaboration with an external ISO certified company.
On 10 November 2017, the new ESMA compliant MiFID questionnaire was also introduced to identify the investment profile of the natural persons to whom the bank provides investment services.
The partnership with Istituto Centrale Banche Popolari (now Nexi) continued in 2017, which periodically audits the composition of the model portfolios proposed to our customers and constantly monitors individual financial products included in the portfolios.
Lastly, in September 2017, after a long period of suspension of trading, the shares issued by the Bank began being traded on the Hi-MTF, order-driven segment (MTF stands for Multilateral Trading Facilities, recognised by Consob), the market managed and organised by Hi-MTF Spa and specialised in trading bank shares not listed on regulated markets, which aims to guarantee greater transparency, liquidity and efficiency and until 31 December 2017 enabled 20,363 BPAA shares to be traded for a total value of Euro 284,568.72.

1.11 GOVERNANCE ACTIVITIES

1.11.1 LIQUIDITY AND FUNDING

The Strategic Plan and the Liquidity Management and Funding Plan for 2017 were based on the timetable for all forms of refinancing from institutional investors, the development of owned portfolios, and the planning of expected customer movements, with the necessary adjustments from month to month over the course of the year and for the first time also on tier 2 capital requirements.
The plans in question help to define the liquidity requirements for the year and consequently guide decisions on carrying out market transactions. The growth in direct funding from customers formed a solid refinancing base, also considering that during the year there were almost no maturities, with just 1 million in institutional "Schuldschein". Securities underlying securitisations placed on the market were redeemed during the year in accordance with the amortisation plan for roughly Euro 156 million. Liquidity needs during the year (including the average increase in the owned portfolio for around Euro 90 million and the outflow for the payment of year-end taxes) were refinanced, in part, with the placement of the B tranche of the Voba Finance n. 6 securitisation for a total of Euro 59.6 million, with the participation in the last auction in March as part of the ECB's TLTRO II programme, bringing the total ECB refinancing from Euro 800 million to Euro 1 billion and with the placement of a total of Euro 105 million in subordinated Tier 2 bonds.
The amount of "eligible securities" which had not yet been pledged to secure funding stayed the same, supplemented mostly by purchases of securities issued by the Italian government and by other asset-backed securities. In addition, the ABACO SME pool was activated to transfer SME mortgage loans into the Eurosystem guarantee pool.
The market environment was complex yet again in 2017. The tried and tested system of hedging maturities and the solid financial position of Volksbank guaranteed easy access to the inter-bank market.

1.11.2 LOANS

During 2017, the alignment of the merged entities (Banca Popolare di Marostica and Banca di Treviso) with Volksbank standards for credit risk management, both in the sales network as well as in the offices analysing creditworthiness, was concluded. Extreme care continues to be adopted in retaining the concept of one unique Bank, in the presence of the 9 strategic areas into which the two operations centres are divided.
The agreed loan portfolio is almost equally divided between the Alto Adige centre (which includes the offices in Alto Adige, Trentino, and Belluno) and the Veneto centre (which includes the offices of Vicenza, Marostica, Venice, and Treviso/Pordenone).
The primary reference target remains small and medium-sized customers. This segment mainly comprises SMEs, but also private customers, for which it is hoped to assume the role of reference bank.
With a view to the Bank retaining its local roots, a "special credit" segment was set up to allow businesses improved and easier access to credit by exploiting opportunities relating to low-interest loans offered by the Sabatini-bis Law or loans through circulating funds. In this context, the economic development partnerships with financial companies have been consolidated (e.g. Veneto Sviluppo) and with the various Confidi and guarantee consortia (e.g. Finimpresa, Sviluppo Artigiano, Fidimpresa, Garfidi, Confidimpresa) with which the related agreements have been signed. These organisations manage a series of subsidised instruments for the development of regional companies. In this respect, the Bank works with Finanziaria Internazionale, which manages the Trentino-Alto Adige Strategic Fund, on the "Minibond" product. Minibonds have expanded the range of products offered in order to become a partner of reference even for the most complex SMEs.
In the 2017-2021 Strategic Plan, the Bank forecasts an increase in total loan volume of 4.6% in 2018, growth that must also be accompanied by gradual alignment of productivity levels in the credit process across all areas.

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

1.11.3 PERSONNEL

The Workforce

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

The primary objective of the Human Resources and Process Management Department is to ensure, by means of internal rotation and new recruits, the necessary resources for the branches throughout the territory, the strengthening of the Bank's workforce, and the timely replacement of both employees who terminate their employment with the Bank, as well as those who are absent for extended periods of time (for maternity leave, accidents, or illnesses), based on human resources criteria and policies.

To achieve this objective, special training courses are organised for each professional profile, which correspond with the business strategy and with the career development of individual members of staff.

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

The workforce of Volksbank at the end of 2017 consisted of 1,366 employees (1,372 at the end of 2016). This reduction in the workforce, consistent with objectives in the strategic plan, was the result of hiring 47 new employees and terminating the employment of 53 individuals (12 of which due to retirement).

The new hires in 2017 resulted from the addition of 23 new young professionals in the sales network, while 24 new employees with specific skill sets were added to internal departments, contributing towards expanding the professional profiles.

Given the working hours of staff with a part-time contract (245 – up from 226 in 2016) and the exclusion from the calculation of employees on maternity or unpaid leave, the number of full-time equivalent (FTE) workers at the end of 2017 was 1,243, which also showed a reduction from 2016 (1,259).

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

Figures by Province	31.12.2017		31.12.2016	
	No. Units	%	No. Units	%
Bolzano - internal services and branches	692	50.7%	690	50.2%
Trento	82	6.0%	83	6.0%
Belluno	82	6.0%	83	6.0%
Venice	78	5.7%	77	5.7%
Treviso	109	8.0%	107	7.8%
Vicenza	296	21.7%	304	22.1%
Padua	17	1.2%	18	1.3%
Pordenone	10	0.7%	10	0.8%

It has always placed great importance on hiring and creating mixed work teams. Currently, 42.5% of the workforce is female. Of these, 28 hold managerial positions in the Bank (9 at the head office, 19 in the network).
In Italy, the employment of disabled persons is governed by the law. Volksbank believes it is fundamental 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.
Volksbank is committed to guaranteeing work/life balance. After the first "Home and work audit" certification obtained in 2014, in the course of 2017 the re-audit was launched, which is carried out every three years and had a successful outcome. During the re-audit, new measures were presented for the next three years with a view to further incorporating work/life balance within the Bank. For example, flexible schedules were introduced in April 2018, for all workers in the sales network as well as in the internal offices.
All of the planned measures will be progressively implemented, and confirm that the Bank is very attentive to family requirements.
In addition, KiTas ("Tagesmütter" social cooperative), the nursery present at the Bank's registered office, is developing positively from year to year, and at the end of the year 2017 was being fully used.
The Bank agreed new part-time contracts in 2017, just as in previous years. These types of contracts allow employees to reconcile work commitments with family commitments as best as possible. This project was also extended to fathers, and all employees who have domestic care responsibilities for family members.
There were 33 employees on maternity or paternity leave as at the end of 2017; another 18 employees were on unpaid leave, granted in accordance with the Supplementary Business Agreement for parents of children up to 5 years of age.
The percentage of university graduates in the workforce is 26.8%, while 68.0% have a secondary school diploma.
The objective of Volksbank is to ensure all employees are adequately motivated through training programmes in order to ensure that the relationship is fruitful and long-lasting.
An adequate generational mix helps reinforce and maintain the skill set in the Bank. The percentage of workers over 50 was 29% in 2017, stable with respect to the year 2016. The average age of employees is roughly 45.5 years old.
In November 2017, a new supplementary agreement was signed with the trade unions. Negotiations were concluded after nine months of discussions with the unions, and the agreement entered into force on 1 January 2018.
With the new supplementary agreement, we aimed to significantly change the bonus system, which was not only brought into line with regulations in force, but was also transformed for everyone into a variable performance-based bonus, with assessment indicators including the bank's results, individual results and results linked to team work, representing a significant innovation in this sector. Furthermore, the previous automatic procedures were transformed into training courses and an assessment on soft skills (>2.5) in the last two years within the role held.

Remuneration

In 2017, the Bank paid, and therefore contributed to the local community, a total of Euro 99.8 million in wages, which represents about 51.8% of the added value created during the year.
The Bank compares its salary structure with the one provided by the Italian Banking Association "ABI", also in accordance with the remuneration survey of the banking and finance sector. This showed that the remuneration paid by the Bank is in line with average figures on the market. However, its variable remuneration is particularly competitive, and is above the market average.
Volksbank uses set salary ranges for the different categories of employment, which are applied equally to both men and women.

Human Resources Management Policy

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

Staff Training and Development

Overall, 71,888 training hours were given to employees in 2017, corresponding to an average of 52.6 hours per person. This figure indicates the strong commitment to certifying and strengthening employees' skills.
Professional development of employees in the sales network focused on one hand on the role of the relationship expert through training hinging on "positive meetings with customers". All sales network employees spent one day in the classroom participating in a sales/relationship updating course. On the other hand, technical and banking training was also provided, with detailed courses on finance, securities, loans and banking products. In addition, this year there was a total of 1,428 hours of on-the-job training, contributing towards providing valuable support to staff directly on site.
Again in 2017, training optimisation and efficiency improvements were at the forefront of development activity planning, in compliance with the figures and concrete objectives set by the Bank. This is the case for specialised and management training: the focus was on topics that required further interventions, identified through various indicators, surveys, and staff interviews.
Self-learning, accounting for 30% of total training hours, has become increasingly important in all its different forms. Through e-learning modules, Lync sessions, films and other forms of multi-media training, employees were able to take advantage of opportunities to save time and costs through technology.
The Bank continued to focus attention on professional development of management throughout 2017, with the objective of spreading awareness and ensuring the full adoption of the new management model, created in 2016 with a view to aligning with the Volksbank strategy and vision. On the basis of this management model, a Development Centre was created, with the involvement of 30 employees (managers and high-potential employees); at the same time, a specific individual training course was launched based on individual needs and an 18-month group training program was structured, which is expected to begin in 2018.
In the future, the Bank will continue to develop and harmonise the basic skills of managers (feedback, coaching) and the role of leader who is acting as the instructor of his/her associates.

IVASS Certification

During 2017, 860 staff members were given IVASS certification, or 96% of sales staff who are therefore trained to work in insurance consultation and sales. Around 17,800 hours of e-learning was provided for IVASS training.

Mifid II Certification

During 2017, 534 staff members were given Mifid certification, or 58% of sales staff who are thus trained to work in financial product consultation and sales. Overall, 8,010 training hours were provided, including 6,930 in the classroom and 1,080 in e-learning mode.

Yearly Staff Interview

Staff interviews are held on a yearly basis and represent an important tool for management. The new evaluation form introduced in 2016 was used in 2017. 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.

1.11.4 NON-PERFORMING LOANS

The Loan Workout Department was established by the Board of Directors on 2 December 2016 with entry into force as of 1 January 2017.
By doing this, the Bank aimed to combine within just one department specific expertise previously present across different areas, with a view to optimising the entire process of managing non-performing exposures.
The Loan Workout Department is broken down into Organisational Units:

- Anomalous Loans Analysis Service;
- Doubtful Loans Service;
- Portfolio Management Service/Reporting B.O.;
- Real Estate Asset Workout Service.

The organisational model thus described calls for overseeing exposures in difficulty, starting from classification as past-due to the classification and management of exposures classified as "doubtful".
The Doubtful Loans Service is responsible for launching and managing legal and out-of-court debt collection activities. In particular, it is responsible for:

- activating and coordinating all legal instruments available for debt collection, following criteria of speed, effectiveness and cost containment;
- ensuring the management of third-party attachments and seizures relating to doubtful positions;
- managing relations with debtors or with professionals they have hired, in compliance with the powers delegated with respect to settlements or authorised by the decision-making bodies, if settlement is seen as a possibility;
- managing and launching, through external professionals, the legal actions aimed at completing the warning phase for the subsequent acquisition of judicial mortgages or carrying out judicial initiatives depending on their possibility and greater effectiveness in relation to the case at hand;
- coordinating the out-of-court/judicial collection phase through external companies of accounts for which outsourced management is deemed more efficient, monitoring its results and costs;
- guaranteeing the loading, quality and updating of the set of information in the company's applications;
- guaranteeing the loading and updating of appraisal values and/or values linked to judicial auctions;
- with reference to positions classified as "substandard revoked", following the indications and instructions received from the Anomalous Loans Analysis Service;
- reporting to the Real Estate Asset Workout Service the cases in which it could be appropriate for the Bank to participate directly in the real estate auctions;
- managing direct costs linked to collection activities.

As part of ordinary management, the Anomalous Loans Analysis Service is responsible for monitoring and managing positions with signs of anomaly (high risk) and those classified as Pre-Past Due, Past Due and Unlikely to Pay.
More specifically, it:

- contributes to the implementation and maintenance of a base of information which allows for the assessment and performance monitoring of individual positions and the overall exposure of customers with respect to the Bank;

- monitors the proper management of classified positions, providing all of the necessary assistance and consultancy, when deemed necessary;
- ensures the systematic and prompt reporting of anomalous positions, verifying the effects and outcomes of the individual actions adopted to limit credit risks;
- orders the appropriate actions and strategies aimed at settling these positions;
- carries out all activities in preparation for transfer to doubtful status (i.e., resolution on the basis of the mandate of the Board of Directors and the Regulation of responsibilities on lending, the revocation of credit lines, prompt communication of placement in default/application of the acceleration clause on the principal debtors and any guarantors);
- proposes to the competent bodies "placement in default" and the transfer to doubtful status of the accounts of customers for which it is necessary to take legal measures for debt collection;
- manages positions classified as "revoked" with respect to which legal actions have been initiated;
- guarantees the loading, quality and updating of the set of information of which it is the owner in the company's applications;
- ensures the monitoring of the periodic review activities on classified positions and the implementation of resolutions of the competent bodies within the defined terms.

The Real Estate Asset Workout Service carries out support and guidance activities in the process of appraising real estate. Specifically, it is responsible for:

- managing and coordinating activities to enhance the value of and develop the real estate assets acquired by the Bank (buildings/land);
- supporting the Management in the process of appraising the real estate used as collateral for items in doubtful status;
- managing and proposing interventions in the real estate market, particularly with reference to the development and/or sale of the real estate assets owned by the Bank;
- processing and defining, at the request of the Anomalous or Doubtful Loans Service, individual strategies for enhancing the value of areas and/or properties with a view to maximising the return for the Bank and maximising collection forecasts;
- collaborating with the sales areas for the promotion of judicial auctions in which the real estate used as collateral for doubtful positions is bought and sold;
- developing external relationships with investors and/or funds specialised in the real estate sector.

The Portfolio Management Service/Reporting B.O. provides support to the Loan Workout Department and to the Services reporting to it.

It conducts monitoring on:

- the anomalous and non-performing loans portfolio;
- information received from the Early Warning engine, verifying the stocks and flows entering and leaving the lists in line with the associated degree of risk;
- activities carried out by the branches/managers for anomalous positions identified by the Early Warning engines (CM);
- the effectiveness of the actions taken to mitigate the risk of slipping to Stage 2;
- the effectiveness of the actions carried out for the reduction and/or limitation of risk exposure for those positions identified by the Early Warning engine;
- flows moving into and out of anomalous, pre-PD, PD and UTP status;
- flows moving into and out of doubtful status;
- flows of collections on doubtful positions;
- operating costs for the management of anomalous loans and doubtful positions

The Portfolio Management Service/Reporting B.O. supports the Anomalous Loans Analysis Service and the Doubtful Loans Service in activities aimed at defining the strategy for the management of NPLs and its constant monitoring.

The Portfolio Management Service/Reporting B.O. also supports the Loan Workout Department in monitoring the quality of databases for which the Department is responsible with a particular focus on aspects linked to real estate guarantees and their constant updating.

1.11.5 TECHNOLOGICAL AND ADMINISTRATIVE SERVICES

Volksbank is supported by the IT outsourcer SEC Servizi S.C.p.A. in Padua for the management, development and innovation of the entire IT system supporting all bank processes, both internal and at branch level.
SEC Servizi offers advanced multi-channel solutions and centralised back-office services, able to guarantee appropriate service levels and constant development and innovation of the Bank's products and services.

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

The rationalisation of branch counters also continued in 2017, increasing the number of branches with this level of automation to more than 60. The role of the bank teller has been abolished in these branches; instead counter operations are automated with a multi-operator machine that is used by all branch employees. The objective is to make it more advantageous for customers to use the self-service area (ATMs, stands, coin counters) for cash transactions. This equipment is adapted to small and medium-sized branches with low volumes of transactions in cash and allows staff to focus on consulting, however offering the option of serving customers who do not intend to make independent use of Next-Generation ATMs.
The data confirm this operating model: in these branches, the utilisation rate of Next-Generation ATMs for cash deposits is the highest overall, corresponding to 70% of cash deposits, on average.

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

Tablets

In addition to increasing the use of tablets for signatures on branch transactions and bank contracts, in 2017 tablet signature was also expanded to the general registry number contract, the specimen and F24 payments.
This function will bring notable advantages to customers:

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

The methods for tablet signature are the result of an analysis on the usage methods that are most convenient for customers and staff. In this way, for example, a function of "deferred signature" was developed for tablets that, in the event of co-signed contracts (e.g., husband and wife, business with 2 or more legal representatives, etc.), allows all signing customers to visit the branch at different times and independently of each other. The contract becomes valid with the signature of the last of the co-signers. This development was especially complex and involved months of testing, but feedback from users demonstrates that it is an extremely popular and highly-utilised function. The use of tablets in Volksbank was further increased during 2017, reaching roughly 1.34 million statements of account and around 135,000 contracts signed with the advanced digital signature, and is destined to rise even more in 2018.
In 2017, new interfaces were created that in the course of 2018 will make it possible to migrate loan agreements and all forms currently available on the bank's intranet to tablets as well.

The Branch of the Future - Desktop Scanners

The installation of the "desktop scanner" for each workstation which began in 2016 concluded in 2017 and allowed for a significant reduction in volumes of mail within the bank. These devices and the constant increase in the use of tablet signatures on contracts and documents by customers also reduced the need for personnel dedicated to document archiving. In 2017, a project began which will be concluded in 2018 for the activation of digital cheque settlement, as required by regulations. The activation of this new cheque processing function will provide further savings in delivery costs.

Stand e-posts

The availability of banking documents at stands (e-posts), introduced in autumn 2014, was expanded during the course of 2017. Now nearly all of the documents that the bank sends to the customer can be viewed and printed at the stands.
The e-post service is generally appreciated by customers: in some geographic areas, more than 80% of customers without internet banking choose to view their documents at the stands and no longer wish to receive the paper copy.

Expansion of Next-Generation ATMs

The installation of Next-Generation ATMs continued throughout 2017, which accept banknotes and cheque deposits. This service is increasingly attractive to customers, and 123 Next-Generation ATMs were available at the end of the year in 121 different locations, or at more than half of the branches. Where they are installed, on average 55% of cash deposits are performed at these machines. Volksbank will continue making these investments to streamline the resources used and automate banking services. At the end of 2017, 10 Next-Generation ATMs had an active recirculation function. This means that the cash deposited by customers can be disbursed, without being handled by staff. It is estimated that this avoided counting roughly Euro 25 million.
In 2016, a project began to provide branches with greater cash rotation with the new "S200" self-service machine. This machine, a "Glory" Cash Recycler designed for the self-service management of deposits and the disbursement of recirculated banknotes, has the further innovation of making it possible to change banknote denominations. In the initial testing phase, 3 machines were installed (2 at BZ/Via L. da Vinci and 1 in Marostica). In the year 2017, we were dedicated to monitoring the functioning of the machine to then develop along with the supplier Auriga a personalised software meeting the branch/customer needs that emerged during the first testing phase. Customers appreciate this in particular because large deposits are processed more quickly and therefore in a more secure manner compared to the use of a cash-in ATM and because it is possible to change the denomination of the banknotes, even when the branch is closed.

Modernisation of the Branch Infrastructure

During 2017, the hardware infrastructure of the branches was modernised, a project that began in 2016.
All branch workstations were equipped with new PCs, known as "thin clients", which are updated to the latest requirements and technological advances. Furthermore, all branch printers were modernised, a necessary investment where the equipment was outdated. As part of these activities, desktop scanners were also installed everywhere, as discussed in the previous section.
Also in 2017, "Cash Recyclers" continued to be installed at branches. This was done to increase the speed of transactions for the teller and to manage cash more securely (theft risk). These updates also meet supervisory provisions that require traceability of cash through modern equipment, especially in branches with high levels of cash transactions.
During 2018, these machines will continue to be installed in an increasing number of branches.

In the course of 2018, the networking part will be modernised, with the replacement of network switches and progressively the firewalls as well, in favour of higher performance devices.
The WAN network (geographical network which interconnects the offices, SEC and all branches) will evolve in terms of speed and available bandwidth, given the growing demand for online services.
Throughout 2018, end-of-life laptop computers will be gradually replaced and the distribution of Microsoft Surface PROs will be increased.

Modernisation of the Central Infrastructure

In the year 2016, the foundations began being laid for a second "data centre" in Marostica, an activity which concluded in 2017. The primary data centre for Volksbank is in Bolzano. With the creation of a second data centre in available space in Marostica, response times for those offices were improved, and a back up was established in the event of disruptions at one of the 2 centres. In this manner, it will be possible in coming years to reduce costs of third-party suppliers that, up to now, had ensured the back-up function for the data centre.
As part of the modernisation of the central infrastructure in 2017, security systems and defences against electronic attacks were refined and strengthened. These investments must be maintained over time.
In the course of 2017, new devices were introduced for bulk, high capacity archiving. In 2018, the Disaster Recovery site will be migrated from the IBM resiliency centre in Milan to the new Marostica Data Centre, with an investment that will enable us to transfer the fees that we now pay in favour of technology that is always available.

Regulatory Amendments

Again in 2017, most of the application developments involved amendments which had to be made in accordance with numerous regulations. The regulations included repeated innovations and amendments on anti-money laundering, due diligence, usury, compound interest, reporting and financial statements, as well as FATCA and CRS regulations for the prevention of international tax evasion. Specifically, a project was launched to adapt to the IFRS 9 accounting standard, which will be completed at the beginning of 2018. In 2017, studies began on the impact of the new Anacredit reporting and the informational bases began being laid which will allow for the activation of the procedure in 2018. From mid-2017, work was done to be able to handle the new management of cheques, which in the initial months of 2018 will be "dematerialised" as laid out in the new regulations.

1.11.6 SPONSORSHIPS AND DONATIONS

Sponsorships

Volksbank financially sponsors events, activities and organisations in exchange for well-defined advertising and/or economic benefits in line with a specific marketing plan, with a view to achieving specific image and/or sales objectives.
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 2017, Volksbank invested a total of Euro 632 thousand in sponsorships.
The sectors that have benefited from sponsorships range from sport and culture to social initiatives and training. Its support of the youth sections of sporting associations is worthy of special mention.
Volksbank sponsored about 160 associations in 2017. About 76.58% of the investment was related to sporting activities, while the remaining 23.42% 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 around Euro 290 thousand in 2017.

Sponsorship activities 2017	**Amount**	**% of total**
(in euro)		
Sport	483,707	76.58%
Culture	73,848	11.69%
Social	34,049	5.39%
Other	40,051	6.34%
Total	**631,655**	**100.00%**

Donations

Volksbank also supports its territory through donations, supporting worthy causes. Generally, the donations are for public benefit, and can also be given to cultural institutions. Traditionally, the bank contacts local structures receiving such donations directly within their catchment area. A total of about Euro 168 thousand was donated in 2017. The beneficiaries included parishes, lay voluntary associations and local institutions.

1.11.7 FONDAZIONE BANCA POPOLARE DI MAROSTICA • VOLKSBANK

The Fondazione Banca Popolare di Marostica • Volksbank was established and is fully supported by Volksbank, which guarantees a minimum annual endowment of financial resources and logistics, whose objective is to promote and sustain initiatives of a cultural, educational, training, recreational, social and health assistance, religious, or scientific research nature, to the benefit of the civic and social fabric in the reference area of the former Banca Popolare di Marostica, now merged into Volksbank.
Overall, donations disbursed by the foundation amount to Euro 300,000 in 2017.

1.12 OTHER INFORMATION

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

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

The importance of dedicating the maximum commitment to valuations related to the going-concern assumption and information in the financial statements was also mentioned in document no. 4 of 3 March 2010 issued by the same authorities. It stresses the need to ensure transparency in reporting valuations of goodwill and other intangible assets with indefinite useful lives and equity investments, on the valuation of equity instruments classed as "available for sale", and on the classification of financial liabilities backed by special contractual stipulations.
With regard to going concern, the Directors did not detect any situations that would raise doubt on the Bank's ability to continue its regular operations in the Bank's transactions and financial development. Thus, the Directors feel that the equity and financial structure of the Bank is satisfactory to guarantee that the Bank can operate as a going concern. Based on this reasonable expectation, the financial statements as at 31 December 2017 were prepared under the going-concern assumption.
The financial risk disclosure was described in the Directors' Report and in Part E of the Notes to the Accounts: "Information on risks and related hedging policies."
When preparing the year-end financial statements, Volksbank performed impairment tests on its assets, including goodwill, equity investments carried under assets and available-for-sale securities. A description of how the tests were conducted and their results is provided in the Notes to the Accounts.
There is a special section entitled "Uncertainties related to use of estimates" addressing these uncertainties in preparing financial statements in the Notes to the Accounts under Part A – "Accounting Policies, A. 1 – General Part".
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.

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

Based on recommendations made in 2008 by the Financial Stability Forum (now Financial Stability Board) and the Bank of Italy (Communication no. 71589 of 18 June), a report on exposures as at 31 December 2017 to financial products that the market considers high risk, such as Collateralised Debt Obligations (CDO), Residential Mortgage Backed Securities (RMBS), Commercial Mortgage Backed Securities (CMBS), other Special Purpose Entities (SPE) and leveraged finance, is included below.

Exposures to SPEs (Special Purpose Entities)

Special Purpose Entities (SPEs) are entities that are set up to achieve a specific objective, normally entailing the realisation of credit securitisation transactions and covered bond issue transactions.
Securitisations use special purpose vehicles (SPVs), established in accordance with art. 3 of Italian Law no. 130 of 30 April 1999, which place debt instruments on the market, issued to finance the purchase of receivables subject to securitisation. The aforesaid receivables act as a guarantee to repayment of the liabilities issued by the SPV.
Covered bond transactions, governed by Italian Law no. 130 of 30 April 1999, are debt issues by credit institutions, specifically guaranteed by portfolios of identified assets that are segregated from the issuer's assets. These assets are sold by the issuer to a specially established SPV.
For further details, please refer to Chapter "C. Securitisations and asset disposal transactions", Section 1 – Credit Risk in the Notes to the Accounts and Section 3 - Liquidity risk for self-securitisations.
Lastly, note that as set out in table "C.1.3 Exposures from main third party securitisations according to securitised asset type and exposure type", the Company holds a portion of senior tranches of HIPOCAT 15.1.50 TV, registered under held to maturity instruments (HTM) for Euro 0.6 million and regarding a securitisation of receivables.

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

Exposures to Structured Products

The main positions in structured credit securities issued by third parties as at 31 December 2017 are represented by corporate bonds, all issued by credit institutions, all in EU countries, as well as Italian corporate minibonds.
The overall exposure to covered bonds, in terms of amounts recorded in the financial statements, is Euro 64.1 million, representing a limited exposure with respect to the overall portfolio of debt securities (equal to about 2.8%). Of these, Euro 52.0 million were classified as available for sale ("AFS") while Euro 12.1 million were classified as held to maturity ("HTM).
The structured securities, totalling Euro 15.4 million in the financial statements (equivalent to 0.7% of the total bond portfolio), include securities classified as available for sale (AFS), amounting to Euro 14.8 million, and held for trading (HFT), amounting to Euro 0.6 million. All these instruments have remaining maturity equal to or less than five years.
Please refer to the tables under Assets, Sections 2 and 4 of the Notes to the Accounts for further details on the financial instruments held for trading and the financial instruments classified as available for sale.

1.12.3 EXPOSURE TO SOVEREIGN DEBT

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

Exposure to sovereign debt - by maturity

(thousands of Euro)

	2018	2019	2020	2021	2022	After 2022	Total
HFT	-		-	-	-	-	-
AFS	112,345	51,270	183,650	52,472	69,723	261,295	730,755
HTM	15,295	-	65,193	48,878	49,962	578,365	757,693
LRO	-	-	-	-	-	-	-
Total	**127,640**	**51,270**	**248,843**	**101,350**	**119,685**	**839,660**	**1,488,448**

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	31.12.2017
EU countries					
- Italy	-	730,755	757,693	-	1,488,448
Non-EU countries	**-**	**-**	**-**	**-**	**-**
Total portfolio	**-**	**730,755**	**757,693**	**-**	**1,488,448**

There are no other exposures to sovereign debt. Of the total exposure, 43.6% has a residual maturity of less than 5 years.
As at 31 December 2017, the sensitivity to an increase of 1 bps in the credit spread of Republic of Italy government securities classified as "Financial assets available for sale" amounts to around Euro -267.000 thousand, with an implicit spread duration of 3.55 years. There were no government securities classified as "Financial assets held for trading".

1.12.4 ATYPICAL OR UNUSUAL TRANSACTIONS

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

1.13 BUSINESS OUTLOOK

In the Eurozone, the economic recovery accelerated significantly in the past year. Robust growth rates were recorded in practically all EU member states, and although some differences remain in the comparison between the individual countries, the recovery of the entire area appears to be more sustained and the conditions for its continuation have improved. The promise of ECB President Draghi "to do all that is possible" to preserve the Euro represented a turning point for the entire area. The leaders of individual countries are strengthening the capacity of individual countries to resist shocks, also through an increasing drive towards political and monetary integration. The suggestions on the table regard the refinement of the European Stability Mechanism (ESM), the EU bailout system, through its conversion into a European Monetary Fund (EMF), a mechanism that would represent a point of support for the entire EU. The creation of a European Ministry of Finance and Economy, which moreover has already encountered some resistance, could constitute a further step towards greater integration. After real GDP growth of 2.5% in 2017, it is expected that performance in 2018 will remain substantially unchanged, around 2.2%, to then align with an average of 1.8% in the 2019-2022 four-year period.
The ECB continues to support growth; reduced inflationary pressure entails the maintenance, in the intentions of the president, of an accommodating monetary policy. The reference rates will be maintained at minimum levels, even below zero, and the Quantitative Easing ("QE") program will continue at the pace of Euro 30 billion until September 2018. The ECB's outlook improved considerably during 2017, and although the attitude remains prudent, in the course of 2018 the outlook is expected to improve further.
Currently, the pace of monthly acquisitions is expected to continue until early 2019.
A still weak job market suggests that domestic demand continues to have margins for growth, while the increase in external demand within the region may have a supportive effect. In the meantime, growing commodity prices and greater pressure on prices in the domestic market supports expectations of growth in inflation in 2019-2020.

In this case, the ECB is expected to move quickly towards the normalisation of monetary policy. Growth in the rate on deposits, currently at -0.40%, could take place early, lightening pressure on the interest margin and favouring profitability.
In Italy, the elections created a situation of uncertainty, due to a proportional electoral law, with the effect of fragmented representation in both houses of parliament. The new movements that emerged benefitted from Eurosceptic attitudes, but the expectation is that a government may be formed only by means of a coalition. Uncertainty in the political situation and government stability will continue to constitute a significant factor in the market situation.
In this context, the Bank confirms the maintenance of its utmost attention for its reference area, with a particular focus on the offer of competitive services to families and businesses alike.
Likewise, activities will continue to seek out greater efficiency, cost containment and improvements in commercial initiatives.
Rate trends are expected to confirm an interest margin around the levels of the year just ended, while the commission margin could record a further improvement, also as a result of the continued commitment to the development of services for customers and the quality of the consultancy provided in asset management. Utmost oversight will be maintained over capital strength, liquidity management and risk profile improvement.

1.14 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 ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES

1.15 REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES

1.15.1 PROFILE OF THE ISSUER

Banca Popolare dell'Alto Adige S.p.A. was formed from the union of three cooperative banks in Alto Adige. Those banks date back to the "Casse di Risparmio e Prestiti" ("Savings and Loans Banks") established towards the end of the nineteenth century in Bolzano, Bressanone and Merano. Of these, the Merano Istituto di Risparmio e Prestiti was the absolute first to be founded. On 1 August 1992, BPAA was created from the merger between the Bressanone and Bolzano cooperative banks. Banca Popolare di Merano was merged into BPAA in July 1995. On 1 April 2015, BPAA incorporated Banca Popolare di Marostica and on 5 October 2015, Banca di Treviso, of which, as a result of the merger of Marostica bank, BPAA had acquired the controlling interest amounting to in excess of 90% of the share capital.
As of 12 December 2016, the date of registration of the minutes of the Shareholders' Meeting concerning the transformation of 26 November 2016, Banca Popolare dell'Alto Adige became a joint-stock company.
The transformation into a joint-stock company, after exceeding the total assets limit of Euro 8 billion envisaged in Italian Law Decree 3/2015, converted to Law 33/2015, will see the Bank retain its structure as a regional bank, achieving decisive but measured growth in the new areas, with a sales strategy focused on the customers traditionally served.
The share capital, equal to roughly Euro 199 million, is distributed amongst more than 60,000 shareholders, who are in large part customers as well.
With the merger of Banca Popolare di Marostica and Banca di Treviso, Banca Popolare dell'Alto Adige S.p.A. acquired a size, area coverage, efficiency and profitability in north-eastern Italy capable of offering a new and significant competitive profile in the market. At the same time, the Bank preserves and strengthens its vocation to support local economic development in accordance with a unitary logic of social responsibility towards customers, shareholders, employees and regional communities.
Banca Popolare dell'Alto Adige S.p.A. adopts the traditional administration and control model, the essential and qualifying elements of which are described in this Report.
The Management has always been committed to favouring the broadest shareholder participation in the life of the company and, in particular to facilitating direct participation in Shareholders' Meetings.
To keep up constant relations with its members, the bank sends them communications periodically, not only at the midpoint and end of each year. In addition, the directors' report accompanying the financial statements offers the shareholders an exhaustive disclosure on the various areas of corporate action, making use of the clearest possible language that can be understood by everyone. The other periodic financial reports also comply with this principle.
Banca Popolare dell'Alto Adige S.p.A. is not part of any Banking Group.

1.15.2 INFORMATION ON THE OWNERSHIP STRUCTURES (PURSUANT TO ART. 123-BIS OF THE CONSOLIDATED LAW ON FINANCE) AS AT 31/12/2017

Structure of the share capital

The share capital of Banca Popolare dell'Alto Adige S.p.A. is represented only by registered ordinary shares with no specification of nominal value.
Banca Popolare dell'Alto Adige S.p.A. shares are traded on the Hi-MTF, order-driven segment (MTF stands for Multilateral Trading Facilities, recognised by Consob), the market managed and organised by Hi-MTF Spa and specialised in trading bank shares not listed on regulated markets, which aims to guarantee greater transparency, liquidity and efficiency.
As at 31 December 2017, share capital was equal to Euro 199,439,716, broken down into 49,859,929 ordinary shares all with equal rights and obligations.
The shareholders are afforded normal voting and dividend rights.
There are no financial instruments (convertible bonds, warrants) which attribute the right to subscribe newly issued shares.

During the approval of the financial statements, the ordinary shareholders' meeting determines the extent of the dividend due for each share. The dividends of shares not collected within five years of the day on which they become payable will be returned to the bank.

Restrictions on the transfer of securities

The shares are registered and freely transferrable with the manners provided by law.

Significant investments in the share capital

As at 31 December 2017, on the basis of the results of the shareholders' register, the communications received pursuant to art. 120 of the Consolidated Law on Finance (TUF) and the other information available to the Company, there are no parties that directly or indirectly hold a significant equity investment in the share capital of Banca Popolare dell'Alto Adige S.p.A.

Securities granting special rights of control

There are no securities granting special rights of control.

Shareholdings of employees: mechanism for exercising voting rights

There are no employee shareholding systems.

Restrictions on voting rights

There are no restrictions on voting rights.

Agreements between shareholders

The Bank is unaware of any agreements between shareholders as laid out in art. 122 of the TUF.

Change of control clauses

There are no cases of this type.

Directors' indemnities in the case of resignation, dismissal or termination of contract following a public takeover bid

There are no agreements of this type.

Appointment and replacement of directors and amendments to the articles of association

Articles 21 and 22 of the articles of association govern the appointment and replacement of directors through the list voting mechanism.

The Shareholders' Meeting elects the members of the Board of Directors on the basis of lists.

One or more shareholders who have the right to vote in the Shareholders' Meeting called upon to elect the Board of Directors which together possess at least 1% of the share capital or any lower percentage established by legal or regulatory provision may submit a list of candidates.

The lists of candidates must be signed by those who submit them and submitted, under penalty of forfeiture, at the registered office of the Company at least fifteen days before the date scheduled for the Shareholders' Meeting on first call.

The lists must be accompanied by information relating to the identity of the submitting shareholders with an indication of the number of shares they hold and a certification of the ownership of such equity investment for the purposes of art. 21, paragraph 1 of the articles of association, as well as any other information required by legislation, including regulations and provisions of the articles of association.

Each list is to be accompanied by an exhaustive disclosure on the personal and professional characteristics of the candidates, as well as their declaration attesting to their fulfilment of the requirements laid out by provisions of law, regulations and the articles of association, including those of independence, and their acceptance of the nomination.

The following procedure is followed to elect directors:

- If multiple lists are submitted, all directors to be elected, with the exception of those to be taken from the minority lists, are taken from the list which obtained the highest number of votes (the "majority shareholder list"), in the progressive order in which they are listed. The first name fulfilling the requirements so that the residency conditions specified in art. 20, paragraph 1 of the articles of association are satisfied, is taken, in the progressive order in which the names are listed, from the second and third list by number of votes, submitted or voted for by shareholders not associated in any manner, even indirectly, with the shareholders that submitted or voted for the majority shareholder list and which have each obtained a number of votes representing at least 1% of the share capital (the "minority lists"). If there is only one minority shareholder list as a result of the voting threshold established above, the first two names fulfilling the requirements such so that the residency conditions laid out in art. 20, paragraph 1 of the articles of association are satisfied are taken from that list in the progressive order in which they are listed.

- If only one list has been validly submitted, or no minority shareholder list obtains the minimum amount of votes specified in letter (a) above, all directors are taken from the single list.
- If, in the case laid out in paragraph 6 above, it is not possible to take all directors to be elected from the lists in accordance with the mechanism laid out in letters (a) and (b) above or, if no list has been validly submitted within the required terms, the members still needed for the formation of the Board of Directors are taken from amongst the candidates fulfilling, inter alia, the requirements laid out in art. 20, paragraph 1 and paragraph 5 of the articles of association and proposed directly by the outgoing Board, by resolution passed by the majority of the Directors in office and/or by the shareholders at the Shareholders' Meeting: the candidates receiving the highest number of votes will be elected.
- In the case of equal votes between lists or candidates, the Shareholders' Meeting proceeds with a second vote by relative majority.
- In addition, if with the election of the candidates taken from the lists with the procedures specified above it is not ensured that the composition of the Board of Directors is compliant with the regulations concerning the balance between genders pursuant to art. 20, paragraph 1 of the articles of association, the candidate of the most represented gender elected last in progressive order on the list which received the highest number of votes will be replaced by the first unelected candidate of the least represented gender on the same list in accordance with the progressive order. If it will be necessary to appoint more than one director of a different gender, this replacement procedure will continue until it is ensured that the composition of the Board of Directors is compliant with regulations in force pro tempore on the balance between genders. If even applying this approach it is not possible to identify directors with the above-mentioned characteristics, the replacement procedure specified will be applied to the minority lists most voted for from which elected candidates were taken; if even after applying the above-mentioned replacement criteria suitable replacements are not identified, the Shareholders' Meeting resolves by relative majority upon the submission of candidacies of parties belonging to the least represented gender.

If in the course of the year one or more directors leave office for any reason whatsoever, the unelected candidates who reaffirm their willingness and meet the requirements for the office, including those of residency and, if the Board needs to be supplemented pursuant to art. 20, paragraph 5 of the articles of association, have the necessary profile of independence, will replace them based on the order in which they are listed on the same lists as the directors to be replaced, without prejudice to the fact that, if once the directors leave office the balance between genders is no longer guaranteed, the replacements must be of the same gender as the outgoing directors. Unelected candidates who have reached seventy years of age cannot replace outgoing directors.

If, with the provisions pursuant to paragraph 1 above, the Board of Directors cannot be completed, the Board may replace the outgoing directors, provided the majority always consists of directors appointed by the Shareholders' Meeting. Co-opting takes into account the requirements for the office and of residency and, if the Board must be supplemented pursuant to art. 20, paragraph 5 of the articles of association, the necessary independence profile. In any event, the provisions pursuant to paragraph 5-bis of art. 21 of the articles of association shall apply to co-opting. Co-opting takes place by means of a vote by absolute majority with rounding up to the next unit, of the directors in office and with a resolution approved by the Board of Statutory Auditors.

The directors taking over due to "second chance" voting in accordance with the provisions of paragraph 1 above, shall take office for the remainder of the term of office of the directors they are replacing.

The co-opted directors remain in office until the next Shareholders' Meeting: the meeting replaces, by voting with no list restriction by relative majority from amongst the individual aspiring members who have submitted their candidacy and documented the requirements pursuant to art. 20 of the articles of association at least 10 days before the date scheduled for the Meeting on first call, at the Company's registered office.

The directors called upon to replace the outgoing members shall each take office for the remainder of the term of office of the directors they are replacing.

Amendments to the articles of association are the responsibility of the Extraordinary Shareholders' Meeting and the relative regulations are laid out in art. 13 of the articles of association. Pursuant to art. 28, paragraph 2) letter w) of the articles of association, the Board of Directors is responsible for passing resolutions to bring the articles of association into compliance with legislative provisions.

Delegations to increase the share capital and authorisations for the purchase of treasury shares

There are no delegations to the Board of Directors for share capital increases pursuant to art. 2443 of the Italian Civil Code or to issue participatory financial instruments.
The Shareholders' Meeting of 1 April 2017 approved the authorisation for the purchase of treasury shares subject to withdrawal following the transformation into a joint-stock company which may remain un-opted. For more information, please refer to the minutes of the resolution available on the bank's website at www.volksbank.it.

Management and coordination activities

Banca Popolare dell'Alto Adige S.p.A. is not subject to management and coordination activities pursuant to articles 2497 et seq. of the Italian Civil Code.

1.15.3 ADHESION TO CODES OF CONDUCT

Banca Popolare dell'Alto Adige S.p.A. has not adopted the "Corporate Governance Code" promoted by Borsa Italiana spa, or other self-governance codes.
In light of the institutional characteristics and size of the bank, it was not deemed appropriate to follow complex organisational rules which were specifically designed for the model of joint-stock companies traded in regulated markets.

1.15.4 BOARD OF DIRECTORS

The Board of Directors is responsible for strategic supervision and oversight of business management, and must ensure that the risk to which the Bank is exposed in its activities is managed.
Strategic supervision and risk governance are functions performed by the Board as a whole and involve (i) determination and (ii) verification of guidelines and strategic business objectives or:
- the Bank's organisational, administrative, and accounting structure and its internal control system;
- commercial model and business and financial plans;
- risk objectives and related governance policies as part of an integrated understanding of business risks and their reciprocal links and links with the Bank's external environment;
- transactions and procedures of strategic relevance.

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

Oversight of business management is assigned, ab origine, to the General Manager for all current affairs and for the execution of the resolutions adopted by the Board. Business oversight is also attributed to the Credit Committee, for categories of measures to grant credit, and to the General Manager, for individual legal transactions.
The delegated functions manage the activities with executive powers according to the guidelines and objectives set forth by the Board and report on them to the Board.
The number of directors. Pursuant to art. 20 of the Articles of Association, the Board of Directors may consist of a minimum of nine up to a maximum of twelve Directors, elected by the Shareholders' Meeting for a period not longer than three years and may be re-elected. The number of Directors to be elected is determined by the Shareholders' Meeting in the year prior to the appointment, on the proposal of the exiting Board of Directors.
The Board proposes the number of Directors that is deemed appropriate to the function of strategic supervision and management of the Bank, in compliance with the instructions for regulatory authorities and according to the procedures contained in Circular no. 285 - Title IV, Chapter 1 (Corporate governance), Section IV (Composition and appointment of corporate bodies).

The professional qualification of directors. Without prejudice to requirements envisaged by law, the Supervisory Authorities, the articles of association and Shareholders' Meeting resolutions, the directors must have professional experience pertinent to the sector of activities and the operating characteristics and size of the Bank.
The quality of the Board as a whole is ensured by the balanced combination of knowledge, professional experience, and skills, appropriately diversified among the individual Directors, who, in any case, are asked to contribute to discussions in all areas of the Board's responsibility, with independence of opinion and the capacity to analyse and assess.
Roles within the Board of Directors. Directors are expected to act based on an informed opinion and collectively deliberate, each with full independence of judgment.
The Chairman promotes the effective functioning of corporate governance and ensures effective Board debate so that the decisions reached by the Board are the result of an appropriate debate of roles, based on knowledgeable and reasoned contribution from all Directors.
Executive Directors are organised in Board committees with executive powers, granted by the Board of Directors, as part of the granting of credit.
Non-Executive Directors participate in the Board decision-making processes with specialised expertise, in particular, in the analysis of risk related to top management decisions.
Independent Directors are non-executive directors with formal verification of the envisaged independence requirements applicable at any given point in time, from the supervisory authority and the Articles of Association. Independent Directors participate in Board decision-making processes in potential conflicts of interest, with authority and independence not conditioned on relationships of influence with the Bank or with parties connected to the Bank.
For more information, please refer to the Articles of Association and the document "Qualitative composition of the Board of Directors and theoretical profile of responsibilities" published on the website www.volksbank.it.

Breakdown

Pursuant to arts. 20 et seq. of the articles of association, the Board of Directors consists of a variable number of directors, from nine to twelve, elected - after the relative number is determined by the Shareholders' Meeting called for the approval of the financial statements in the year preceding their appointment - by the Shareholders' Meeting. The Board proposes the number of directors it deems appropriate for the strategic supervision and oversight of the management of the Bank, in compliance with the banking supervisory instructions, Circular 285, Part 1, Title IV. However, as a result of transitional art. 43, paragraph 1 of the articles of association, until the approval of the financial statements at 31 December 2019, it is established that the Board of Directors has 12 members.
The Board of Directors in office was elected with voting by list by the Shareholders' Meeting on 1 April 2017. The Shareholders' Meeting confirmed all directors of the outgoing Board with the approval of the financial statements as at 31 December 2016.
The Board of Directors for the 2017-2019 three-year period consists of:
- MICHAELER Otmar: Chairman
- CABION Maria Giovanna: Deputy Chairman
- SALVÀ Lorenzo: Deputy Chairman
- ALBERTI Marcello: Director
- BERTACCO Lorenzo: Non-executive, independent director
- COVI David: Non-executive, independent director
- FROSCHMAYR Philip: Non-executive director
- LADURNER Lukas: Director
- MARZOLA Alessandro: Non-executive director
- PADOVAN Giuseppe: Director
- TAUBER Margit: Non-executive, independent director
- WIERER Gregor: Non-executive director

Role of the Board of Directors

Art. 28 of the articles of association establishes that:

1) The Board of Directors is responsible for the strategic supervision and management function and is vested with all powers of ordinary and extraordinary management of the Company for the achievement of the corporate purpose, without prejudice to the need for specific authorisation in the cases required by law and without prejudice to the acts for which the Shareholders' Meeting is responsible.

2) Aside from the attributions that cannot be delegated according to art. 2381 of the Italian Civil Code, the Board of Directors is attributed exclusive responsibility for decisions concerning:

a) the determination of the general management guidelines and the general structure of the organisation as well as the strategic policies and transactions and business and financial plans of the Company;

b) the approval and periodic verification, at least on an annual basis, of the organisational structure;

c) decisions concerning the attribution of duties and responsibilities within the Company's organisational structure and the approval and amendment of the main internal regulations;

d) the assessment of general business performance;

e) the risk management policies, as well as the assessment of the functionality, efficiency and effectiveness of the internal control system and the adequacy of the organisational, administrative and accounting structure;

f) the definition of the system of information flows and the continuous verification of its adequacy, comprehensiveness and timeliness;

g) the determination of criteria for the coordination and management of the subsidiaries;

h) the appointment, removal and determination of the remuneration of the general manager and other members of the General Management and officers;

i) the appointment and removal, after consulting with the Board of Statutory Auditors, of the managers of the company control functions;

j) the appointment, after obtaining the mandatory opinion of the Board of Statutory Auditors, of the manager responsible for the preparation of corporate accounting documents, selected from amongst the bank's officers with professional administrative and accounting expertise in the credit and financial areas, acquired through work experience in a position of adequate responsibility for a consistent period of time;

k) the assessment of the consistency of the remuneration and incentive system for directors, employees or associates not linked to the Company by an employment relationship, with the Company's long-term strategies, while ensuring that the system is such so as not to increase business risks;

l) the possible establishment of commissions as well as internal committees with advisory functions, determining their composition, attributions and functioning methods, in any event in compliance with applicable supervisory principles;

m) the acquisition and disposal of equity investments, businesses and business units, when the transaction is of an amount exceeding 0.1% of the book value of shareholders' equity set forth in the most recently duly approved financial statements, or regards the acquisition of an equity investment in excess of 10% of the shares with voting rights in another company;

n) the acquisition, disposal and exchange of real estate and real rights, as well as the construction of property units;

o) the issue of non-convertible bonds and bonds convertible into securities of other companies;

p) the acquisition, cancellation and disposal of treasury shares;

q) on delegation of the Extraordinary Shareholders' Meeting, the share capital increase and the issue of bonds convertible into securities of the Company, in compliance with the principles established by the Extraordinary Shareholders' Meeting. Within the scope of this right, the Board of Directors is also expressly granted the powers to determine the form, methods and limits of the transfer of newly issued shares, the rights due to shareholders/employees, and the criteria for the assignment of shares to employees, as a result and in execution of the resolutions of the Extraordinary Shareholders' Meeting;

r) the issue of shares pursuant to and in accordance with art. 8, paragraph 1 of the articles of association;

s) resolutions concerning the admission, withdrawal and exclusion of shareholders;

t) resolutions concerning mergers in the cases pursuant to arts. 2505 and 2505 bis of the Italian Civil Code;
u) the transfer of corporate headquarters within the municipal territory;
v) the establishment and organisation, also for the purpose of specifying powers of signature, of secondary offices, branches and representative offices, as well as their transfer and closure;
w) adjustments of the articles of association to legislative provisions;
x) the determination of criteria for the execution of Bank of Italy instructions.

Board of Directors Meetings

Pursuant to art. 25 of the articles of association:
1) The Board of Directors is ordinarily called at least once per month and, on an extraordinary basis, any time the chairman deems this necessary or the Board of Statutory Auditors or at least one-third of the members of the Board itself submit a justified request to do so.
2) The meeting is called by the chairman, or the person acting in his stead, through a notice to be sent at least five days before the date scheduled for the meeting, except in cases of urgency, for which the Board of Directors is validly called by means of a notice to be sent at least 24 hours before the meeting. The notice may be drafted on any medium (paper or magnetic) and may be sent by any means of communication suitable to guarantee proof of receipt.
The standing auditors must be notified that the meeting has been called in the same form and in the same methods.
3) Meetings may also be held by teleconference or videoconference or through analogous electronic means, provided it is possible to identify those participating in the meeting with certainty and that they may intervene in the meeting and view, receive or transmit documents and that the procedures whereby the meeting is held do not conflict with the need for proper and full minutes to be taken; the satisfaction of each of these conditions must be acknowledged in the meeting minutes. In this case, the meetings shall be deemed held in the location of the chairman and secretary.
4) The meetings are chaired by the chairman and are valid when the absolute majority of members in office participates.
5) A dedicated regulation approved by the Board of Directors formalises the methods for defining the qualitative/quantitative composition of the Board deemed optimal, the methods of functioning and the self-assessment of the Board itself.
In the year 2017, 23 meetings were held, which the directors regularly attended.
Pursuant to art. 27 of the Articles of Association:
1) Minutes must be drafted of the Board meetings and resolutions, to be transcribed in the relative register and signed by the chairman and the secretary.
2) This register and the extracts from it, certified as compliant by the chairman or the person acting in his stead and the secretary, shall act as proof of the meetings and the resolutions passed.

Board of Directors	
Number of members	12 Directors
Number of meetings in 2017	23
Gender balance	10 M ÷ 2 F
Age (average)	49 years
Length of time in office (average)	10 years
Directors taken from minority lists	no minority lists submitted

Delegated Bodies

The Chairman

Pursuant to art. 23 of the Articles of Association:
1) The Board of Directors elects from amongst its members in office, with the favourable vote of the absolute majority, rounding up to the nearest whole number, the chairman and one or two deputy chairman, who shall remain in office until the end of their term of office as director.
2) The Chairman promotes the effective functioning of the corporate governance system and the proper functioning of the Board of Directors, ensures effective Board debate so that the decisions reached by the Board are the result of an appropriate discussion and the knowledgeable and reasoned contribution of all directors, and also guarantees the balance of powers with respect to the other executive directors, acting as interlocutor with the Board of Statutory Auditors and the board committees. To effectively perform his function, the chairman has a non-executive role and does not carry out, even de facto, management functions, with the exception of what is set forth below.
3) In cases of urgency, the chairman, or if he is absent or unable a deputy chairman, may at the proposal of the general manager or his replacement, take the measures under the responsibility of the Board of Directors or the Executive Committee, if appointed. The Body normally responsible for such decisions must be informed of the decisions taken in this manner at the next meeting.
4) The chairman also ensures that:
a) the Board self-assessment process is conducted effectively, the relative procedures are consistent with the degree of complexity of the work carried out by the Board, and that all corrective measures required to deal with any gaps identified are taken;
b) the Company prepares and implements orientation and training plans for members of the Corporate Bodies.
5) The deputy chairmen replace the chairman in all duties in the case of his absence or inability; if the Board has appointed two deputy chairmen, the chairman is replaced by the deputy with more seniority or, in the case of equal seniority, the eldest. In the case of the absence or inability of the chairman as well as the deputy chairmen, the relative functions are assumed by the director with most seniority and, if there is equal seniority, the eldest, without prejudice to any different attribution by the Board of Directors.
6) Should the chairman or a deputy chairman leave office in the course of the year, the Board, completed in accordance with the provisions of art. 22 of the articles of association, shall appoint a new one.
7) The Board of Directors may elect from amongst its members a secretary or call upon the general manager or, at his proposal, a Company employee, to take on that role.

Executive Committee

Pursuant to art. 29 of the Articles of Association:
1) If operating complexity and size so require, the Board of Directors may delegate, determining the relative content, limits and methods for exercising the mandate, its attributions, which do not fall under its exclusive responsibility in accordance with the law or these articles of association, to an Executive Committee consisting of from three to five directors. The chairman of the Board of Directors cannot be appointed to the Executive Committee but may participate, without any voting right, in its meetings.
In any event, any establishment of the Executive Committee shall not entail a limitation of the decision-making powers and responsibilities of the Board.
The Board of Directors designates the chairman of the Executive Committee and, for cases of absence or inability, his replacement, with the voting methods laid out above.
2) The Executive Committee meets when deemed appropriate by the chairman.
The meetings of the Executive Committee may also be held by teleconference, videoconference and, more generally, by any means of telecommunication, under the conditions specified in art. 25 of the articles of association for meetings of the Board of Directors.

3) The meeting of the Executive Committee is valid with the presence of the majority of its members; decisions are made by majority vote of the members in office. In the case of a tie vote, the resolution is not approved.
4) The Executive Committee elects from amongst its members a secretary or calls upon the general manager or, at his proposal, a Company employee, to take on that role.
5) The Board of Directors is informed of the decisions taken by the Committee at its next meeting.
6) Minutes must be drafted of the Executive Committee meetings and resolutions, to be recorded in the relative register and signed by the chairman and the secretary.
7) The Executive Committee must report to the Board of Directors and the Board of Statutory Auditors at least every quarter with reference to the powers granted, general business performance, the business outlook and the most significant transactions, in terms of size or characteristics, carried out by the Company and its subsidiaries.

Other executive directors

There are no executive directors in addition to the members of the Executive Committee, within which - in accordance with what is laid out in the Supervisory Provisions in force on the organisation and corporate governance - the Chairman also does not carry out executive functions.

Independent directors

Independence of judgement characterises the activity of all directors of Banca Popolare dell'Alto Adige S.p.A. At least three members of the Board are classified as independent pursuant to arts. 147-ter, paragraph 4, and 148, paragraph 3 of the TUF.

1.15.5 BOARD COMMITTEES

The Board of Directors includes an Executive Committee, the Credit Committee, the Independent Directors Committee and the Risk Committee.
The bank is convinced that the current organisational breakdown of the Management responds fully to the need to ensure effective and efficient bank governance in accordance with criteria of affordability and operational streamlining.

Credit Committee

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

Credit Committee	
Number of members	4 Executive Directors
Number of meetings in 2017	26

Independent Directors Committee

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

Independent Directors Committee	
Number of members	3 Independent Directors
Number of meetings in 2017	23

Risk Committee

Pursuant to art. 30 of the Articles of Association, the Risk Committee is the internal reference for the Board of Directors for issues related to the assessment of risk and the internal control system. The RC has advisory, audit, and proposal powers to support the Board's decision-making process. The Committee is composed of five non-executive directors, the majority of whom meet independence requirements.
The Committee is supported by specific regulations that govern the characteristics and duties according to the provisions of Circular no. 285 of the supervisory authority.

Risk Committee	
Number of members	5 Non-Executive Directors, of which 3 Independent
Number of meetings in 2017	19

1.15.6 REMUNERATION POLICIES

In accordance with the provisions of art. 2389, paragraph 1 of the Italian Civil Code and art. 24 of the articles of association, the compensation of the Board of Directors is established each year by the Shareholders' Meeting, in implementation of the Remuneration Policies.
The Shareholders' Meeting approves the fixed annual compensation of the directors and the allowance for attendance at the meetings of the Board and the Committees, while the Board of Directors is responsible for defining the compensation for the roles held within the Board, in accordance with the Remuneration Policies ratified by the Shareholders' Meeting. The directors are also provided with expense reimbursements for duties relating to their office.
On 18 November 2014, the Bank of Italy added a new chapter on Remuneration Policies and Incentives to the Supervisory Provisions for Banks (Circular no. 285 of 17 December 2013), which incorporates the contents of Directive 2013/36/EU (CRD IV) and annuls the Provision of 30 March 2011 (Supervisory Provisions on remuneration policies and practices and incentives in banks and bank groups).
Furthermore, on 21 December 2015, the European Banking Authority (EBA) published the update to the Guidelines on remuneration.
During 2015, BPAA launched an annual process to revise the Remuneration Policies, in order to align them with the reference regulations that are currently in place.
On 1 April 2017, the Shareholders' Meeting approved the text of the Remuneration Policies, resolved by the Board of Directors on 10 March 2017, updated based on the trends in legislative and regulatory context noted above, and directed at the pursuit of medium- and long-term business objectives.

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

1.15.7 GENERAL MANAGEMENT

Pursuant to art. 37 of the articles of association, the General Management consists of the General Manager and the other members appointed by the Board of Directors by absolute majority of the directors in office.
Pursuant to art. 38 of the Articles of Association:
1) The general manager, within the limits of the powers granted to him and in accordance with the policies of the Board of Directors in exercising the supervision, executive coordination and control function, handles the management of all current affairs, exercises within the limits assigned to him the powers on lending, expenditure and financial transactions, supervises the organisation and functioning of the networks and services and executes the resolutions passed by the Board of Directors as well as those passed by the Executive Committee, if appointed, and those passed on an urgent basis in accordance with art. 23 of the articles of association.
2) The general manager is the head of personnel and the organisation.
3) The general manager reports to the Board of Directors with respect to the exercise of his responsibilities.
4) The general manager independently launches the judicial actions that appear to be appropriate to ensure debt collection; in these cases, he represents the Company before the court and hires lawyers, signing the relative powers of attorney to appear before the court.
5) The general manager develops proposals for the corporate boards and committees and takes part with an advisory vote in the meetings of the Board of Directors and the Executive Committee, if appointed.
6) In carrying out his functions, the general manager relies on the other members of the General Management.
7) If the general manager is absent or unable, he is replaced, for all rights and functions attributed to him, by the member of the management immediately below him in the hierarchy and, in the case of an equal level between members, privileging the employee with the most seniority.

1.15.8 HANDLING OF CORPORATE INFORMATION

Banca Popolare dell'Alto Adige S.p.A. has adopted adequate procedures which, in compliance with regulations in force, ensure the proper handling and distribution to the market of the privileged information pursuant to arts. 114 and 181 of the Consolidated Law on Finance (TUF) and EU Regulation 596/2014 (the "MAR").
The preparation and distribution to the market of privileged information - referred to as "price sensitive" information - is coordinated by the General Management, which relies on the competent central services in these areas and, in particular, the Manager responsible for the preparation of corporate accounting documents who, pursuant to art. 154-bis, paragraph 2 of the TUF, certifies by declaration the correspondence of the data set forth in such information with the accounting documents, books and entries. After obtaining the approval of the company management, the Corporate and Legal Affairs area transmits price sensitive information in compliance with the methods laid out in regulations in force.

1.15.9 INTERNAL CONTROL SYSTEM

A more detailed description of the individual components of the Internal Control System is contained in this Directors' Report and in the Notes.

1.15.10 RISK CONTROL SYSTEM

The company's organisational structure includes specific roles heading up the functions dedicated to the controls governed by the Supervisory Instructions and included in the following categories: line or first-level controls; risk and compliance or second-level controls; Internal Audit or third-level controls.

First-level controls

Line controls aim to check for the proper performance of transactions. If they are not integrated within IT procedures, they are placed under the responsibility of the same company units - including the back-office structures - responsible for the execution of the processes or part of them.
Responsibility for the effective application of the controls and their adequacy is assigned, in relation to the organisational structure which characterises the various sectors of activity, to the central services, the offices and the local branches.

Second-level controls

Risk and compliance controls are meant to define the criteria and methodologies for identifying and measuring risks and verifying respect for them, checking the consistency of the operations of the individual production areas with any risk/return targets assigned and monitoring current and outlook capital adequacy.
These controls are enacted by Organisational Units distinct from those with business functions.
The Organisational Units to which these controls are assigned are:
1. the Risk Management area;
2. the Compliance area;
3. the Manager responsible for the preparation of corporate accounting documents;
4. the Anti-Money Laundering Office.

Risk Management

Risk Management, or the "Risk Management Office", supports the Corporate Bodies in the configuration of the Risk Appetite Framework (RAF) and the risk management policies and in overseeing the adequacy of the capital and liquidity situation.
It is responsible for the design, development, updating, validation and management of systems, methodologies and procedures suitable for the identification, measurement, assessment and control of relevant risks; it carries out second-level controls on the main types of risk, monitoring exposure to them currently and on a forecast basis.
More specifically, it:
- develops methodologies, instruments and processes for the identification, assessment, measurement and control of risks connected to company activities and generates the relative reporting;
- measures and assesses in a reliable, prompt, systematic and complete manner the exposure to relevant risks and monitors exposure to them currently and on an outlook basis;
- supervises the processes for determining capital adequacy (ICAAP) and liquidity adequacy (ILAAP) and the preparation/updating of the Recovery Plan;
- supports the Corporate Bodies in designing and developing policies for the optimal composition of the loan portfolio in line with the limits defined by the Risk Appetite Framework (RAF);
- supervises control activities over the most significant positions and on the overall risk of the loan portfolio.

Compliance

Compliance performs advisory and control activities with a view to identifying and preventing legal and reputational risks relating to the compliance of company processes and procedures with external regulations applicable to the bank (laws and regulations) as well as self-regulations (internal provisions).
Responsibility for governance over the entire regulatory structure concerning the bank's activity, which the Supervisory rules assign to Compliance, is understood as excluding the topics already covered, in a specialised manner, by the other company functions responsible for second-level controls (Risk Management, Anti-Money Laundering Office and Manager responsible for the preparation of corporate accounting documents).
With respect to the activities carried out, Compliance adopts a "widespread compliance" model aiming to satisfy the above-mentioned regulatory obligation through direct supervision over core matters, especially relating to consumer protection (investment services, transparency, usury, privacy, etc.) and the prevention and management of conflicts of interest (rules on related parties and associated parties, etc.), and through the collaboration, with respect to specific areas, of "special control units" and "compliance points of contact" identified within the company structure with a view to boosting the quality of compliance controls.
In brief, the compliance process is broken down into the following phases: monitoring regulatory updates; consulting; risk assessment (assessment of the degree of compliance risk); testing (functioning checks); training; reporting.

The Manager responsible for the preparation of corporate accounting documents

The Manager responsible for the preparation of corporate accounting documents has the mission of guaranteeing the reliability of accounting and financial disclosures by preparing adequate administrative/accounting procedures and continuously monitoring their adequacy and effective application.

Anti-Money Laundering Office

The Anti-Money Laundering Office, which is part of the Compliance area, provides stable oversight to supervise preventing and combatting the risks deriving from involvement in anti-money laundering and terrorist financing operations.
It acts as a qualified centre of competence in the specific segment, and is responsible inter alia for supervising controls on parties, accounts and the transactions carried out every day by the operating areas, towards which it directs intense encouragement and awareness-raising actions.
It continuously evaluates the suitability of the processes and procedures adopted to ensure adequate surveillance over risks connected to the violation of regulations in force over time on money laundering and terrorist financing.

Third-level controls

The activity of Internal Audit is meant, on one hand, to verify, through third-level controls including on-site inspections, the proper performance of operations and developments in risk, and, on the other hand, to assess the comprehensiveness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system. The Department is also responsible for bringing to the attention of corporate bodies possible improvements, with particular reference to the Risk Appetite Framework (RAF), the risk management process and tools for measuring and controlling risks.
Internal Audit, the bank's third-level control function, supports the Board of Directors by acting as its autonomous informational and control arm, in order to adequately meet the obligations of the Supervisory Authorities and for specific needs relating to risk management and checking organisational efficiency/effectiveness.

Internal Audit is independent from all production units and the functions with control duties; it carries out no operational and/or management activity so as to avoid the emergence of conflicts of interest, and is completely autonomous at the internal organisational level. It reports to its Manager, who reports directly to the Board of Directors.

Internal controls relating to accounting and financial disclosure

The Internal Control System on corporate disclosures is the process which, involving multiple corporate functions, provides reasonable assurances concerning the reliability of financial reporting, the reliability of accounting documents and compliance with applicable regulations.
There is a clear and close correlation with the risk management process which is the process for identifying and analysing those factors that may impair the achievement of company targets, so as to determine how these risks may be managed. Indeed, a suitable and effective risk management system may mitigate any negative effects on the company objectives, including the reliability, accuracy, trustworthiness and timeliness of the accounting and financial information.
The establishment and maintenance of an adequate control system for corporate disclosure and the periodic assessment of its effectiveness by the bank require the preliminary identification of a model of comparison to which to refer. It must be generally accepted, rigorous, complete and therefore such so as to act as a guide in the adequate implementation and proper assessment of the control system itself.
The verification of the presence of an adequate system of administrative and accounting procedures and its proper functioning over time takes place in accordance with specific methodologies defined in an internal regulation and is carried out in part by the dedicated organisational unit established for this purpose and in part by the same unit with the support of other company functions.
The area of analysis also takes into account the parts of the internal control structure at company level which impact financial reporting; such controls operate transversally across the individual company line processes.
Description of the main characteristics of the existing risk management and internal control systems in relation to the financial reporting process:

Identification of financial reporting risks

Risk analysis activities are carried out first and foremost by analysing the risks existing throughout the company processes giving rise to financial reporting.
This activity requires the definition of quantitative and qualitative criteria.
Significant processes are identified, which are defined as such if they are associated with material data and information, i.e., accounting items for which there is a non-remote possibility of containing errors with a potential significant impact on financial reporting.
Within each significant process, the most relevant "assertions" are also identified, also in accordance with assessments based on the risk analysis. The financial statement assertions are represented by existence, comprehensiveness, necessity, assessment, rights and obligations and presentation and disclosure. The risks therefore refer to the possibility that one or more financial statement assertions are not properly represented, with a resulting impact on the disclosure itself.

Assessment of financial reporting risks

The risk assessment is conducted at overall corporate level and at specific process level. The first area includes in particular, with reference to financial reporting, the risks of fraud, the improper functioning of IT systems or the absence of the segregation of duties. At process level, the risks relating to financial reporting (operating errors, underestimation or overestimation of items, inaccuracy of reporting, etc.) should be analysed at the level of the activities making up the processes.

The assessment of risks and pertinent controls associated with critical processes of the Manager responsible for the preparation of corporate accounting documents takes place using a "risk-based" approach, which has as a fundamental prerequisite the precise mapping of company processes.
The potential risk index represents the summary assessment of the individual risk event, the emergence of which could provoke direct/indirect damages including those of an economic/financial or capital nature, or relating to penalties or the bank's image. It is identified as part of the process and is irrespective of existing controls. The risk index is evaluated based on the intensity of the potential damage and frequency, or the number of times the risk may arise. The combination of the judgement of intensity and frequency results in inherent or potential risk indexes.

Identification of controls over identified risks

In the first place, focus is dedicated to control activities at company level connected to data/information and relevant assertions, which are identified and assessed by monitoring the repercussions at process as well as general level.
Company level controls may prevent or identify possible significant errors even though they do not work at process level.
Having adopted a "risk based" approach, the determination of critical processes and, within them, process-level accounting risks, guides analysis activities and entails the subsequent identification and assessment of controls, which may mitigate the inherent risk level and bring residual risk to within acceptable levels.

Assessment of controls over identified risks

The assessment of the control system used is based on a range of elements: virtuous controls; timing and frequency; adequacy; operational compliance; organisational assessment. The overall analysis of controls covering each risk is defined autonomously as the synthesis of the process of evaluating the level of adequacy and compliance corresponding to such controls. Such analyses summarise subjective considerations concerning the effectiveness and efficiency of the controls covering the individual risk. The overall assessment of risk management may be broken down into assessments of existence, adequacy and compliance.
The risk assessment process concludes with the determination of the level of residual risk, as the value resulting from the application of the overall assessment of controls to inherent risk.
Information flows with the results of the activity carried out are provided to the management bodies every six months in the form of operating reports of the Manager responsible for the preparation of corporate accounting documents in support of the certifications of the accounting documents. These reports include: the results of the determination of the critical scope of analysis, the identification of the accounting risks with attached final assessment scores, a focus on gaps and points for improvement identified and the connected mitigation procedures, along with a recap on the adequacy and functioning of company-level controls.
The Manager responsible for the preparation of corporate accounting documents is basically at the head of the system which supervises the formation of financial reporting. So as to pursue his mission, the Manager responsible for the preparation of corporate accounting documents is entitled to outline the organisational policies to ensure an adequate structure within his function.
Multiple company functions contribute to the development of economic and financial information. The Manager responsible for the preparation of corporate accounting documents therefore establishes a systematic and fruitful relationship with such functions.
The Board of Directors supervises to ensure that the Manager responsible for the preparation of corporate accounting documents has adequate powers and means for the exercise of the duties assigned, as well as to ensure effective compliance with administrative and accounting procedures.
The Manager responsible for the preparation of corporate accounting documents is required to promptly notify the Board of Statutory Auditors if critical accounting, capital and financial issues emerge.
The above-mentioned model is being progressively refined as part of a project which entailed the formalisation of administrative/accounting processes and the relative controls. The subsequent integration of processes and controls within a specific application will make it possible to develop the system of controls overseeing financial reporting towards improved management of increasing company complexity.

It is deemed that the model used in the course of 2017 makes it possible to provide sufficient guarantees for correct accounting and financial disclosure. However, please keep in mind that it is not possible to have any certainty that dysfunctions or anomalies will not take place, which could have impacts on accounting and financial reporting, even in the presence of properly set up and functioning internal control systems.

Organisation model pursuant to Italian Legislative Decree 231/2001

The Organisation Model of Banca Popolare dell'Alto Adige S.p.A., initially adopted on 22 December 2005, meets the specific requirements of Italian Legislative Decree no. 231/2001. With its adoption, Banca Popolare dell'Alto Adige S.p.A. affirms and spreads 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 pursuant to Italian Legislative Decree 231/2001 is constantly updated - currently version no. 11 approved on 10 November 2017 is in force - to respond to progressive regulatory updates and the evolution of the company's organisational structure: it consists of identifying a set of protocols which, through the identification of activities exposed to risk (i.e., those involving offences under Italian Legislative Decree no. 231/2001) and the specification of the relative countermeasures, involve all parties working in the interest, to the benefit or on behalf of the Bank, in order to:
- raise awareness that if the rules in question are violated then this may constitute an offence and result in sanctions both against the person committing the offence and the Company;
- reaffirm that Banca Popolare dell'Alto Adige S.p.A. shall not tolerate illicit conduct of any kind or for any purpose and such conduct (even when apparently to the Company's benefit) is against the ethics and principles of the Company;
- strengthen and improve mechanisms for oversight, monitoring and discipline in order to prevent such offences from being committed.

The Organisation Model is an internal framework of rules for the Company and it is considered binding. It ensures the monitoring of offences predicate to administrative liability of entities, for each of which it:
- specifies the sanctions laid down by lawmakers (pecuniary and prohibitory where applicable);
- identifies conduct considered at risk of offences; for offences that are higher risk, the most sensitive areas/work activities are also indicated;
- specifies the obligations and/or prohibitions for all employees of Banca Popolare dell'Alto Adige S.p.A.

All company employees (top management and those reporting to them) are required to be familiar with the Organisation Model of Banca Popolare dell'Alto Adige S.p.A. and to respect its requirements, in conjunction with those of the Code of Ethics; in the course of 2017, they were also provided with specific training. Any violation of the Model shall be punished in the manner and under the terms described in the model itself.

Supervisory Board under Italian Legislative Decree 231/01

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

The Supervisory Board of Banca Popolare dell'Alto Adige S.p.A. consists of the following members:
- Compliance Department Manager;
- Internal Audit Department Manager;
- Risk Management Department Manager;
- Corporate and Legal Affairs Department Manager;
- one external legal expert (criminal lawyer) with specific skills and experience.

In 2017, the Supervisory Board met periodically (four meetings) and evaluated the regular information flows received from the company functions which, with a high degree of detail, supported its duties of supervising to ensure compliance with the Organisation Model, assess its effectiveness and handle its updating.
The Supervisory Board found no breaches in 2017 of the Organisation Model of Banca Popolare dell’Alto Adige S.p.A.; it reported every six months to the Board of Directors on the outcomes of its activity and recommendations for the broadest understanding and dissemination of the Organisational Model amongst all parties concerned.

Independent Auditors

On 20 April 2010, the Shareholders’ Meeting of Banca Popolare dell’Alto Adige S.p.A. engaged BDO Italia S.p.A., listed in the Register of Auditors at no. 167911, to audit the bank’s financial statements and conduct limited audits on the half-yearly financial report for the years 2008-2018.

The Manager responsible for the preparation of corporate accounting documents

Law no. 262 of 28 December 2005 on “Provisions for safeguarding savings and governing financial markets” introduced amongst the various new responsibilities and obligations relating to corporate disclosures the company position of the Manager responsible for the preparation of corporate accounting documents, now governed by art. 154 bis of the TUF.
In compliance with regulatory provisions, the bank has introduced the “Manager responsible for the preparation of corporate accounting documents”.
The Manager responsible for the preparation of corporate accounting documents is assigned the powers and means for the exercise of the duties attributed pursuant to the law. In particular, the Manager responsible for the preparation of corporate accounting documents is responsible for preparing adequate administrative and accounting procedures for the formation of the separate financial statements and certifying with a dedicated written statement that the company’s deeds and communications distributed to the market and relating to corporate disclosure correspond to the results of the accounting documents and entries.

1.15.11 INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES/ ASSOCIATED PARTIES

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

- the prudential limits of risk activities with respect to the individual involved;
- the limits of exposure towards all associated 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 associated parties, internal rules to ensure transparency as well as substantial and procedural propriety of transactions, the methods to ensure fulfilment of public communication obligations, financial reporting and all other disclosure obligations provided by the applicable law, including regulatory;
- monitoring transactions in which an employee or an external collaborator have an interest that is different than that of the Bank’s;
- internal policies in matters of risk control and on the conflicts of interest with respect to associated parties;
- the responsibilities of the company departments involved.

The rules govern transactions with associated parties and give a detailed illustration of the procedures that the Bank applies in accordance with prevailing Consob and Bank of Italy regulations for identifying and monitoring transactions with parties related to the Bank and ensure compliance with the prudential limits for risk assets with these parties. This monitoring aims to capture, given the Bank’s characteristics, the risk that the closeness of these parties to decision-makers could compromise the objectivity and impartiality of decisions with respect to granting

of loans and other transactions with these parties, potentially distorting the procedures followed in the allocation of resources, thereby exposing the Bank to risks that are not adequately commensurate and potentially harmful to depositors and shareholders.
The rules define and formalise procedures and norms to manage, communicate, control and report the following transactions:
- transactions with related parties put in place by the Bank in order to ensure the transparency, substantive and procedural fairness of said transactions and to establish how to carry out the related disclosure obligations, including those provided for by the prevailing law and regulations (CONSOB Regulation);
- transactions with associated parties (related parties and parties connected to them) put in place by the Bank in order to ensure compliance with the prudential limits for the risk assets and the substantive and procedural fairness of said transactions (provisions of the Bank of Italy), providing for the most restrictive obligations, procedures and definitions from those specifically provided for under the CONSOB Regulation and those of the Bank of Italy.

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

1.15.12 THE BOARD OF STATUTORY AUDITORS

Appointment of the Board of Statutory Auditors

Pursuant to art. 33 of the Articles of Association:
1) The Shareholders' Meeting appoints the Board of Statutory Auditors on the basis of lists submitted by the shareholders.
2) Shareholders with the right to vote in the Shareholders' Meeting called upon to elect the Board which together possess at least 1% of the share capital or any lower percentage established by legal or regulatory provision may submit a list of candidates.
3) The lists of candidates must be signed by those who submit them and submitted, under penalty of forfeiture, at the registered office of the Company at least fifteen days before the date scheduled for the Shareholders' Meeting on first call. The signature of each submitting shareholder must be authenticated by a notary, or the document should be signed in the presence of a Company employee assigned this task by the Board of Directors. Each shareholder may contribute to the submission of just one list. If this provision is not respected, the signature is not calculated for any list.
4) The lists must be accompanied by information relating to the identity of the submitting shareholders with an indication of the number of shares they hold and a certification of the ownership of the equity investment specified in paragraph 2 of this article, as well as any other information required by legislation, including regulations and provisions of the articles of association.
5) The lists are separated into two sections - the first for candidates for the position of standing auditor and the second for candidates for the position of substitute auditor - and must specify, in progressive numerical order, a number of candidates equal to the number of auditors to be elected. The candidate for chairman of the Board of Statutory Auditors is specified in first place on the list. Along with each list, the submitting shareholders must submit an exhaustive report on the personal and professional characteristics of the candidates, including an indication of the administration and control roles held in other companies, as well as the declaration whereby each candidate accepts the nomination and certifies, under his/her own responsibility, the absence of situations of incompatibility or causes of ineligibility and the fulfilment of the requirements set forth for the office by provisions of law, regulations and the articles of association. Each candidate may be included on only one list under penalty of ineligibility.
6) The lists submitted without following the above procedures shall not be considered.
7) At the Shareholders' Meeting, the shareholders may exercise the right to vote by exclusively specifying the selected list, without the right to amend it and/or supplement it or vote for multiple lists.

8) The composition of the Board of Statutory Auditors must ensure the balance between genders as required by legislation and regulations in force over time and, lacking express regulatory provision, in any case the presence of at least one standing auditor of a different gender than that most represented must be guaranteed.
9) The following procedure is followed to elect auditors:
    a) If multiple lists are submitted, the chairman, a standing auditor and a substitute auditor will be taken, in the order in which they are listed, from the list that obtains the highest number of votes (the majority list).
    b) One standing auditor and one substitute auditor shall be taken, in the order in which they are listed, from the list that obtains the second highest number of votes (the minority list receiving the most votes) - which is not associated in any manner, even indirectly, with the shareholders who submitted the list that received the highest number of votes - provided this list obtains votes representing at least 1% of the share capital. If no minority list reaches the threshold described above, or only one list is presented, the chairman, standing auditors and substitute auditors will be taken from the majority list.
    c) In the case of equal votes between lists or candidates, the Shareholders' Meeting proceeds with a second vote by relative majority.
    d) If the Board of Statutory Auditors thus formed does not ensure respect for the provisions laid out in paragraph 8 above on the balance between genders, the last candidate elected from the majority list is replaced by the first unelected candidate on the same list of the less represented gender or, if there are none, the first unelected candidate on the subsequent lists. If this is not possible, the standing member of the least represented gender is appointed by the Shareholders' Meeting with the majorities laid out by law, with no list restriction, to replace the last candidate on the majority list.
    e) If no list has been validly submitted within the required terms, all auditors to be elected are appointed, by relative majority vote without any list restriction, from amongst the candidates proposed directly during the Shareholders' Meeting. In any event, the provisions laid out in paragraph 8 above on the balance between genders must be respected.
10) If the chairman of the Board of Statutory Auditors leaves office, the substitute auditor taken from the same list as the chairman shall assume that role until the Board is supplemented pursuant to art. 2401 of the Italian Civil Code.
11) In the case of early departure from office of a standing auditor, the substitute auditor taken from the same list as the auditor to be replaced shall take over until the next Shareholders' Meeting. If only one list has been submitted, the substitute auditors shall be appointed based on the order in which they are included on the list.
12) If with the substitute auditors it is not possible to replace all standing auditors that have left office or it is not possible to comply with the provisions of paragraph 8 above on the balance between genders, the Shareholders' Meeting is called to elect new members to the Board of Statutory Auditors, voting with the majorities laid out by law with no list restriction. The new members appointed shall remain in office until the end of the term of the auditors already in office.

Composition and duties of the Board of Statutory Auditors

The Board of Statutory Auditors was elected by the Shareholders' Meeting on 9 April 2016 for the 2016-2018 three-year period.
The Board of Statutory Auditors currently consists of the following members:
- HAGER Heinz Peter: Chairman - duration of term of office: approv. of financial statements 31.12.2018
- KNOLL Joachim: Standing auditor - duration of term of office: approv. of financial statements 31.12.2018
- HESSE Georg: Standing auditor - duration of term of office: approv. of financial statements 31.12.2018
- LORENZON Emilio: Substitute auditor - duration of term of office: approv. of financial statements 31.12.2018
- WISTHALER Markus: Substitute auditor - duration of term of office: approv. of financial statements 31.12.2018

All members of the Board of Statutory Auditors meet the professional requirements laid out by regulations in force for those who carry out control functions in banks.
The Board of Statutory Auditors supervises:
- compliance with the law, regulations and the articles of association;
- compliance with the principles of proper management;

- the adequacy of the organisational, administrative and accounting structure adopted by the Company and its concrete functioning;
- the adequacy and functioning of the internal control system, particularly with regard to risk management, including the process of determining internal capital;
- the adequacy of the instructions the Company gives to its subsidiaries in exercising management and coordination activities;
- other acts and deeds specified by law.

In particular, the Board of Statutory Auditors oversees the adequate coordination of all functions and structures involved in the internal control system, including the independent auditors engaged to audit the accounts, and, if necessary, promotes the appropriate corrective measures. To that end, the Board and the independent auditors promptly exchange relevant data and information for the performance of their respective duties.

The Board of Statutory Auditors also supervises observance with the rules adopted by the Company to ensure the transparency and substantial and procedural fairness of transactions with related parties and reports on this in the annual report to the Shareholders' Meeting.

The Board of Statutory Auditors relies on the information flows coming from the internal control functions and structures and, in performing the necessary checks and verifications, may rely on the structures and functions responsible for internal control as well as proceed with inspections and controls itself at any moment, even individually.

The Board of Statutory Auditors may ask the directors for updates, also with reference to subsidiaries, on the performance of corporate transactions or specific dealings. The Board may also exchange information with the corresponding bodies of the subsidiaries with respect to the administration and control systems and the general performance of company activities.

The Board of Statutory Auditors informs the Bank of Italy without delay about all facts or deeds of which it becomes aware which could constitute an irregularity in the management of the Bank or a violation of the rules governing banking activity.

Without prejudice to the obligation pursuant to paragraph 6 above, the Board of Statutory Auditors reports any gaps and irregularities identified to the Board of Directors, requests the adoption of suitable corrective measures and verifies their effectiveness over time.

The Board of Statutory Auditors expresses its opinion on decisions concerning the appointment of the managers of the internal control functions as well as every decision concerning the definition of the essential elements of the internal control system.

At the time of the approval of the financial statements, the auditors report on the supervisory activity carried out, on omissions and on any objectionable circumstances identified.

The auditors must participate in Shareholders' Meetings and meetings of the Board of Directors and the Executive Committee.

Board of Statutory Auditors	
Number of members	3 Standing Auditors, 2 Substitute Auditors
Number of meetings in 2017	26
Gender balance	5 M ÷ 0 F
Age (average) - Standing Auditors	50 years
Length of time in office (average) - Standing Auditors	10 years
Auditors taken from the minority list	no minority lists submitted

1.15.13 SHAREHOLDERS' MEETINGS

Banca Popolare dell'Alto Adige is owned by a broad shareholding base of nearly 60,000 shareholders, with considerably fragmented ownership and, traditionally, high levels of participation in company events.
Each share entails (1) voting right in Shareholders' Meetings.
In order to vote in Shareholders' Meetings, the law allows shareholders to aggregate votes; typically, depending on the characteristics of the associated interests, voting rights may be organised through the following institutions:

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

Regardless of the forms of aggregation that may be activated by shareholders, parties with voting rights, excluding Directors, Auditors, and employees of the Bank and its subsidiaries, may exercise up to 200 voting proxies.
The Shareholders' Meeting is typically called with advance notice of at least thirty (30) days, although the articles of association specify the term of at least twenty (20) days, under the terms of the law and Articles of Association, normally in a single call for both the ordinary and extraordinary session. In that case, the Ordinary Shareholders' Meeting is validly constituted irrespective of the portion of the share capital participating, while on extraordinary call the participation of 9,971,986 voting rights is required. The significant number of voting rights required to validly convene the extraordinary shareholders' meeting reinstates the concern for reaching the quorum and therefore the importance of the organisation of voting rights by the shareholders for the orderly management of the company.
The Articles of Association allow multiple calls at the discretion of the Board of Directors, in which case, with the specific constitution and resolution quorums, and govern with an enhanced quorum the matters indicated in art. 16, paragraph 3.
The Shareholders' Meeting resolves openly with the majority of voting rights established, with the exception of the appointment of corporate bodies, which is carried out through list voting according to the provisions of the Articles of Association, art. 21 for the Board of Directors and art. 33 for the Board of Statutory Auditors.
Corporate bodies are renewed every three years, with the mandates in effect in 2017, for:

- the Board of Directors, with the approval of the financial statements as at 31 December 2019;
- the Board of Statutory Auditors, with the approval of the financial statements as at 31 December 2018.

Pursuant to art. 12 of the Articles of Association, the certification of the broker is required for participation in the Shareholders' Meeting, as laid out by regulations. This certification must be requested from the broker at least two days before the date scheduled for the Shareholders' Meeting.
The representation of one shareholder by another shareholder with the right to participate and vote in the Shareholders' Meeting who is not a director, auditor or employee of the Company or subsidiaries is permitted. The proxies, completed in compliance with legal provisions and the Shareholders' Meeting regulation, are valid for all calls of the same Shareholders' Meeting.
The limitations set forth above do not apply to cases of legal representation.
The Shareholders' Meeting is the sovereign body of the company and the Management has always been committed to promoting the broadest participation of shareholders in this essential moment of the company's life.
The regularly established Shareholders' Meeting represents all shareholders and its resolutions, passed in compliance with the law and the articles of association, are binding for all shareholders.
Pursuant to art. 11 of the Articles of Association:

1) The Shareholders' Meeting is called at least once per year within one hundred and twenty days of the close of the financial year, with the methods and within the terms laid out by law, by the Board of Directors - or, if necessary, by the Board of Statutory Auditors - at the registered office of the Company or in another location in the province of Bolzano specified in the notice of call.
2) The ordinary and extraordinary Shareholders' Meeting are generally carried out on a single call. However, if it believes this to be appropriate and expressly specifies it in the notice of call, the Board of Directors may schedule multiple calls of the Ordinary and Extraordinary Shareholders' Meeting.

3) The notice of call is published with the timing and the other methods set forth by provisions of law and regulations applicable over time. The notice of call contains:
a) an indication of the day, the time and the place of the meeting and, if the Shareholders' Meeting does not meet the quorum on first call, the details of the meeting on second call;
b) a list of the matters to be dealt with, as well as the other information that must be specified in accordance with provisions of law and regulations in force over time.
The notice is published in the Official Gazette of the Italian Republic or in one of the two nationally distributed daily newspapers "Il Sole 24 Ore" or "Milano Finanza", at least twenty days before the date scheduled for the Shareholders' Meeting.
4) The Shareholders' Meeting may also be held with the participants located in multiple contiguous or distant locations, including outside the province of Bolzano, that have an audio/video link with the place where the Shareholders' Meeting is held and the chairman and secretary are present, provided the collective meeting procedures and the principles of good faith and equal treatment are respected and, in particular, provided that all participants may be identified and are permitted to follow the discussion and participate in real time in the handling of the agenda items, as well as to view, receive and handle the documentation and express their vote.
In this case, the locations with audio/video links where the participants may go are specified in the notice of call, while the meeting will be deemed held in the place where the chairman and the person taking minutes are located.
5) If technical obstacles arise such so as to prevent the holding or continuation of the duly established Shareholders' Meeting, preventing its conclusion in the course of the same day, the chairman shall suspend the meeting after acknowledging this fact in the minutes by providing a brief indication of the reasons. In any event, this shall take place without prejudice to the resolutions already passed by the Shareholders' Meeting, which also must be set forth in those minutes. For the discussion of the agenda topics, not yet examined and discussed as a result of the above-mentioned impediments, the Shareholders' Meeting must be called again within the terms laid out by law and the articles of association and the provisions of the previous paragraphs shall apply to such new meetings.
6) The Board of Directors also calls the Shareholders' Meeting without delay when written request to do so is submitted, specifying the matters to be dealt with, by as many shareholders with voting right which, at the date of the submission of such request, represent the percentage of the share capital required by applicable regulations. Calling the meeting at the request of the shareholders is not permitted for matters on which the Shareholders' Meeting passes resolutions, in accordance with the law, at the proposal of the directors or on the basis of a project or a report prepared by them.

Pursuant to art. 13 of the Articles of Association:

1) The Shareholders' Meeting is ordinary or extraordinary pursuant to the law.

The running of the Shareholders' Meeting is governed by the provisions of law and the articles of association as well as by the Shareholders' Meeting regulation.

2) The Ordinary Shareholders' Meeting:
a) discusses and passes resolutions on the financial statements, having heard the report of the Board of Directors and that of the Board of Statutory Auditors, and allocates the profits;
b) appoints and removes directors; appoints statutory auditors and the chairman of the Board of Statutory Auditors. After consulting with the Board of Statutory Auditors, it engages the entity responsible for auditing the accounts and also withdraws such engagement;
c) passes resolutions on the responsibilities of directors and auditors;
d) determines the extent of the compensation of directors, auditors and the independent auditors engaged to audit the accounts, as well as the attendance allowances of directors and auditors;
e) approves the regulations governing the limits on how many offices the directors may have at one time;
f) approves the remuneration and incentive policies in favour of the members of the Administrative body and the employees;
g) approves remuneration plans based on financial instruments;

h) approves the criteria for the determination of the remuneration to be granted in the case of early conclusion of the employment relationship or early removal from office, including the limits established on such remuneration in terms of one year of fixed remuneration and the maximum amount deriving from their application;
i) approves the regulation of the Shareholders' Meeting;
j) passes resolutions on the other matters placed under its responsibility by law or the articles of association.

3) The Extraordinary Shareholders' Meeting passes resolutions on amendments to the articles of association, without prejudice to what is set forth in art. 28, paragraph 2, letters (t), (v) and (w) below, and on any other subject placed under its responsibility by law or the articles of association.

Pursuant to art. 14 of the Articles of Association:

The functioning of the Shareholders' Meeting, both ordinary and extraordinary, is governed, aside from by the provisions of law and the articles of association, by a regulation approved by the Ordinary Shareholders' Meeting and valid, until it is amended or replaced, for all subsequent meetings. With the quora established by law and by the articles of association for the Ordinary Shareholders' Meeting, the Shareholders' Meeting may pass resolutions, from time to time, to disregard one or more provisions of the regulation.

The Regulation currently in force is that amended by the Shareholders' Meeting of 26 November 2016, is published on the bank's website and was introduced by resolution of the Ordinary Shareholders' Meeting of 19 April 2005 and subsequently amended by the Shareholders' Meetings of 19 April 2007, 21 April 2009, 17 February 2011 and 19 April 2013.

1.15.14 CHANGES SINCE THE END OF THE REFERENCE FINANCIAL YEAR

From 31 December 2017 to the date of approval of this report, there have been no changes in the governance structure.

NON-FINANCIAL STATEMENT

"For us, as a Bank, working sustainably means
focusing our attention on the desires and needs
of our customers, engaging in fair relationships
of reciprocal trust with our employees and,
as a regional bank, making our own positive
contribution to the environment and society
throughout our catchment area"
Johannes Schneebacher
General Manager

1.16 NON-FINANCIAL STATEMENT

1.16.1 MY VOLKSBANK

A. The Bank

Banca Popolare dell'Alto Adige - Südtiroler Volksbank, customarily known by its distinctive name of "Volksbank", is a regional bank with a widespread ownership structure consisting of more than 60,000 shareholders, a retail commercial profile for households and small and medium sized enterprises and a linear offering of savings and lending services and products.
Originally from Alto Adige, at the end of 2017 the Bank was operating with a network of more than 180 branches in North-eastern Italian regions and through an advanced multi-channel system. A "medium-sized" bank according to the Supervisory classification, in 2016 Banca Popolare dell'Alto Adige surpassed the asset threshold of Euro 8 bn applied for reporting purposes and therefore became a joint-stock company. The Bank's shares are traded in the HI-MTF unregulated market. The Bank is not organised into a banking group.
In March 2015, the registered office and head offices were transferred to the new building at Via del Macello, 55 in Bolzano.

Volksbank was founded in 1992 after the merger between Banca Popolare di Bolzano and Banca Popolare di Bressanone; in 1995, it merged with Banca Popolare di Merano. In 2015, the Bank incorporated Banca Popolare di Marostica and Banca di Treviso.

Volksbank was founded from three cooperative banks established in Alto Adige in the second half of the nineteenth century. The sharing of management principles and policies oriented towards creating value to support local socioeconomic development led to the deeds of merger of 1992 and 1995, whereby the three cooperative banks became the largest cooperative bank in the province of Bolzano: a retail/small business bank for families and small and medium sized enterprises with more than 100 years of experience dealing with local communities, starting from the early 2000s the "new" Volksbank offered its services as a bank "of" and "for" the local area in its traditional market as well as in the neighbouring markets in the Triveneto area, in districts and areas which due to their structure and production trends were similar to the traditional market, where the Bank was best able to leverage its experience. Thus, its path of growth in economic aggregates began in the markets of expansion, which increasingly became the "home" of Volksbank, strong from a business culture which, based on ethical relationships with local communities, is capable of promoting the brand's reputation and creating trusting connections between the Bank and groups of legitimate stakeholders in its business activities.
The cooperative form of Volksbank and the principles of mutuality and people's banks referred to in the articles of association in force before its transformation into a joint-stock company brought to life the figure of member - customer and resulted in the tripling of the shareholding structure in the last 10 years, up to the current level in excess of 60,000 shareholders. The member-customer model has enhanced the relationship with the local community over time and has developed reciprocal links due to which, through the social contract and the forms of representation typical of cooperatives ("per capita voting"), local economic needs are extensively represented when the Bank's decisions are being made and, in turn, they impact the returns of its commercial enterprise.

The member-customer model emphasises the authenticity of BPAA's desire to remain close to the local context, benefitting the relationship of trust and the commitment of stakeholders to 'their' Volksbank, a commitment which thus ensures the Bank's solidity in terms of its economic results and internal stability.
A local bank in accordance with its articles of association, business model and corporate structure, Volksbank, now a joint-stock company and regional bank of the North-east, maintains its esteem for the community due to its roots as a cooperative bank in the tradition of its business model while placing attention on the expectations that legitimate stakeholders have with respect to its corporate activities: profitability of the invested capital (shareholders), service accessibility and quality (customers), contractual and remuneration conditions (employees), contract accessibility (suppliers), support for socioeconomic growth and the management of resources with respect for the environment (local communities).

The economic result for the year 2017 and the capital strength of Volksbank have laid the bases for the proposal to distribute a dividend of Euro 0.20/share to the roughly 60,000 Volksbank shareholders, corresponding to a 40% share of the profits.

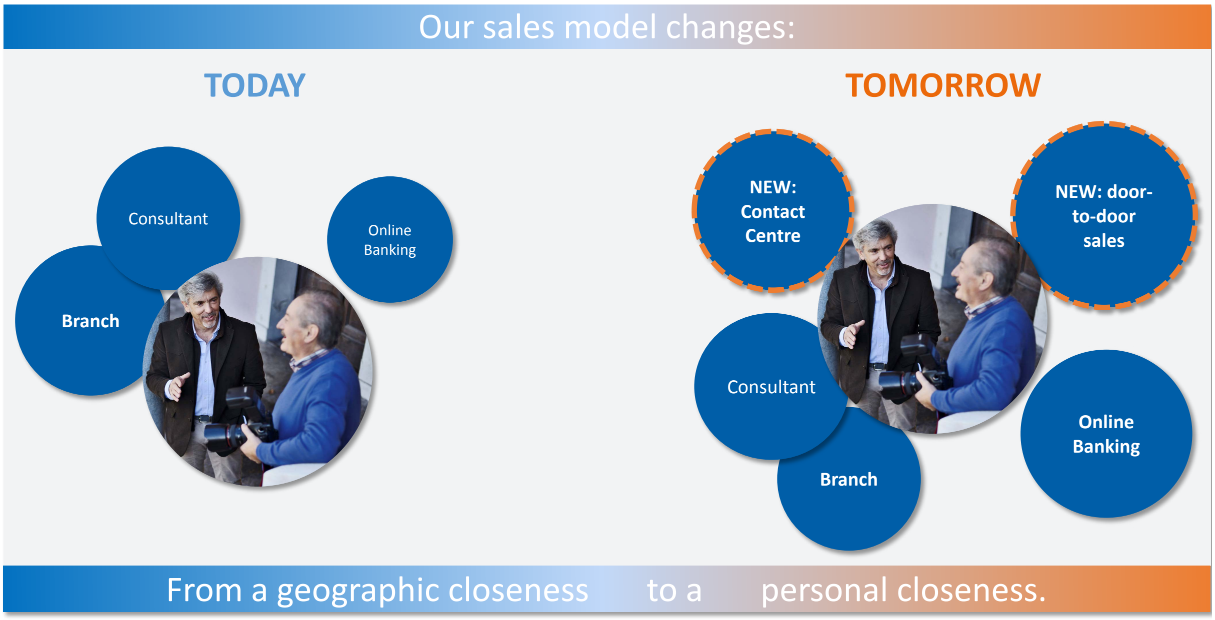
The Bank's vision identifies its raison d'être and essential objectives. This is well summarised in the phrase: "WE FIND SIMPLE, SUSTAINABLE SOLUTIONS FOR A BETTER QUALITY OF LIFE".
In the pursuit of the corporate purpose and in compliance with its corporate vision, the Bank's activities are inspired by the "7 values", veritable ethics principles emphasised, supported and actively experienced by those who work with the Bank:

1) Appreciation: We treat one another with esteem and respect. We conduct ourselves in the proper manner with customers, shareholders, colleagues and persons in charge.
2) Trust: As a result of our reliability with customers, shareholders and employees, we lay the foundations for mutual trust.
3) Enthusiasm: Our work is a source of pleasure. Our spirit of initiative and commitment convey our enthusiasm to customers and shareholders, contributing to the Bank's success.
4) 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.
5) Authority: We are aware of our strengths as individuals and employees; we further develop our skills and believe whole-heartedly in the value of our Bank.
6) Attention: We are fully aware of and attentive to our surroundings. We pay attention to our customers, shareholders and colleagues, listening to them and respecting each one.
7) Excellence: We obtain excellent results due to constant improvements. We are looking for fresh challenges and pursue our objectives with a competitive spirit.

B. The business model

The functioning of the bank, its organisation and the territorial network are described in the chapters of the Financial Statements dedicated to:

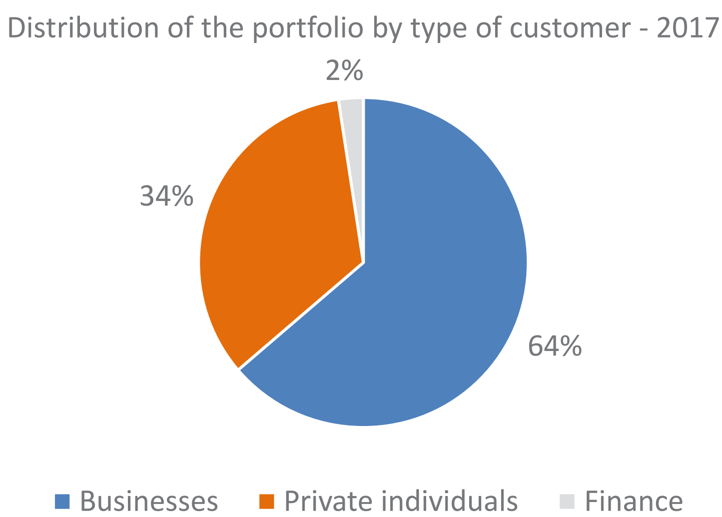
- "Corporate Governance and Remuneration Policies"
- "The distribution model"
- "Banking activities"
- "Governance activities"



The distribution by customer type of the customer loan portfolio, as described in part L of the Notes, is shown below:

Distribution of the portfolio by type of customer

	Unit of measurement	2017	2016	2015
Businesses	€	4,436,094	4,341,251	4,180,666
Private individuals	€	2,356,858	2,221,283	2,090,432
Finance	€	168,760	164,689	176,773



C. Governance and decision-making processes

Volksbank adopts the "traditional" corporate governance structure that specifies the corporate bodies and the functions that they are called upon to perform in accordance with civil law and banking supervisory regulations, as the

- Board of Directors and
- Board of Statutory Auditors.

Bodies and functions of the Company

The Bank's internal organisation is broken down into corporate bodies, each with its own responsibilities. In the system applied, the shareholders organised into the shareholders' meeting work alongside the bodies responsible for the administration, management and control of the Bank.
The exercise of the corporate functions is placed under the responsibility, in compliance with their respective authorities, of the following Corporate bodies (art. 10 of the articles of association):

- Shareholders' Meeting
- Board of Directors
- Chairman
- Executive Committee, if appointed
- Board of Statutory Auditors
- General management.

Shareholders' Meeting
The Shareholders' Meeting passes resolutions in ordinary and extraordinary session on the matters placed under its responsibility by law and in accordance with the methods laid out in articles 11, 12, 13, 14, 15, 16, 17, 18 and 19 of the Articles of Association.
Board of Directors
The BoD is vested with the most extensive powers for the ordinary and extraordinary management of the Company, with the right to carry out all appropriate deeds for the achievement of the corporate purposes, with the exclusion of the deeds placed under the responsibility of the shareholders' meeting by law and by the Articles of Association. Aside from the attributions that cannot be delegated according to the law, the Board of Directors is attributed exclusive responsibility for the matters specified in art. 28 of the Articles of Association.
The Board consists of a variable number of directors determined with the methods established in article 20 of the Articles of Association.
In 2017, the BoD consisted of 12 members, of which two women, with no changes compared to the previous two years.

Breakdown of the BoD	2017			2016			2015		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Total members of the BoD (number)	2	10	12	2	10	12	2	10	12
Total members of the BoD (%)	17%	83%	-	17%	83%	-	17%	83%	-
Breakdown by age									
<= 29 years (number)	0	0	0	0	0	0	0	0	0
<= 29 years (%)	0%	0%	-	0%	0%	-	0%	0%	-
30-50 years (number)	1	7	8	1	7	8	1	9	10
30-50 years (%)	8%	58%	-	8%	58%	-	8%	75%	-
>= 51 years (number)	1	3	4	1	3	4	1	1	2
>= 51 years (%)	8%	25%	-	8%	25%	-	8%	8%	-

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

The Board committees

The following committees are part of the Board of Directors:

- Risk Committee
- Independent Directors Committee
- Credit Committee

Risk Committee

The Risk Committee (RC) - art. 30 of the Articles of Association - is the internal reference for the Board of Directors for issues related to the assessment of risk and the internal control system. The RC has advisory, audit, and proposal powers to support the Board's decision-making process. The Committee is composed of five non-executive directors, the majority of whom meet independence requirements.
The Committee is supported by specific regulations that govern the characteristics and duties according to the provisions of Circular no. 285 of the supervisory authority.

Independent Directors Committee

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

Credit Committee

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

The Board of Statutory Auditors

The Board of Statutory Auditors is vested with the duty of overseeing compliance with internal and external regulations that govern the activities of the Bank, the proper administration of the Company and the adequacy of its organisational, administrative and accounting structure. The Board of Statutory Auditors is obliged to report to the Bank of Italy the facts and events of which it becomes aware in exercising its responsibilities as per art. 34 of Articles of Association, when these facts and events may constitute irregularities in management or, more generally, an infraction of the rules of correct functioning of banking activities.
The Board of Statutory Auditors consists of three Standing Auditors, of which one chairman, and two substitutes.
The Statutory Auditors are appointed by the Shareholders' Meeting with list voting as governed by art. 33 of the articles of association in compliance with the requirements pursuant to art. 32 of the articles of association. Their term of office lasts for three years and may be renewed.
For the composition of the Board of Statutory Auditors in office, please refer to the current Annual Financial Report.

Other governance structures, functions and protocols

The Bank's governance also includes collective operating structure functions, vested with decision-making powers or merely advisory and propositional powers with respect to the General Manager or the Board of Directors:

- the Management Team, consisting of the General Manager and the Central Management Directors, with advisory and propositional functions;
- the internal Committees of the Credit Area and the Finance Area, with decision-making functions pursuant to the provisions of the system of internal delegations and/or advisory and analysis functions;
- the Internal Control Committee, consisting of Managers of the Compliance, Risk Management and Internal Audit company control functions, with the function of exchanging information and providing methodological coordination;
- the Supervisory Board pursuant to Italian Legislative Decree no. 231/2001, consisting of the Managers of the company control functions specified above, the Manager of the Corporate and Legal Affairs staff area and an external legal consultant, vested with autonomous powers of initiative and control with respect to supervision over the functioning and observance of the 231 Model (administrative liability of the Company)

Independent Auditors

They are designated by the Shareholders' Meeting to audit the Bank's accounts in accordance with legal provisions. The engagement lasts for three years, expiring on the date of the subsequent Shareholders' Meeting called upon to approve the financial statements. The engagement may be revoked only for just cause by resolution of the Shareholders' Meeting after consulting with the Board of Statutory Auditors. The revocation resolution must be approved by decree of the Court, having consulted with the party concerned.
The current independent auditors have been in office since 2010.

The Statutory Auditor and Director remuneration policies are described in the "Remuneration Policies" section of the financial statements.

D. Risk management

Governance and risk management processes are entrusted to the Internal Control System (ICS). The System consists of the set of rules, functions, organisational structures, resources, processes and procedures which aim to ensure, in compliance with sound and prudent management, the achievement of the following ends:

- verification of the implementation of the company's strategies and policies;
- limitation of risk within the limits specified in the reference framework for the determination of the bank's risk appetite (Risk Appetite Framework, RAF);
- safeguarding the value of the assets and protection from losses;
- effectiveness and efficiency of company processes (administration, business, distribution, etc.);
- reliability and security of company information and IT procedures;
- prevention of the risk that the Bank may be involved, even involuntarily, in illicit activities (particularly with regard to those connected to money laundering, usury and terrorist financing);
- compliance of transactions with the law and supervisory regulations, as well as internal policies, regulations and procedures.

The ICS also establishes company control functions (risk management; compliance; internal audit) and defines their duties, endowing them with full autonomy and operational independence.
All risks that may be identified in the activity typically carried out by the bank in economic, financial and capital transactions executed on own account (asset management, lending, offering of bank, financial and brokerage services), those inherent in its legal nature, as well as the risks related to the context in which it operates are connected to specific risk categories, based on uniform characteristics. This process takes place through a survey conducted by the Bank at least once a year on all potential risk categories. This activity is carried out by

expressing, for each potential category identified, a residual risk level defined by the product of the frequency of occurrence (likelihood or dangerousness) and the seriousness of the consequences (severity).

Non-financial risks

Non-financial risks linked to topics of sustainability apply transversally to numerous types of risk, but are substantially concentrated within the operational risk categories, particularly with reference to conduct risk, strategic risk (risk of incorrect strategic decisions and business risk) and reputational risks.
In more detail, and particularly with reference to the most relevant topics and risks linked to sustainability, several fundamental management processes are established:

- ex-ante assessment, by the company's second-level control functions, relating to the introduction of new products, entry into new markets and the launch of new sales initiatives (campaigns, major changes in conditions, distribution channels, etc.);
- centralised and systematic management of customer complaints by the Compliance Office;
- systematic collection of information relating to the operational losses incurred by the bank, in order to identify each individual critical issue and suggest the measures for mitigating them;
- issue of an internal Code of Ethics, or the self-governance tool that contains the voluntary commitments of reciprocal respect and reinforcement of relations with the Bank's stakeholders;
- monitoring of the bank's reputational level, through an analysis of the media, the rate of incidence of complaints, the status of union relations and relationships with the Authorities, the execution of periodic surveys amongst customers and employees;
- proactive involvement of the Risk Management Office in the definition of operating plans linked to the credit and financial investments policy, with the duty of verifying compliance with economic/financial objectives as well as consistency with the principles of the articles of association concerning asset management and lending, in the spirit of mutual people's banks and with a focus on the community, especially as regards small and medium sized enterprises and consumer households.

A local bank close to its customers

With reference to the connection between the bank and the sustainable development of the community in which it is located with its various operating activities, and matters regarding dialogue between the bank and its customers, risk is monitored by the company control functions.
Within the scope of this monitoring, the initiatives and decisions undertaken by the business functions are analysed, taking into consideration the Bank's vision (summarised in the motto: "We find simple, sustainable solutions for a better quality of life"), the business model and the strategic orientations defined in medium/long-term planning.
If there is a conflict between the elements considered, review mechanisms are activated through the escalation of decision-making, which may result in the suspension or abandonment of the riskiest or most inconsistent initiatives.
Policies issued: Articles of Association, Strategy and vision, Complaint regulation, Code of Ethics, Sponsoring Policy.

Our economic responsibility

Risks relating to economic performance and the protection of the bank's financial stability are continuously monitored by the Risk Management Office. In particular, it contributes, along with the top management bodies, to the definition of the Risk Appetite Framework (RAF) which determines, in line with the assessment of the maximum risk that may be undertaken:

- the business model and the strategic plan,
- risk appetite,
- tolerance thresholds,
- risk limits,
- risk governance policies,
- reference processes needed to define them and start them up.

The Bank's risk profile is outlined in relation to compliance, monitored in a systematic and continuous manner, with economic/financial and reputational risk targets.

Our workforce

As things currently stand, there are no significant risks generated or incurred by the bank with respect to the management of personnel and/or industrial relations. The Bank ordinarily manages personnel in accordance with the chain of governance in such a way so that it is the hierarchical supervisor who reports and/or handles any issues, of whatever nature, reported by the employee. Every year the Bank assigns each supervisor the task of conducting an annual interview with the respective employee during which overall performance during the previous year can be assessed and discussed together, while seeking to analyse the points of strength and weakness of the individual employee with a view to continuous personal and professional growth. Dialogue with employees has become increasingly important so much so that the new Supplementary Business Agreement signed at the end of 2017 established that all employees will have specific objectives assigned.

On the other hand, as regards the management of industrial relations, meetings are held periodically and frequently with the various unions present in the Bank in order to establish and maintain a constructive and proactive dialogue with the trade unions. In this manner and until now, the bank has sought to address and resolve together, in the common interest of the employees, issues connected with personnel management that may emerge from time to time.

The control functions are also involved in monitoring respect for the protection of human and workers' rights, continuously verifying the level of relations with the trade unions and providing support for the definition of employee remuneration criteria.

Policies issued: Code of Ethics, Supplementary Business Agreement, Remuneration Policies, Training and development program, Charter of values, Welfare Plan Regulation.

Management of corruption risk

With respect to regulations in force, the Bank has identified and broken down corruption risks into three areas:

- corruption to the detriment of the Public Administration,
- corruption in judicial acts and
- corruption between private parties.

Active and passive corruption, as well as instigation to this behaviour, represents an offence for which the Bank is liable pursuant to Italian Legislative Decree 231/2001 and is identified by the Bank as a threat for its reputational standing, taking into account the high level of attention and sensitivity which all counterparties express on this matter, including those linked to the Bank by contractual relationships and potential counterparties, as well as the general public: this is because the Bank's involvement in corruption would not only be severely punished by the law, but also by the environment in which it carries on its business activities in the broadest sense.

Anti-corruption oversight mechanisms and controls are active for the following main activities:

- on corruption to the detriment of the Public Administration and in judicial acts:
    - granting and management of subsidised loans to customers (contributions, public financing, subsidised agricultural loans) in the absence of legal prerequisites; management of requests for the disbursement of public subsidies to businesses and/or private parties, drawing on regional, national and EU funds;
    - granting of lines of credit or guarantees under particularly favourable conditions;
    - assignment of assets as gifts or donations, assignment of a property for use under conditions more favourable than market conditions, cancellation of debt positions;
    - management of the Treasuries of Public Entities (5) legal proceedings for debt collection or bankruptcy clawbacks.
- on corruption between private parties:
    - management of requests for the disbursement of public subsidies to businesses and/or private parties, drawing on regional, national and EU funds; preliminary screening, management and disbursement of such subsidies; analysis and screening of loan applications and assessment of creditworthiness, especially with reference to credit facilities of a significant amount and on the basis of public funds or participation in tenders and other competitions, or the disbursement of subsidised loans and special credit;
    - cycle of procurement of the goods and services required to perform company activities;
    - money laundering;
    - donations and gifts.

Policies issued: Organisation Model pursuant to Italian Legislative Decree 231/2001, Whistle Blowing Policy, Procurement Management Regulation, Anti-Money Laundering Policy, Code of Ethics, Charter of Values.

In addition to the internal regulatory policies and documents referred to in the previous points, Banca Popolare dell'Alto Adige has decided to proceed in the near future with greater formalisation and documentation, in particular developing policies focusing on personnel and supplementing lending and investment policies with the assessment of non-financial indicators.

E. Stakeholders

Volksbank dedicates particular attention to its stakeholders.
Who are Volksbank's stakeholders?
Stakeholders are everyone who has an interest in what Volksbank does, and in the direct and indirect impacts of the activities of Volksbank.
Stakeholders include:

- shareholders, interested in their bank being healthy and generating revenue;
- employees, interested in the security of the company they work for;
- customers, interested in a relationship with the bank that understands their needs and knows how to satisfy them;
- the environment, interested in a company that directly and indirectly respects it;
- the regulatory entities, interested in the bank operating in accordance with economic security and other relevant criteria;
- the community, interested in a company that creates and distributes value locally;
- suppliers, interested in operating with a counterparty that provides work and guarantees reliability;
- the media, interested in informing the public about the activities carried out by the bank;
- financial intermediaries, interested in interacting with a solid and reliable partner;
- auditors, interested in the bank operating in accordance with regulations in force, for the protection of all stakeholders.

Volksbank operates within the scope of regulations, at times setting more stringent limits for itself and setting even more challenging objectives than what is required. It undertakes to maintain constant contact with shareholders and customers, by disseminating all information useful for raising awareness about its activities. In its own small way, it undertakes actions intended to minimise its impacts on the environment, through direct activities as well as by selecting partners and offering products that meet sustainability criteria. Volksbank demonstrates its attention to the community with brokerage activities, as an employer and with its donation and sponsorship activities.

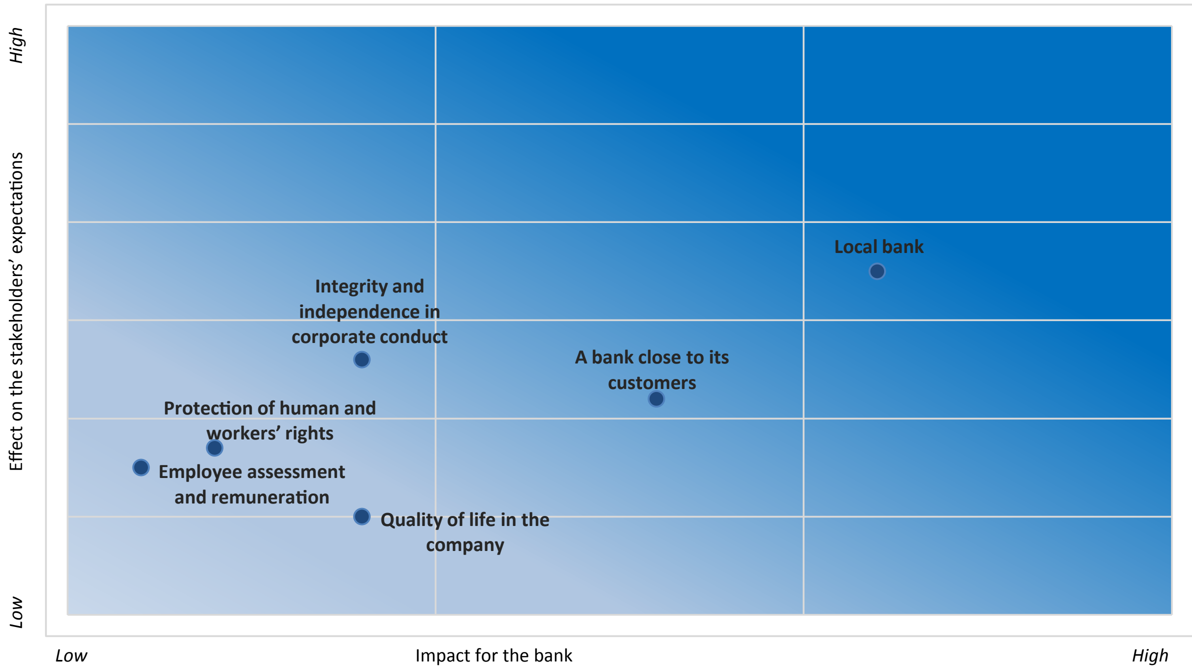
F. Materiality analysis

Volksbank conducts analyses and targeted surveys to understand the most significant pressures deriving from its stakeholders and business priorities with respect to the areas contemplated in Italian Legislative Decree 254/2016. Specifically, the activities meant to identify the Bank's material topics were:

- **Identification of potentially material topics:** the topics to be evaluated by the top management and other stakeholders were identified through an analysis of international guidelines, including GRI publications, the values of Volksbank and peer sustainability reporting;
- **Assessment of the relevance of each topic for the Bank and stakeholders:** the importance of each previously identified topic was evaluated through internal engagement activities;
- **Preparation and validation of the materiality matrix:** Volksbank's 2017 materiality matrix was created through the consolidation of the results achieved.

The following matrix describes the six most relevant topics necessary to ensure the comprehension of business activities, business performance, the results and the impact that it generates, and which were therefore subject to reporting within this document.
In addition, several topics were not included within the materiality matrix graph, as they are considered veritable pillars for the very existence of the bank: Economic performance, Protection of financial stability, Risk management and Governance and decision-making processes. Such topics, adequately developed as regards the areas of application of Italian Legislative Decree 254/2016 in this and subsequent chapters, are first of all dealt with in the Directors' Report.

The Volksbank materiality matrix



More details on the materiality analysis are provided in the Methodological Note.

1.16.2 OUR WAY OF DOING BUSINESS

A. Integrity and independence in corporate conduct

In line with its seven values, the Bank carries on its business with integrity and independence. To monitor this conduct over time, the Bank handles risks of corruption by having adopted and constantly updating three high-level policies: the Charter of Values, the Code of Ethics and the Organisation Model pursuant to Italian Legislative Decree 231/2001. A series of guidelines, provisions, procedures and internal processes are issued with respect to these policies, whereby the Bank affirms and spreads the key points of its business culture, with some of the most important ones being:

- **lawfulness:** no unlawful conduct, regardless of whether it is in the interest of the Company or for its benefit, shall be considered in line with the policy adopted by Volksbank;
- **control:** all decision-making and operational phases of the banking business are governed and monitored, with full awareness of the risks deriving from the possible commission of crimes, including those of corruption. To ensure observance of the policies adopted against corruption, there is a three-tiered system of internal controls, which are correlated but carried out by separate company functions. In addition, the Bank has established the Supervisory Board with extensive and independent powers of proposal, intervention and control, including concerning corruption;
- **established company values:** which set forth the centrality of proper conduct with respect to customers, shareholders, colleagues and supervisors, attention and awareness for all events involving the company and also courage, or the capacity to remain faithful to values and principles, even in difficult situations.

The constant monitoring of this topic is guaranteed by an internal mechanism for reporting and assessing any alerts concerning corruption, referred to as "whistleblowing". Even in the absence of any specific critical issues, in the presence of which communication is immediate, the Board of Directors is periodically informed of the adequacy and effectiveness of anti-corruption controls. In addition, employees are always able to access the IT platform which contains both high-level documents (Charter of Values, Code of Ethics and Organisation Model) and detailed service provisions and the relative procedures. Awareness of this matter is also guaranteed and monitored through training provided during the reference period in e-learning mode from November 2017 to February 2018, which was attended by all employees.

The adequacy and effectiveness of the Organisation Model and Code of Ethics in terms of preventing corruption are subject to verification every six months by the Supervisory Board, the results of which are constantly communicated to the Board of Directors, which handles any necessary interventions, for example if there are any regulatory amendments or changes in the company organisational chart, as well as when an internal regulation does not appear to be sufficiently structured so as to guarantee robust mitigation of the risk identified.

Anti-corruption communication and training	2017	2016	2015
Total number of members of governance bodies to which the Company's anti-corruption policies and procedures were reported	12	12	12
Percentage of members of governance bodies to which the Company's anti-corruption policies and procedures were reported	100%	100%	100%
Total number of business partners to which the Company's anti-corruption policies and procedures were reported	7	6	6
Percentage of business partners to which the Company's anti-corruption policies and procedures were reported	100%	100%	100%
Total number of members of governance bodies which took advantage of anti-corruption training	12	0	0
Percentage of members of governance bodies which took advantage of anti-corruption training	100%	0%	0%
Total number of employees which took advantage of anti-corruption training	577	0	0
Percentage of employees which took advantage of anti-corruption training	42%	0%	0%

No case of corruption was reported in 2015-2017

During the reference period, the control unit that handles complaints as well as that which handles compliance risks added one resource each.

During the reference period and in the previous two years, there were no cases of corruption reported, either relating to episodes for which employees were dismissed or subjected to disciplinary measures, or relating to episodes for which contracts with commercial partners were not renewed due to corruption-related violations. There were also no public legal actions concluded regarding cases of corruption against the organisation or its employees.

The only legal action against Volksbank launched by the authorities in the three-year period in question concerning anti-competitive and collusive practices regarded, at the request of a local consumer protection association, an investigation by the Antitrust authority on the conditions applied to mortgages provided to families offered by the main Alto Adige banking institutions (Sparkasse, Volksbank and Casse Raiffeisen). The inquiry, which began in 2014 and ended for Volksbank in 2015, had no judicial or reputational consequences for Volksbank, as it was found that the assumption of a 'cartel' at the basis of the legal action was completely inaccurate.
Lastly, the oversight mechanism over potential commercial and behavioural practices against open market regulations (unfair competition, monopolistic practices and inter-bank cartels) is governed by Volksbank within the scope of the management of "conduct risk". In particular, the second-level control functions (risk management and compliance) are involved ex-ante in processes of introducing new products and undertaking commercial activities (campaigns, major changes in conditions, etc.), also in order to evaluate and prevent even the possibility of these behaviours. The audits are not limited to the assessment of legal impacts and possible penalties, but they also seek to consider reputational impacts with respect to the main stakeholders (customers, inter-bank market, authorities, shareholders, etc.).

Legal actions relating to unfair competition, anti-trust and monopolistic practices	2017	2016	2015
Total number of legal actions	-	-	1
Number of legal actions relating to unfair competition	-	-	-
Number of legal actions relating to anti-trust	-	-	1
Number of legal actions relating to monopolistic practices	-	-	-

B. Privacy and data protection

The protection of privacy is a topic which, aside from being governed by Italian legislation, is constantly monitored. Customer data are gathered to the extent required for operational needs in accordance with regulatory provisions, and their security is guaranteed. Any amendment is promptly communicated to Bank customers.

Complaints relating to customer privacy violations and the loss of customer data	2017	2016	2015
Total number of complaints due to customer privacy violations	1	-	1
Of which from external parties	1	-	1
Of which from regulators	-	-	-
Total number of complaints relating to the loss of customer data	-	-	-

The sporadic cases subject to dispute did not relate to the IT systems, but rather specific personal conduct of bank staff which the complaining party considered non-compliant. The complaints were settled. In addition, during the reference period in question, there were no complaints relating to the loss of customer data.
The only complaint received in 2017 regards a customer to whom a letter was sent asking to ensure compliance with anti-money laundering obligations. The customer asked for information about the reasons and legal bases for his name being entered in the Bank's database. In response, pursuant to art. 7 of the Privacy Code, a copy of the disclosure and consent dated and signed by the customer and connected with the unregistered savings deposit was sent, along with a summary of the personal information handled.

C. Relations with suppliers

Supply chain management is described in the "Procurement Management Regulation" approved by the Board of Directors, which governs the principles and restrictions for all expenditures and investments incurred by the Bank for the management and development of company activities, in compliance with the principles of sound and prudent management, and protection of the Bank's image. The document defines the types of expenditure and the criteria for the selection of suppliers.
In supplier selection, the following exclusion, qualitative and quantitative criteria are taken into consideration

Exclusion criteria:

Compliance with anti-money laundering provisions
Relations are not undertaken with suppliers known or suspected to be involved in unlawful activities and/or activities associated with the violation of anti-money laundering and anti-terrorism regulations;
Qualifications and compliance with provisions on occupational health and safety, environmental protection and business continuity
Exclusively companies with the necessary qualifications in accordance with the law and which are professionally qualified in accordance with the provisions of legislative requirements in force are selected, particularly with regard to compliance with provisions on occupational health and safety (pursuant to Italian Legislative Decree 81/2008), environmental protection and business continuity.
Before the issue of purchase orders, the following elements are always verified (including through self-certification by the supplier):

- that the collective contract established for companies with employees is applied;
- that the employees have been properly trained;
- that the employees have been subjected to the required medical visits;
- that a risk assessment has been prepared and a safety manager has been appointed;
- that social security, welfare and insurance payments and obligations have been properly fulfilled (through the official "DURC" [Certification of Regular Social Security Payments] document);
- that the goods acquired are consistent with the expected use;
- that the goods are certified and that their proper use does not entail any risks for human health and safety and does not provoke environmental damages;
- that the proper disposal of consumables is guaranteed (e.g., toner).

Volksbank Organisation Model pursuant to Italian Legislative Decree 231/2001
No relations are entered into with suppliers with which works and services agreements have been entered into if they do not sign a self-certification in which:

- they declare that they are aware of the content of Italian Legislative Decree no. 231 of 8 June 2001 in its most updated version and of the offences specified therein;
- they undertake to abstain, on their own behalf and/or on behalf of their employees or workers, from conduct suitable to amount to the offences pursuant to the Italian Legislative Decree, irrespective of the actual occurrence of the offence or its punishability;
- they declare that they have been informed that Volksbank has adopted the Organisation Model pursuant to Italian Legislative Decree 231/2001, that they have seen it and that they have understood its content.

For inclusion in the shareholder registry, being a shareholder or customer of the Bank or a supplier for multiple years and carrying out activities in the Bank's area of presence all constitute elements in favour of the supplier.
Non-authorisation of a conflict of interests
Anomaly indexes
Assessment of situations in which the supplier's position is characterised by any of the following factors:

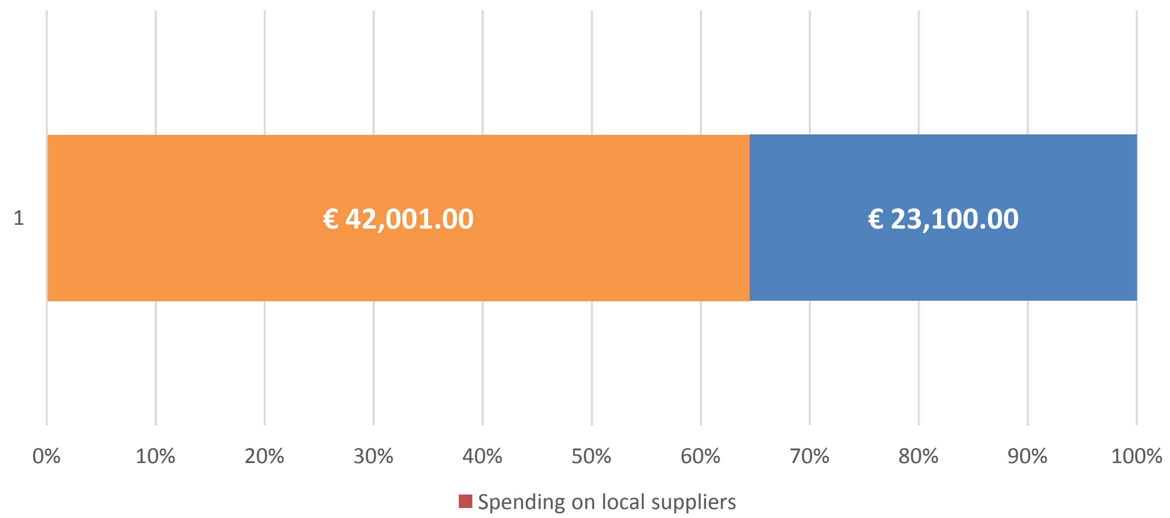
- The supplier normally operates in a business line different from that for which it submitted the bid;
- The supplier is linked or is in close collaboration with a public official;
- The supplier is included in the selection process at the explicit request or on the insistence of a public official;

- The supplier proposes providing the service with methods, frequency or sizes which are illogical, unusual or such so as to connote the intention of concealment, especially if there are no plausible economic or financial justifications;
- The supplier is established in geographical areas belonging to a black-list country.

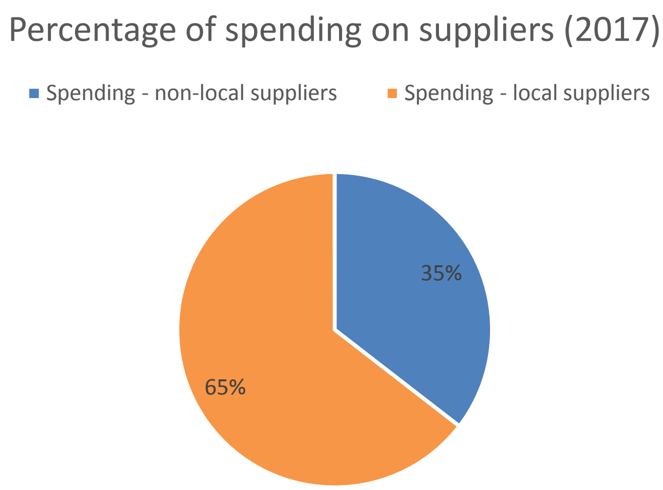
Lastly, relations are not entered into with suppliers for which it is known that the subjective requirements relating to professionalism and integrity are not fulfilled, or that they are incapable of providing and promptly and continuously guaranteeing goods and services at a level adequate to meet the Bank's requirements.

With the application of the exclusion criteria established in the Regulation and mentioned above, certain non-financial matters are also managed: first of all, the risk of incidents relating to child labour, forced labour and violations of the freedom of association and collective bargaining is minimised. In addition,
the possession of other certifications recognised within the social, security or environmental contexts (for example GS, LEED, Energy Star, TCO, ESG criteria, etc.) allows for a further distinction, when needed, in the quality of the products/services or the suppliers to be selected.
Lastly, the Bank contributes to the development of the local economic fabric by making use especially of local suppliers, i.e., those with offices in the provinces where it operates, as presented in the table and graphs below. The acquisitions of Volksbank relate primarily to IT Services (21%), Professional Services (17%), Real estate rental, maintenance and management (13%) and Investments in property, plant and equipment (9%).

	Unit of measurement	**2017**	**2016**	**2015**
Total purchases	€m	65,101	63,047	77,031
Spending on local suppliers	€m	42,001	42,014	50,343
Local suppliers	%	64.52%	66.64%	65.35%
Italy	%	95.27%	96.03%	95.78%
Abroad	%	4.73%	3.97%	4.22%



Amount and percentage of spending on local suppliers (2017)



1.16.3 OUR ECONOMIC RESPONSIBILITY

A. Economic performance and protection of financial stability

Information on the bank's results is provided in the "Results of Operations" section of the Financial Statements. The financial statements in the "Financial statement schedules" section and the indicators in the "Summary data and alternative performance indicators" section

Volksbank creates value added

As a solid, deeply rooted Bank, we represent an important factor within the regional economy: as a lender, an employer and a taxpayer. For us, it is important to achieve solid results, but also assume social responsibility, to the extent to which we create jobs, provide loans to the economy, offer innovative products and services and promote projects in the public interest.

Economic value distributed	Unit of measurement	2017	2016	2015
Operating costs (payments to suppliers, non-strategic investments, royalties and subsided payments)	€mn	57	64	69
Employee wages and benefits (total expenses for employees (current payments, not future commitments))	€mn	100	99	98
Payments to lenders (all financial payments made to lenders of capital to the organisation)	€mn	10	0	13
Payments to the Public Administration (gross taxes)	€mn	26	(4)	19
Investments in the community (voluntary contributions and investments of funds in the community, including donations)	€mn	1	1	1
Total	**€mn**	**194**	**160**	**200**

The data have remained substantially stable: the greatest difference was that no dividends were paid for the year 2016.

1.16.4 OUR LINK WITH THE COMMUNITY

A. A bank connected to its community and dedicated to economically sustainable development

As already highlighted with respect to expenditure on local suppliers, Volksbank believes in the principle of the local creation of wealth, not only because investments are aimed at developing the local economy, but also because the company's wealth is, and is destined to remain, an asset of our shareholders. The guidelines are oriented towards the values, strategy and vision of Volksbank: "We find simple, sustainable solutions for a better quality of life".
The main objectives of the Bank's activities are:

- favouring local development, supporting projects and initiatives not only that are consistent with the Bank's values and strategy, but especially which aim for the development and active participation of local communities,
- spreading and conveying the image of Volksbank throughout the area,
- creating or consolidating a relationship with the beneficiaries of its interventions,
- supporting the weakest segments of the local community.

B. We support the community

We promote social commitment.

Sports, social and cultural initiatives contribute towards bringing people closer together. For these projects to be successful, we need people to act on a courtesy basis, both partners and those who handle the economic part. Volksbank has always supported projects in the collective interest: in 2017, the Bank donated nearly Euro 1.5 million for contributions and sponsorship contracts.
The Bank's community development programs translate primarily into support for the ordinary activity of hundreds of associations (sports, cultural, social, etc.) operating in the local area or into one-off support for cultural, economic or social projects and events.
For Volksbank, sponsorship does not represent an activity that is an end in and of itself, but rather an essential instrument for the achievement of the company's targets. The sponsorship relationship is therefore equivalent to a reciprocal exchange of services and benefits between the parties. Volksbank aims to acquire short/medium/long-term collaborations and privileges projects in the sectors of sports, culture, sustainability and quality of life, as well as local development. There are also local sponsorships, with one-off support for events and initiatives of limited regional interest.

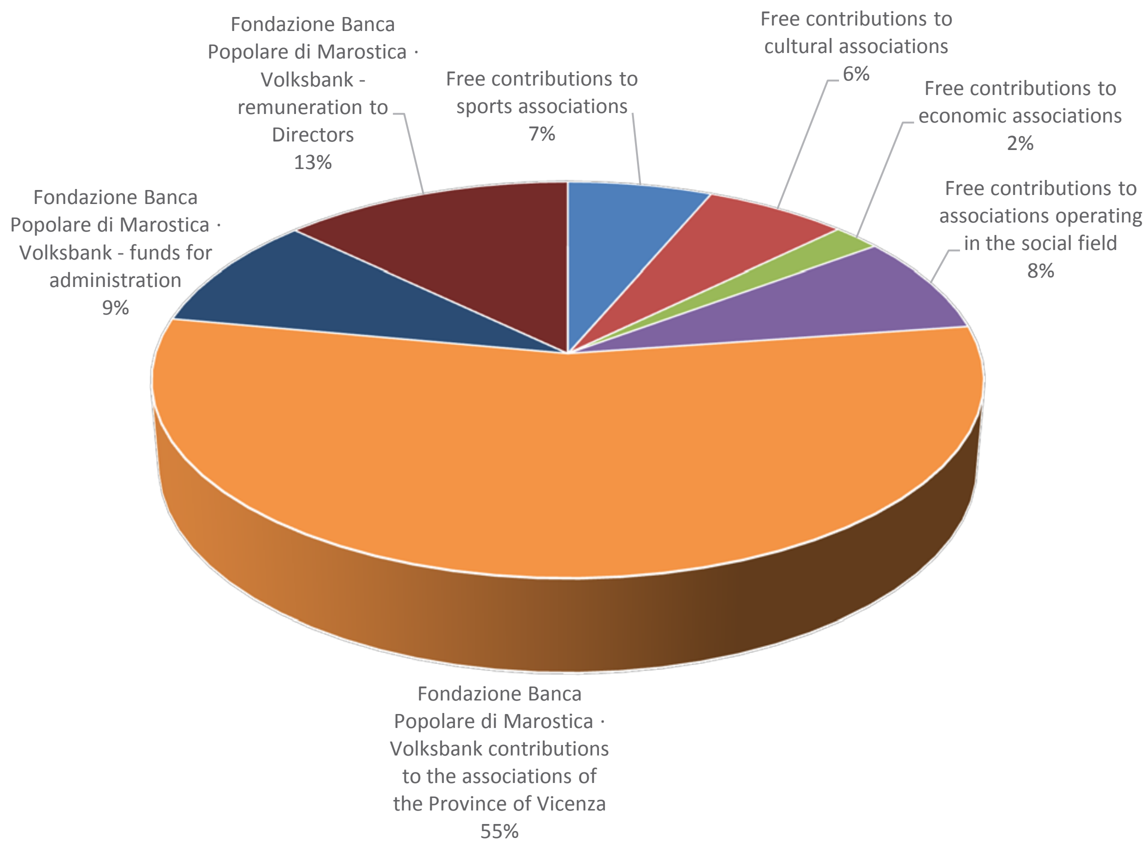
In 2017, the new "Sponsorships and donations" policy was introduced, which describes and governs the activities undertaken by Volksbank for the benefit of associations and initiatives within the applicable geographical area, in line with the principle of the local generation of wealth illustrated previously.

Contributions	Unit of measurement	2017	2016	2015
Free contributions to sports associations	€	34,733	34,411	37,287
Free contributions to cultural associations	€	34,456	44,746	47,895
Free contributions to economic associations	€	11,651	20,386	21,753
Free contributions to associations operating in the social field	€	50,097	176,352	74,537
Other	€	42,738	19,772	3,935
Fondazione Banca Popolare di Marostica · Volksbank contributions to the associations of the Province of Vicenza	€	300,000	300,000	-
Fondazione Banca Popolare di Marostica · Volksbank - funds for administration	€	50,000	50,000	-
Fondazione Banca Popolare di Marostica · Volksbank - remuneration to Directors	€	70,000	70,000	-
Total	**€**	**593,675**	**715,667**	**185,406**

Fondazione Banca Popolare di Marostica Volksbank

The Fondazione Banca Popolare di Marostica - Volksbank, established on 1 January 2016, has the objective of promoting and sustaining initiatives of a cultural, educational, training, recreational, social and health assistance, religious, or scientific research nature, to the benefit of the civic and social fabric in the reference area of the former Banca Popolare di Marostica, now merged into Volksbank.
Overall, donations disbursed by the foundation amount to Euro 300,000 in 2017.
More information on the Foundation is provided at www.fondazione-bpmarostica.it

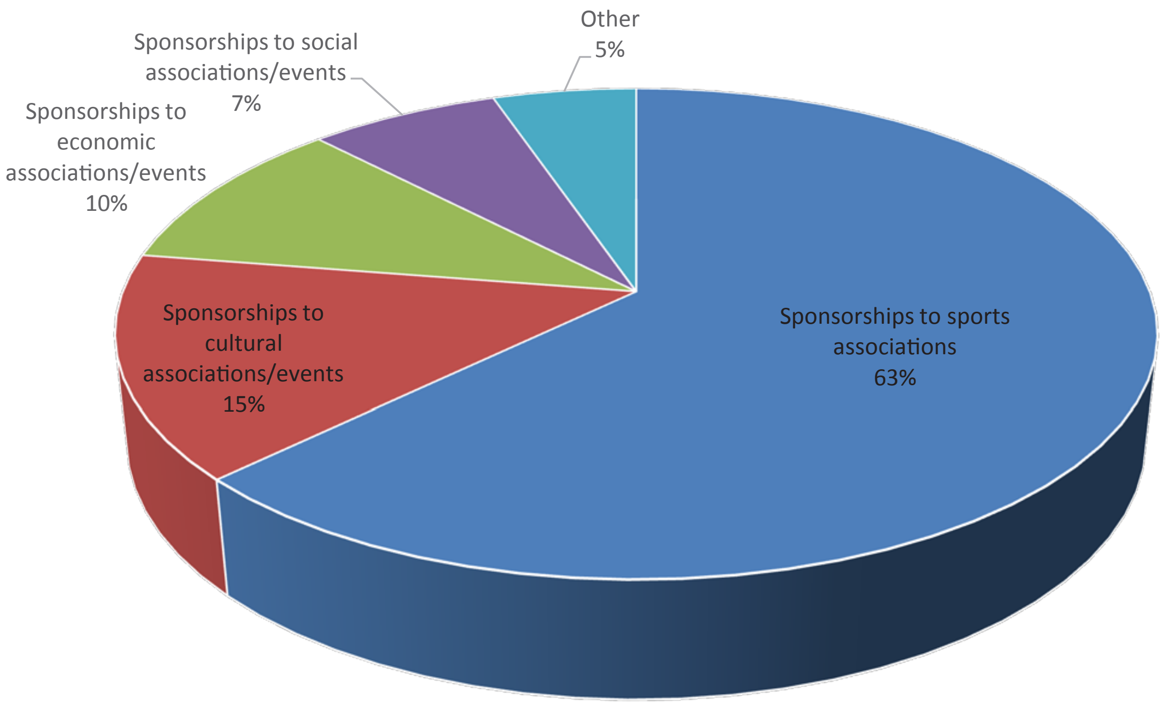
The budget relating to contributions approved by the Bank every year is distributed to the various areas/branches, which are able to make use of it independently.
This budget is used for contributions to sports, cultural, economic or social associations.
The figure below shows the percentage distribution of contributions provided during the year 2017.



Contributions (2017)

The assignment of sponsorship contracts (including long-term) follows a centralised process, while that relating to local sponsorships, meant to support one-off events, follows a simplified local procedure.
The sports sector predominates in the national average of the breakdown of sponsorships between the various areas. This trend is also true for Volksbank, although to a lesser extent. Significant space is also set aside for cultural, social and economic initiatives.

Investments in the community (Sponsorship contracts)	Unit of measurement	2017	2016	2015
Sponsorships to sports associations	€	592,964	497,535	569,845
Sponsorships to cultural associations/events	€	139,085	159,716	187,579
Sponsorships to economic associations/events	€	96,958	109,919	103,791
Sponsorships to social associations/events	€	65,993	63,138	90,834
Other	€	49,557	41,484	9,293
Total	**€**	**944,557**	**871,792**	**961,342**



C. A bank open to dialogue

Volksbank is the "Bank of dialogue": We want to create and maintain all possibilities open so that shareholders, customers, employees, opinion leaders and other stakeholders can enter into active dialogue with the Bank. Aside from the regular Shareholders' Meeting, the Bank organises informational and discussion meetings on current matters of interest along with representatives of the local economy and the members of top management.

1.16.5 FOCUS ON OUR CUSTOMERS

A. A bank close to its customers

100% IN FAVOUR OF THE LOCAL AREA

100 percent of funds provided to us by customers is redistributed in the form of loans. Volksbank thus plays a significant role as regards the contribution to economic and social development within its catchment area. By financing growth, creating jobs and paying taxes and fees, Volksbank improves the quality of life of its customers, suppliers, shareholders and employees.

"HUB & SPOKE"

In 2017, Volksbank continued to redefine the structure of its sales network: the smallest branches became spokes, in which customers are provided with basic assistance. The branches and branch head offices offer specialised consultancy services. The target is to respond with even greater effectiveness to the needs of customers wherever they are.

B. Service quality

Compliance with rules on transparency, as well as fairness in relationships with customers, represent the fundamental requirement for successful banking activity. In this manner, legal and reputational risk decline, thus strengthening the general image of the Bank.

A significant component is the accurate and consolidated management of complaints, to ensure that every claim is promptly processed and resolved. Customer complaints, which are managed by the dedicated complaints office, offer the Bank the possibility to review and improve its operating processes, procedures and systems.

Lastly, it aims to restore the relationship of trust between the customer and the Bank, which may have been eroded. Customers need to be adequately and actively informed of their rights with respect to complaints. To that end, through its sales network and its website, the Bank makes the following set of information available to customers, with the methods specified:

- Complaints Regulation
- Complaints procedure relating to insurance brokerage activities
- 2017 Complaints report
- Banking and Financial Arbitrator - Practical Guide
- Arbitrator for Financial Disputes - Practical Guide

More than 17,000 customers participated in the "victor" survey which took place in spring 2017.
The survey asked customers for information on the quality of the services offered by the bank, on customer satisfaction with the products offered by the bank and on their feelings about the bank.
With their responses, customers provided valuable support to Volksbank in identifying points of strength as well as points for potential improvement.

For Volksbank, customer relationships are fundamental. Particular attention is paid to meetings with customers, and network employees participate in special training aiming for continuous improvement in meeting quality.

No case of non-compliance with regulations or voluntary codes regarding product/service information and labelling was reported in 2015-2017
No case of non-compliance with regulations or voluntary codes regarding marketing activities (including advertising, promotion and sponsorships) was reported in 2015-2017

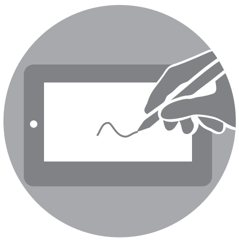
C. Transparency and simplicity

Transparency and simplicity are the foundation and the result of the Bank's seven key values. Within this framework, the code of ethics (published on the bank's website) expressly establishes the following: "Products and services, proposed in a transparent and exhaustive manner to customers, must respond to their real needs; elusive practices or those tending to change the real desire of customers are not permitted."
For example, 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.

D. Innovation in customer service

Innovation represents the drive for future growth, and in 2017 Volksbank invested in innovation, multi-channelling and digitalisation to offer its customers cost effective and flexible banking services, 24 hours a day.
More information is provided in the "Technological and administrative services and process innovation" section.

Roughly **54%** of our retail customers use direct b@nking on PCs or laptops at least once a week*.



More than **50%** of contracts are now signed on tablets.

Roughly **23%** of our retail customers use the Volksbank app at least once a week*.

*Source: 2017 victor survey

E. Offering responsible products

Aside from its typical business products and services, Volksbank also has different products in its portfolio which are characterised by responsibility.
The Bank has entered into agreements with the Provinces and Regions to participate in the disbursement of subsidised loans. With a view to the Bank retaining its local roots, a "special credit" segment was set up to allow businesses improved and easier access to credit by exploiting opportunities relating to low-interest loans offered by the Sabatini-bis Law or loans through circulating funds. In this context, the economic development partnerships with financial companies have been reinforced (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.

Value of loans for social purposes	Unit of measurement	2017	2016	2015
Total loans	€	4,836,447	4,446,475	4,067,604
Loans for social purposes	€	151,707	151,691	132,917
Percentage of the total value of loans for social purposes out of the total value of loans disbursed	%	3%	3%	3%

Volksbank is close to the environment and favours building renovation projects carried out by private citizens. The "Your Green condominium" initiative regards boosting the energy savings of condominiums in the Province of Trento and, as it handles the topic of sustainability, it immediately aroused the interest of the Bank. The project dovetails perfectly with the Bank's vision: "We find simple, sustainable solutions for a better quality of life". As partners in this Provincial initiative, employees offer dedicated consultancy on access to contributions as well as specific consultancy on matters linked to works financing.

1.16.6 OUR WORKFORCE

A. Volksbank's employees

The Bank's most important resource is its workforce. They determine the business results and are the true competitive factor by personifying the unique points and ethical values that make up the tradition and Code of Ethics of Volksbank, as a regional bank.
The primary objective of the Human Resources Department is to ensure, by means of internal rotation and new recruits, the necessary resources for the branches throughout the territory, the strengthening of the Bank's workforce, and the timely replacement of both employees who terminate their employment with the Bank, as well as employees who are absent for extended periods of time (for maternity leave, accidents, or illnesses), based on human resources criteria and policies. More information can be found in the "Personnel" section of the financial statements.
The workforce of Volksbank at the end of 2017 consisted of 1,366 employees (1,372 at the end of 2016).
In November 2017, a new supplementary agreement was signed with the trade unions. Negotiations were concluded after nine months of discussions with the unions, and the agreement entered into force on 1 January 2018.
With the new supplementary agreement, we aimed to significantly change the bonus system, which was not only brought into line with regulations in force, but was also transformed for everyone into a variable performance-based bonus, with assessment indicators including the bank's results, individual results and results linked to team work, representing a significant innovation in this sector. Furthermore, the previous automatic procedures were transformed into training courses and an assessment on soft skills (>2.5) in the last two years within the role held.

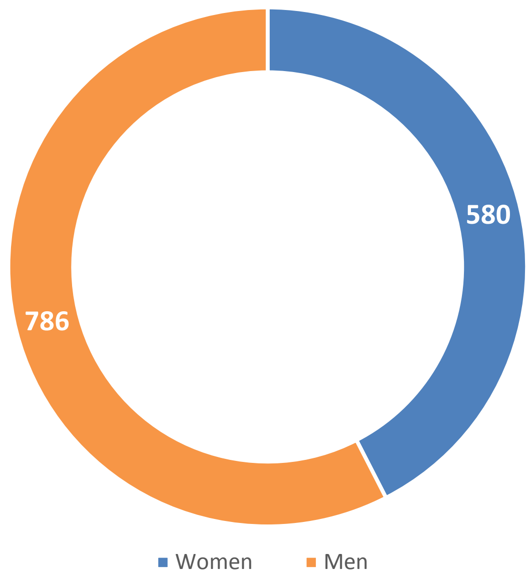


Figure x. Total employees by gender (2017)

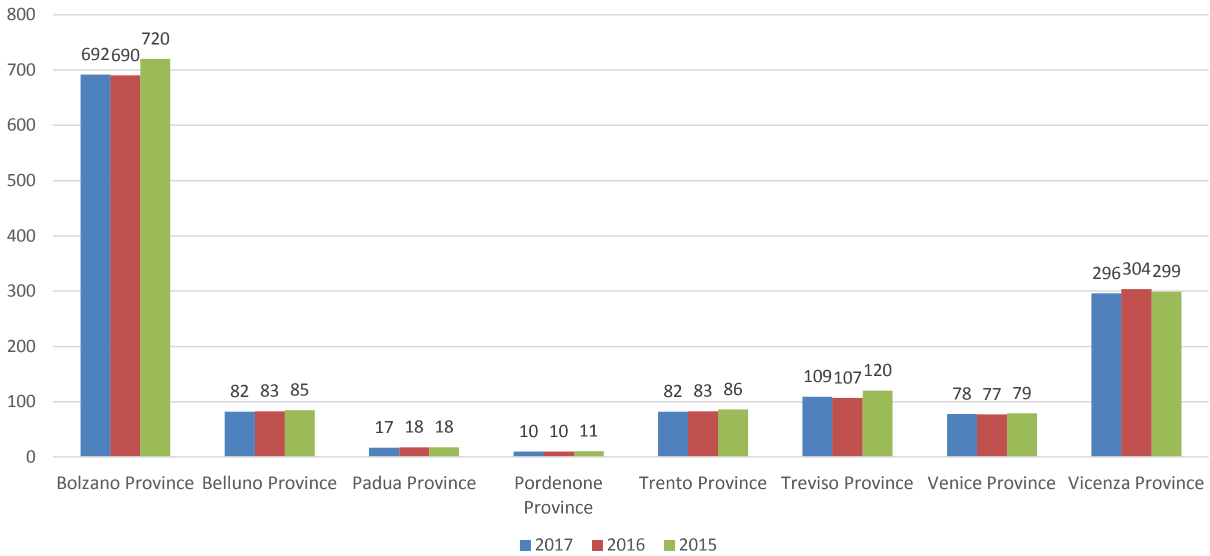


Figure x. Employees by operational area

Information on personnel	**2017**			**2016**			**2015**		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Total by gender	42%	48%		42%	48%		41%	49%	
Total by employee category									
Officers	15%	85%		16%	84%		16%	84%	
Managers	17%	83%		17%	83%		16%	84%	
Employees	60%	40%		59%	41%		58%	42%	
Total by age									
<= 29 years			5%			6%			6%
30 - 50 years			64%			68%			68%
>= 51 years			30%			27%			26%
Breakdown by contract type									
Total number of permanent contracts	563	775	1338	566	795	1361	578	833	1411
Total number of temporary or limited term contracts	17	11	28	6	5	11	2	5	7
Breakdown by employment type									
Full-time employment in accordance with domestic laws	342	779	1121	350	796	1146	376	833	1209
Part-time employment in accordance with domestic laws	238	7	245	222	4	226	204	5	209
Breakdown by educational qualification									
University degree	160	206	366	157	208	365	154	207	361
Secondary school diploma	395	528	923	390	538	928	395	562	957
Middle School	25	51	76	25	53	78	31	68	99
Other	0	1	1	0	1	1	0	1	1

Breakdown of permanent contracts by geographical area (province)

	2017			2016			2015		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Bolzano Province	286	383	669	288	391	679	308	406	714
Belluno Province	35	47	82	35	48	83	35	50	85
Padua Province	5	12	17	5	13	18	4	14	18
Pordenone Province	3	7	10	4	6	10	5	6	11
Trento Province	42	39	81	42	41	83	41	45	86
Treviso Province	47	60	107	46	61	107	51	69	120
Venice Province	37	41	78	38	39	77	35	44	79
Vicenza Province	108	186	294	108	196	304	99	199	298

Breakdown of limited term contracts by geographical area (province)

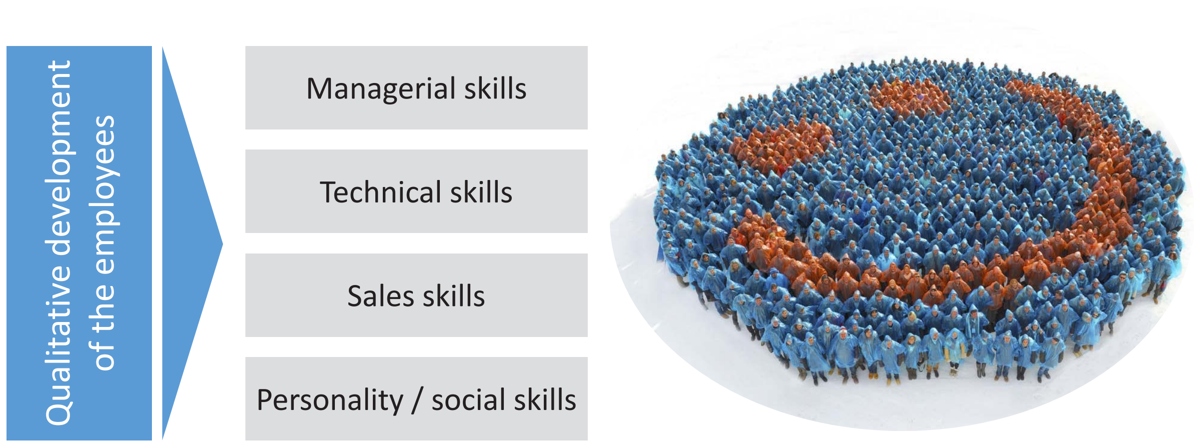
	2017			2016			2015		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Bolzano Province	14	9	23	6	5	11	2	4	6
Belluno Province			0			0			0
Padua Province			0			0			0
Pordenone Province			0			0			0
Trento Province		1	1			0			0
Treviso Province	2		2			0			0
Venice Province			0			0			0
Vicenza Province	1	1	2			0		1	1

B. Employee enhancement

The enhancement of people is a fundamental point for the Bank, which offers an extensive training program, beginning from workshops for new recruits, to specific banking training, to training relating to regulatory innovations and support in the use of IT instruments or personal interaction, and even including specific training for the management.

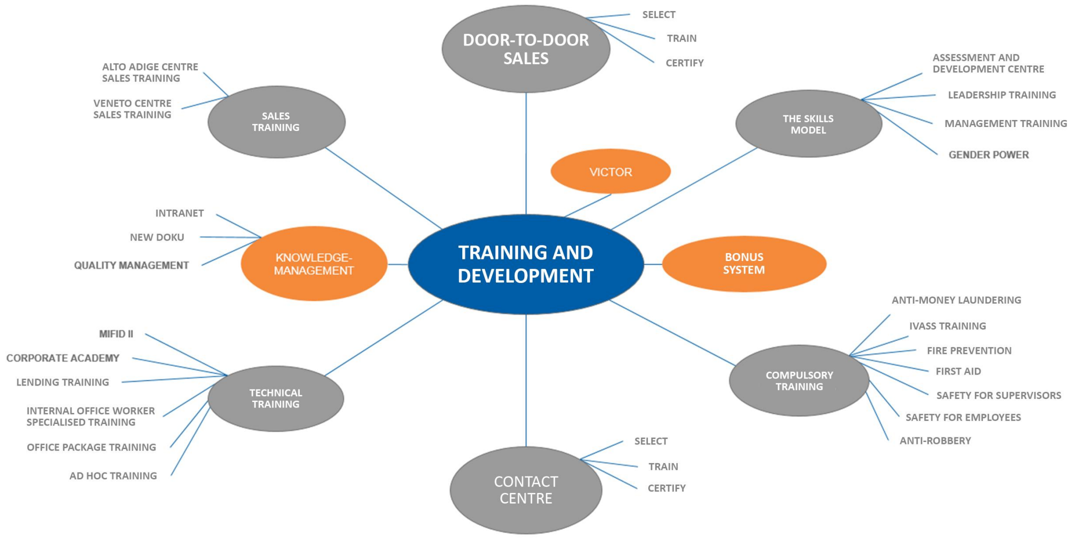
Qualitative development of the employees

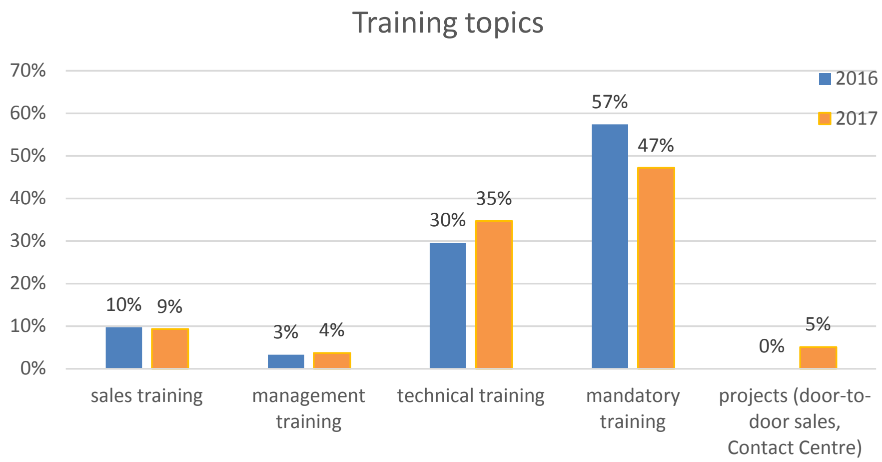
We give priority to skill development

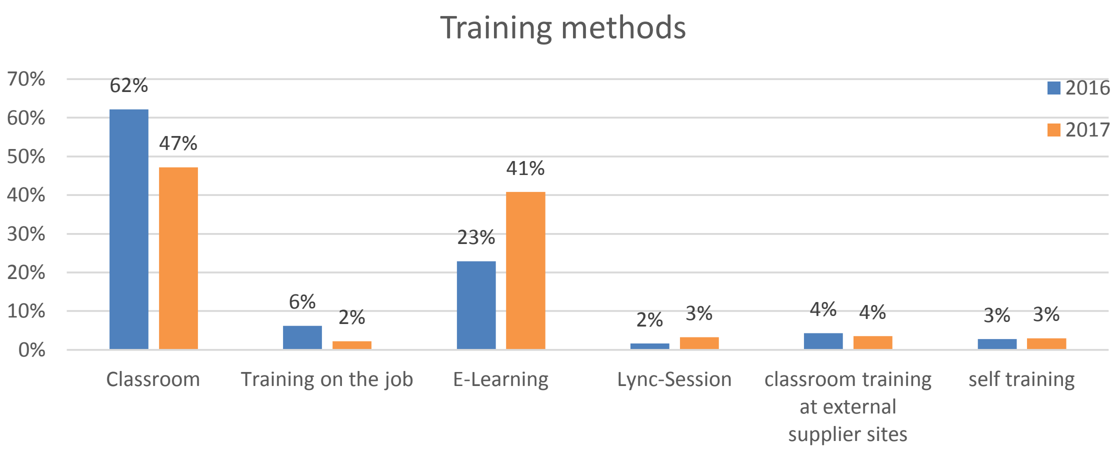


Staff Training and Development 2017

- Training and development of the company population
- Interactive, digitalised and customised trainings





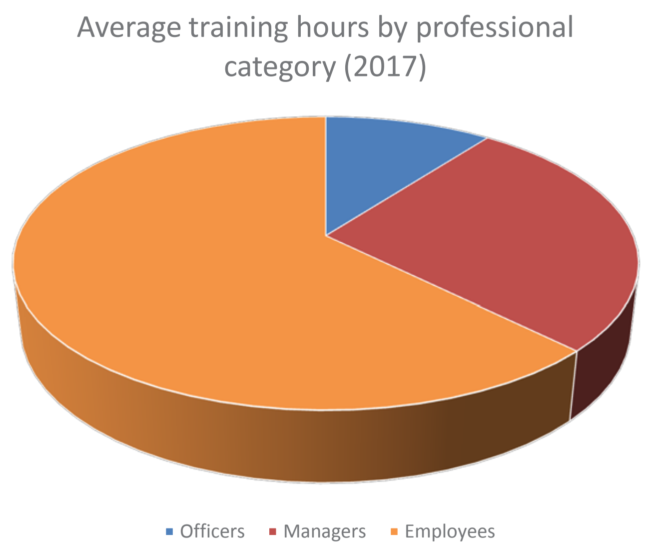


In October 2017, the bank organised two Talent Days in Bolzano and Marostica for young members of the Bank as well as non-members and employees' children, which were also open to anyone in the last year of secondary school or attending the universities in the areas concerned by the initiative. The two workshops were intended to transmit the most useful technical information to young people to best interpret the dynamics of the job market and understand the needs of companies that are looking for new recruits.

The Bank continued to focus attention on professional development of management throughout 2017, with the objective of spreading awareness of and fully adopting the new "Manager model", created in 2016 with a view to aligning with the Volksbank strategy and vision, and creating support to handle a market in continuous evolution with a new Business Line structure. On the basis of this Manager model, a Development Centre was created, with the involvement of 30 employees; as a result, a specific individual training course was launched based on the needs identified for each person, and an 18-month group training program was structured, which is expected to begin in 2018.
In the future, the Bank will continue to develop and harmonise the basic skills of managers (feedback, coaching) and own its role as a trainer of employees.

Personnel training	**2017**			**2016**			**2015**		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Officers	120	337	457	131	300	431	151	554	705
Managers (unit managers)	1,976	13,491	15,467	2,070	11,602	13,672	1,487	10,307	11,794
Employees	25,346	30,619	55,965	21,601	27,867	49,468	15,730	19,082	34,812
Total number of hours of training			71,888			63,571			47,311

Average personnel training hours	**2017**			**2016**			**2015**		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Officers	20.00	9.91	11.43	34.50	21.53	23.58	25.17	17.87	19.05
Managers (unit managers)	22.45	31.52	29.97	23.25	26.04	25.57	17.09	22.85	21.92
Employees	52.15	94.50	69.09	55.82	67.66	60.71	32.30	53.60	41.30



The significant increase in training hours from 2015 to 2016 can be associated with the training needs that arose for new employees following the incorporation of Banca Popolare di Marostica and Banca di Treviso.

In terms of **performance assessment**, each year every employee participates in an individual meeting with his or her manager to review the previous year and plan for the future.
Staff interviews are held on a yearly basis and represent an important tool for management. The new evaluation form introduced in 2016 was used in 2017. 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.

Employees are also valued through the appropriate management **of relationships with Workers' Representatives and the Trade Unions,** which are handled by the Bank through a typical mechanism of convening meetings at the request of one of the parties.
Meetings are held periodically with the unions and regard various topics of collective and individual interest to the employees.
The Bank applies the national collective bargaining agreement as well as supplementary business contracts and specific union agreements that regard particular matters such as part-time contracts, the reorganisation of the sales network, the establishment of the contact centre and the introduction of the welfare system.

C. Employee assessment and remuneration

As regards the personnel management methods adopted by the Bank, Volksbank adopts objective and uniform assessment and remuneration criteria in compliance with the provisions of the remuneration policies applied by the Bank and the underlying code of ethics. In particular, the Bank's remuneration policies envisage and govern a variable part of remuneration linked to the achievement of objectives that also take into account the professional profile of individual employees and, as a result, their responsibilities.

Volksbank updates the Remuneration policies on the basis of the evolution of the regulatory context and in order to increasingly align the management's interests with those of the ownership from a long-term perspective, through the provision of remuneration capable, on one hand, of attracting and retaining core workers and, on the other hand, of correlating variable remuneration with the time horizons in which performance takes place.
In more detail, in line with the principles of social responsibility of its business activities, the Bank pursues the following objectives through a balanced remuneration strategy:
- gearing personnel conduct towards business priorities, defined with the strategic plan, to support the creation of medium/long-term value, in compliance with the rules that ensure proper control over current and outlook business risks and the maintenance of adequate levels of liquidity and capitalisation;
- attracting and maintaining professionally qualified people, supporting loyalty by means of professional development, rewarding merit and safeguarding fair internal remuneration; maintaining external competitiveness in remuneration by function type, company size and market characteristics;
- supporting behaviours consistent with the code of ethics and compliance with legal provisions and regulations.

The Remuneration policies applied and updated by the Bank every year define criteria for the access to and the calculation and disbursement of variable remuneration with respect to the Bank's key personnel. Key personnel is defined as the scope of the company population to which stricter remuneration management rules are applied as, due to their role or professional activity or the structuring of incentives, they have or may have a considerable impact on the Bank's risk profile: this includes, in particular, executive directors, the top management, the managers of the Company control functions and the Central Human Resources director, other parties who individually or collectively assume risks in a significant manner and, lacking evidence to the contrary, those who receive annual

remuneration greater than the lowest remuneration paid to the parties that take on major risks for the Bank identified in line with the Regulatory Technical Standards defined by the EBA.
In compliance with transparency criteria, the Bank provides a disclosure on its remuneration policies.
The remuneration policy specifies the Entry Gates that represent the conditions for access to the bonus system, the relationship between fixed and variable remuneration, which varies depending on the function of the party belonging to key personnel, and the criteria with which the objectives and their weights are assigned.
The objectives assigned may be Bank objectives (RORAC and net profit) and individual quantitative and qualitative function-related objectives. Naturally, there are also malus and claw back mechanisms in the case of the identification of fraudulent conduct by key personnel. In addition, if the variable part of the remuneration of the bank's key personnel exceeds the annual amount of Euro 15,000, the part exceeding that threshold must be paid in the form of financial instruments. Lastly, there is a deferment mechanism in place for all key personnel, based on which a share of the variable part of remuneration (50%) is disbursed during the applicable year and the rest is disbursed in the two subsequent years (25%+25%).

For the remuneration of officers, managers, specialists and personnel in the professional areas, the segment national collective agreement and the supplementary business contract are applied. In certain cases, ad personam remuneration may be recognised commensurate with the level of professionalism and the role held.
The remuneration assigned to employees in relation to their job level and any ad personam amount constitute the fixed remuneration component.

Workers not employed by the Bank work to complement or support the activities carried out by the employees as they have specific skills which are required for a limited period of time or as part of specific projects. External collaborators are remunerated with fixed contractual compensation.

As regards variable remuneration, the compensation structure of BPAA includes variable remuneration components in the form of:

- incentives (incentive system) for categories of personnel that more directly influence the global performance of the Bank, as they are able to assume risk positions, generate profits, or have an impact on other financial statement items for relevant amounts, and
- performance bonuses (bonus system) for the categories of employees that, in accordance with national or Bank trade union contracts, contribute to the Bank's overall result and achieve a high level of individual qualitative/quantitative performance.

The incentive system for key personnel is subject to access conditions and adjustments for risks assumed. Moreover, ex-post mechanisms for risk alignment are envisaged, which associate the variable remuneration disbursed with the sustainability of results over time. Incentives are recognised in cash and financial instruments or correlated instruments that reflect the Bank's economic value (hereafter, "financial instruments" or "instruments"). In application of the Supervisory provisions, at BPAA these instruments represent 25% of incentives and are recognised in accordance with the rules laid out in paragraph 4.3.1 of this document. The use of shares or correlated instruments is dependent on prior authorisation by the Shareholders' Meeting and applicable corporate and regulatory requirements.

D. Diversity

The Bank assures equal career opportunities to its personnel with no gender distinction. The differences seen in the tables below are due primarily to the greater use of part-time schedules by female employees and greater seniority on the job and in the role by male employees.

Relationship between male and female basic wages and remuneration by category and operational position	**2017**	**2016**	**2015**
Officers - Top management			
Average basic wages	65%	63%	
Other forms of remuneration (average figure)	62%	61%	
Total average remuneration	64%	63%	
Other Officers			
Average basic wages	83%	77%	
Other forms of remuneration (average figure)	78%	76%	
Total average remuneration	82%	77%	
Managers (line managers)			
Average basic wages	85%	83%	76%
Other forms of remuneration (average figure)	83%	84%	77%
Total average remuneration	84%	83%	77%
Employees			
Average basic wages	85%	86%	86%
Other forms of remuneration (average figure)	85%	88%	91%
Total average remuneration	85%	86%	87%

To ensure and facilitate the return to work for employees completing their mandatory maternity leave, the Bank provides the possibility to request and obtain reduced working hours, with various types of part-time schedules. In addition, the Bank has a company nursery with places reserved for the children of employees.

Parental leave		**2017**			**2016**			**2015**	
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Number of employees taking advantage of the right to parental leave	49	38	87	48	24	72	59	13	72
Number of employees returning the work after taking advantage of the right to parental leave	15	38	53	29	24	53	31	13	44
Number of employees working 12 months after taking advantage of the right to parental leave	28	24	52	24	13	37	19	1	20
Rate of re-entry after parental leave	88%	100%	96%	91%	100%	95%	97%	100%	98%
Rate of maintenance of the job after parental leave	97%	100%	98%	77%	100%	84%	-	-	-

Another project of great human interest is that which started in 2016 for "career women". This project takes place through a series of meetings meant to develop the transversal skills and team-building capacities of our company's female leaders, alternating technical meetings with meetings that are more recreational and light-hearted. This project, which is still ongoing, aims to emphasise the fundamental criterion of real gender equality.

Over the years, the Bank has successfully pursued numerous projects for the integration of disabled personnel. Though they may be full of difficulties, these projects have been stimulating and incentivising for all parties concerned, and resulted not only in enhancing the value of disabled personnel, but also strengthening human relationships within the working team.

One concrete example concerned the Bank's contact centre, which, committed to the need to introduce a new vision-impaired colleague, needed to handle the issue of how to be able to efficiently train personnel with these difficulties and limitations. The final response was a compromise between the means and procedures existing today and a healthy dose of imagination. All of this took form in the conversion into audio files of the procedural operating manual, thanks to which it was possible to get around the issue by transforming it from a limitation into an opportunity.
In 2017, the bank had 38 employees pursuant to Law 68/99 art. 1 and 2 employees pursuant to Law 68/99 art. 18.

E. Quality of life in the company

Company welfare

The Bank promotes specific initiatives in favour of company welfare.
In particular, the Bank initially established the possibility only for executive personnel of transferring a portion of their company bonus to the so-called "Welfare credit" and, subsequently, extended the assignment of a portion of the welfare credit to the remainder of the company population as well. Starting from the year 2018, individual employees will be given the option of whether to participate in the company welfare system.
BPAA provides its employees with a welfare incentive plan (the "Plan") based on individual and company performance objectives, which are communicated annually to each beneficiary. When they are reached, the party concerned accrues the right to welfare credits that may be used to take advantage of a series of goods and services for the management and support of personal and family life, as well as to improve social security and healthcare coverage (the "Welfare Services").
The Plan also provides BPAA with the right to make some additional welfare services (the "Additional Welfare Services") available to employees voluntarily and unilaterally, during the term of the Plan, also with a view to personal well-being and support for family life.
In application of the Plan, the assessment in preparation for the assignment of welfare credits to the individual beneficiary which may be used to take advantage of Welfare Services and/or the assignment of Additional Welfare Services was carried out with reference to the year 2015 (first application 2016) and then from year to year for the term of the Plan, without prejudice to the cancellation of that Plan.
The Bank is aware that the balancing and reconciliation of the work and personal/family needs of its employees constitutes a necessary aspect for the creation of conditions allowing for the full expression and development of their professional potential, favouring the creation of shared, lasting value that is sustainable over time. Therefore, with a view to employee retention, increasing employee well-being and work-life balance, the Bank adopts innovative incentive policies and instruments (as defined below) which are not all strictly monetary in nature.
To achieve these objectives, the Bank has decided to implement the Welfare Plan, within which a company mechanism was established for the year 2017 (year 2016) that enables Beneficiaries to make use of Welfare Services (as defined herein) in accordance with the terms and conditions laid out in this Company Welfare Regulation. All Bank workers with a permanent and limited term employment contract participate in the Welfare Plan, excluding employees who have received a negative summary professional rating and top management and the Compliance, Internal Audit and Risk Management Managers.
The types of services that Bank employees may use through the Welfare credit are listed below:

- Reimbursement of expenses for caring for children and elderly or non-self-sufficient family members;
- Acquisition of packages covered by the Agreement;
- Purchase vouchers;
- Health care;
- Payments to the supplementary pension plan.

F. Health and safety

The Bank guarantees a working environment compliant with regulations in force on health and safety and takes all measures to disseminate the relative regulations and guarantee the training required by such regulations. The addressees are required to scrupulously follow regulations in force on occupational health and safety.

Data on injuries	**Unit of Measurement**		**2017**			**2016**	
		Women	Men	Total	Women	Men	Total
Injuries at work	no.	5	3	8	6	2	8
of which:							
Injuries during working hours	no.	2	0	2	2	1	3
percentage of total	%	40.0%	0.0%	25.0%	33.3%	50.0%	37.5%
Injuries while commuting (1)	no.	3	3	6	4	1	5
percentage of total	%	60.0%	100.0%	75.0%	66.7%	50.0%	62.5%
Days of work lost due to injury	dd	67	26	93	122	21	143
Days of absence in the reporting period	dd	3,299	4,496	7,795	2,896	3,970	6,866
Working hours actually worked	hours	809,305	1,119,566	1,928,871	856,676	1,217,514	2,074,190
Workable working days	dd	148,634	205,616	354,250	149,479	212,441	361,920
Injury rate (frequency)	-	6.18	2.68	4.15	7.00	1.64	3.86
Severity rate	-	0.08	0.02	0.05	0.14	0.02	0.07
Absenteeism rate	-	2.22	2.19	2.20	1.94	1.87	1.90

Health and safety in formal agreements with trade unions	**2017**	**2016**	**2015**
Total agreements with unions regarding health and safety matters	1	1	0
Total agreements with trade unions	7	4	3
Percentage of agreements with unions regarding health and safety matters	14%	25%	0%

G. Protection of human and workers' rights

On the basis of the Code of Ethics adopted on 22 December 2015, the Bank selects, hires, pays and manages personnel on the basis of criteria of merit and skill, with no discrimination based on politics, union membership, religion, race, language, gender or nationality, in compliance with all laws, labour agreements, regulations and directives in force; the company bodies and every single employee avoid discriminatory conduct or behaviour harming human dignity and, in particular, all forms of harassment.
On the basis of the Organisation Model pursuant to Italian Legislative Decree 231/2001, the Bank's structures involved on any basis whatsoever in entering into new contracts as the purchaser of supplies, services, works, activities and maintenance, verify that the contractual counterparties, even indirect in the case of sub-contracts, have adopted suitable organisational measures for compliance with employment legislation. The same principle also applies for long-term contracts, particularly for "outsourcing services".

To further confirm its oversight over this matter, Volksbank has various commercial partnerships with partners whose funds apply ESG (environmental, social, governance) filters to define the investment approach.
As described extensively in the dedicated section, agreements and contracts with suppliers also include clauses on human rights or are subjected to human rights screening through:
1) the delivery and acknowledgement of the Organisation Model pursuant to Italian Legislative Decree 231/2001;
2) a formalised procurement management procedure which includes a supplier registry that is periodically verified.

With the application of the exclusion criteria established in the Regulation, the risk of incidents relating to child labour, forced labour and violations of the freedom of association and collective bargaining is also minimised.

In the Bank's daily operations, there is constant monitoring of any incidents of discrimination, i.e., acts or results of the unfair treatment of a person through the establishment of unequal burdens or the negation of benefits, regarding race, colour, sex, religion, political opinions, national and social extraction (as defined by the ILO) or other relevant forms of discrimination involving external and/or internal stakeholders.

No discrimination-related incident took place in 2015-2017

All Bank employees are covered by the reference national collective bargaining agreement.

Employees covered by collective agreements	**2017**			**2016**			**2015**		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Number	580	786	1366	572	800	1372	580	838	1418
Percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%

The workforce of Volksbank at the end of 2017 consisted of 1,366 employees (1,372 at the end of 2016). This reduction in the workforce, consistent with objectives in the strategic plan, was the result of hiring 47 new employees and terminating the employment of 53 individuals (12 of which due to retirement).
The new hires in 2017 resulted from the addition of 23 new young professionals in the sales network, while 24 new employees with specific skill sets were added to internal departments, contributing towards expanding the professional profiles.

Turnover	**2017**			**2016**			**2015**		
	Women	Men	Total	Women	Men	Total	Women	Men	Total
Incoming personnel	**23**	**24**	**47**	**8**	**12**	**20**	**7**	**12**	**19**
By age:									
<= 29 years	16	8	24	6	4	10	3	1	4
30 - 50 years	6	13	19	2	8	10	3	10	13
>= 51 years	1	3	4	0	0	0	1	1	2
Departing personnel	**15**	**38**	**53**	**16**	**50**	**66**	**16**	**23**	**39**
By age:									
<= 29 years	4	7	11	1	0	1	1	2	3
30 - 50 years	8	16	24	9	11	20	6	7	13
>= 51 years	3	15	18	6	39	45	9	14	23
Reason for departure:									
Voluntary departures (excluding retirement)	11	21	32	10	14	24	4	8	12
Retirement	2	10	12	1	9	10	7	11	18
Dismissals	1	0	1	1	1	2	2	2	4
Other (e.g., end of limited term contracts, redundancy plan, deaths, individual agreements)	1	7	8	4	26	30	3	2	5
Positive turnover rate	**4%**	**3%**	**3%**	**1%**	**2%**	**1%**	**1%**	**1%**	**1%**
Negative turnover rate	**3%**	**5%**	**4%**	**3%**	**6%**	**5%**	**3%**	**3%**	**3%**
Turnover rate	**7%**	**8%**	**7%**	**4%**	**8%**	**6%**	**4%**	**4%**	**4%**

1.16.7 OUR ENVIRONMENTAL IMPACTS

The Bank is sensitive to the protection of the environment as a primary good. Therefore, also with respect for future generations, the addressees develop sensitivity to the principles of the common good: they dispose of waste properly, they reduce waste, they save energy and they observe every other rule that the Bank has established for safeguarding the common good.

A. Volksbank and the "Agreement for climate neutrality 2025"

Environmental protection is a topic that regards all of us. This is the premise based on which Volksbank has decided to make its own contribution. In October 2016, the Bank became a signatory to the "Agreement for climate neutrality 2025".

The idea of bringing multiple companies together for a significant reduction and voluntary set-off of greenhouse gas emissions comes from Vorarlberg, Austria. However, since May 2016 there has also been an "Agreement for climate neutrality in Alto Adige". As of that date, a reciprocal collaboration began with shared objectives. The participating companies - including the Bank - declared that they are ready to cooperate to reduce CO2 emissions by taking voluntary measures. Within a relationship of reciprocal exchange, the participants develop ideas and projects to reduce harmful emissions. The project is carried out under the coordination of Terra Institute in Bressanone.

The 5 steps established to reduce CO2 emissions are:

1. Measurement:

In the first place, CO2 emissions are measured and the initial potential for reduction and improvement is identified.

2. Reduction

Superfluous emissions are constantly reduced by boosting energy efficiency, changing lifestyles and increasing the use of green energy.

3. Offsetting

After the reduction has taken place, inevitable emissions are offset with CO2 certifications. To that end, the Agreement includes a portfolio of projects with high standards, as well as the centralised processing of the acquisition and disposal of specific CO2 certificates.

4. Certification

The carbon footprint is calculated based on the ISO 14064 Certification.

5. Communication

A new online platform has the task of providing information on Agreement-related activities, the measures adopted and success stories. Exchanges of experience and ideas between the participating companies are also continuing.

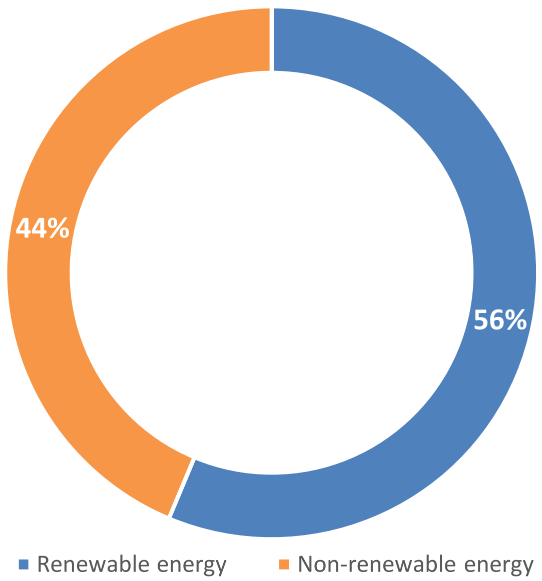
Monitoring and the objective of improving the impact deriving from company activities is considered a fundamental step, along with the re-assessment of the financial product portfolio with a view to responsible investment, to improve stakeholder perception of a bank that is "sustainable" at 360°.

Amongst the responsible products, we recall the "Clean water" project in Uganda and the "Your Green condominium" initiative already referred to and described in chapter 5.

B. Energy consumption

The Bank obtains energy primarily from a 100% renewable energy provider (hydroelectric) which issues a "green energy" certificate to the bank every year.
For 2017, this green supply made it possible to avoid estimated emissions of roughly 2,120 tonnes of CO_2.
The Bank's new office at Via Macello 55 is Klimahaus "A" certified.

Direct energy consumption	Unit of measurement	2017	2016	2015
Heating	**GJ**	**15,779**	**15,679**	**16,613**
Natural gas	GJ	14,473	14,617	15,472
Diesel	GJ	1,306	1,062	1,141
Electricity purchased	**GJ**	**24,377**	**25,523**	**20,448**
Of which from renewable sources (purchased)	GJ	24,377	25,523	20,448
Electricity from renewable sources generated and consumed	GJ	-	-	-
District heating	**GJ**	**2,170**	**2,014**	**1,759**
Non-renewable heating purchased	GJ	471	460	479
Renewable heating purchased	GJ	1,700	1,554	1,279
Non-renewable cooling purchased	GJ	-	-	-
Renewable cooling purchased	GJ	0	0	0
Total non-renewable fuels (including car fleet)	GJ	20,224	20,239	20,766
Consumption of non-renewable fuel for the car fleet	GJ	3,975	4,101	3,674
Total energy consumption	**GJ**	**46,301**	**47,316**	**42,494**
Of which Renewable energy	GJ	26,077	27,077	21,728
% renewables on the total	**%**	**56.3%**	**57.2%**	**51.1%**



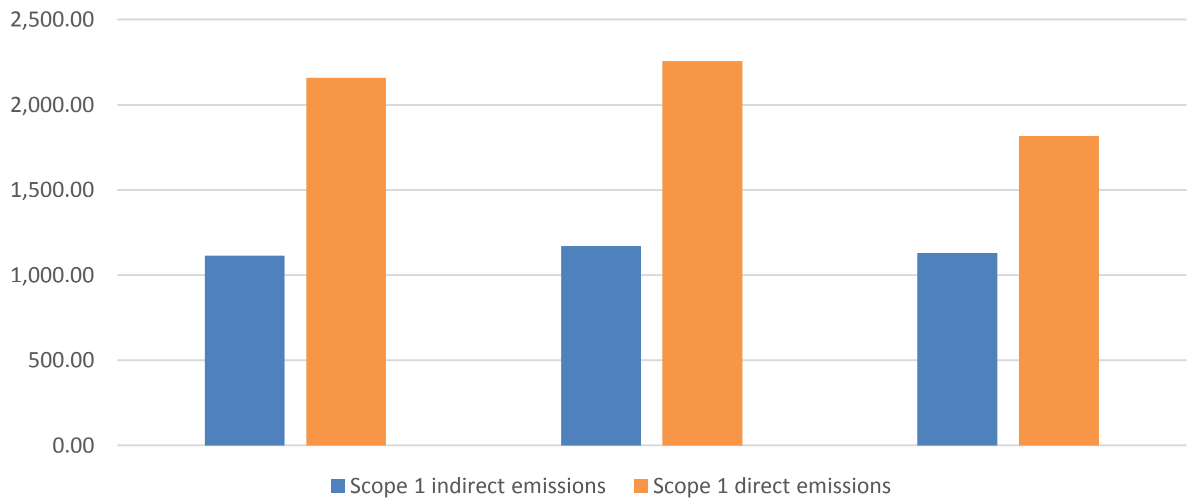
Consumption of renewables on the total (2017)

C. Atmospheric emissions

Direct and indirect emissions generated by the Bank

The direct emissions generated by the bank are those relating to the heating plants of the operating offices, while the indirect ones relate to purchased energy.

Direct and indirect emissions generated by the Bank	Unit of measurement	2017	2016	2015
Direct emissions (Scope 1)				
Heating diesel	T CO2e	96.15	78.18	84.01
Car diesel	T CO2e	289.83	299.02	267.88
Petrol	T CO2e	-	-	-
Natural gas	T CO2e	728.95	736.21	779.29
Other (specify)	T CO2e			
Indirect emissions (Scope 2)				
Location-based	T CO2e	2,119.54	2,219.15	1,777.93
Market-based	T CO2e	-	-	-
Electricity from renewable sources generated and consumed	T CO2e	-	-	-
Non-renewable heating purchased	T CO2e	39.21	38.32	39.95
Renewable heating purchased	T CO2e	-	-	-
Other (specify)	T CO2e			



Emissions by type t CO2e (2017)

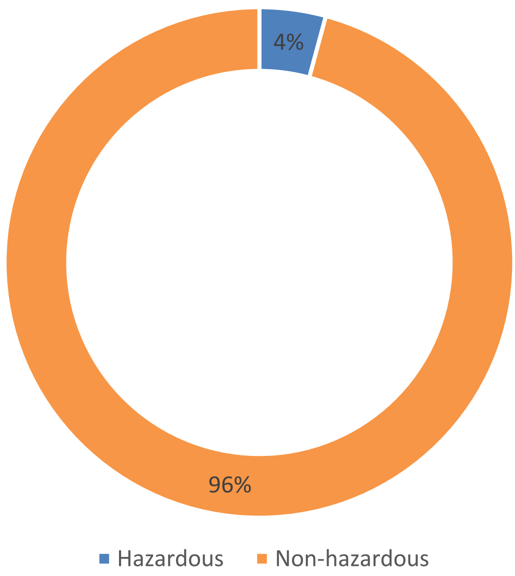
D. Materials used and waste generated

The bank collects pulp paper generated during daily activities and used toner. The identified partner collects and disposes of both materials through its own channels, providing adequate documentation.
Environmental compliance aspects are entrusted to other partners with the necessary certifications which handle disposal on behalf of the Bank, providing the documentation required by law. No environmental sanction linked to the specific matter of disposal was received during the reference period.
Lastly, the paper used by the Bank (also selected from a local supplier) is "FSC" and "EU-Ecolabel" certified.

Total weight of materials used	**Unit of measurement**	**2017**	**2016**	**2015**
Paper	Kg	121,720	124,620	
Toner and cartridges	Kg	1,567	890	
TOTAL	Kg	123,287	125,510	0

The data relating to 2015 are unavailable due to the merger with the Banca Popolare di Marostica group and the different management of disposal, which is difficult to reconcile.

Total weight of recycled waste	**Unit of measurement**	**2017**	**2016**	**2015**
Total waste sent for recovery (reuse or recycling)	Kg	151,627	133,930	132,646
Of which hazardous	Kg	6,367	2,390	29,996
Of which non-hazardous	Kg	145,260	131,540	102,650



Recovered/recycled hazardous and non-hazardous waste (2017)

E. Water consumption

Groundwater is consumed from three wells and is used for cooling. In 2015, consumption was much lower than in the other years, as during that year the Bressanone structure was not active due to renovation works for the construction of the Brixsana clinic.

Water consumption	Unit of measurement	2017	2016	2015
Groundwater	L	112,212,000	101,634,000	12,005,000
Supply of municipal water or other infrastructure	L	31,759,511	27,610,747	23,604,523
TOTAL	**L**	**143,971,511**	**129,244,747**	**35,609,523**

1.16.8 METHODOLOGICAL NOTE

The Volksbank Non-financial statement (the "NFS") meets the requirements of Italian Legislative Decree 254/2016 on the obligation for large and public interest organisations to report on non-financial information.

This section of the Directors' Report therefore aims to ensure the understanding of business activities, performance, results and the impact it generates on the non-financial matters specified in the decree, i.e., matters relating to the environment, social and personnel issues, respect for human rights and the fight against active and passive corruption.

This information has been selected on the basis of the principle of "materiality", the application of which allows the company to identify only that which is deemed relevant taking into account the Bank's characteristics, organisational model, policies, main risks and the impact generated.

A. The process of identifying material topics

With a view to identifying the material topics for the company, in the course of 2017 Volksbank conducted a number of analyses to understand the main pressures from its stakeholders and the bank's priorities with reference to the areas cited in art. 3, paragraph 2 of Italian Legislative Decree 254/2016.
The following analyses were conducted to identify a variety of matters that are potentially material for the company:

- **analysis of sustainability trends at global and sector level:** mapping of the main sustainability aspects taken into consideration by the international organisations that have developed standards or methodologies for sustainability reporting, with a specific focus on the financial sector (GRI, SASB, RobecoSAM, etc.), governments (EU, UN, etc.), the main stock exchanges that have published guidelines for sustainability reporting and the agencies that assign sustainability ratings (DJSI, FTSE4good, etc.);
- **benchmarking of the main topics considered material by 10 Italian and foreign banks:** in order to identify the best practices existing in terms of sustainability reporting and develop mapping on topics and stakeholders that are material for sector peers.

Subsequently, the Executive Committee and several of the company's top managers participated in a workshop to evaluate the importance of each topic identified for the company and for reference internal and external stakeholders. Each topic was therefore evaluated twice, on a scale of 0 to 5, on the basis of the importance for the company's strategies on one hand, and the degree of influence over stakeholder expectations on the other.
The results obtained were consolidated by grouping some aspects relating to the same topic (e.g., innovation in customer service, service quality and complaint management, along with transparency and simplicity are all combined under the broader umbrella of the "a bank close to its customers" material/strategic topic). A materiality matrix was therefore developed, and subsequently shared with and validated by the General Management.

Although it was not incorporated in quantitative terms to define the material topics, the bank also activated an online survey targeting around fifty external stakeholders, primarily shareholders/customers, who were invited to evaluate a selection of 13 potentially significant topics for the bank. The results of this initial process, which will be expanded and reinforced for upcoming reporting cycles, confirmed the attention placed on the topics identified by the management ("a bank close to its customers" and "a bank connected to its community and dedicated to economically sustainable development") and highlighted increasing interest in the topics of lending and responsible investment. However, the sample of participants in the survey is not yet numerically significant.

The following table describes the six most relevant topics necessary to ensure the comprehension of business activities, business performance, the results and the impact that it generates, and which were therefore subject to reporting within the Volksbank NFS. The table also shows the chapter of the NFS in which the matter is dealt with and the correlation with the areas cited in art. 3 of Italian Legislative Decree 254/2016.

Chapter	Material topics	Areas of Italian Legislative Decree 254/2016
4	Local Bank	Social aspects
5	A bank close to its customers	Social aspects
2	Integrity and independence in corporate conduct	Social aspects Fight against corruption
6	Quality of life in the company	Aspects relating to personnel Respect for human rights
6	Protection of human and workers' rights	Aspects relating to personnel Respect for human rights
6	Employee assessment and remuneration	Aspects relating to personnel

Several topics were not included within the materiality matrix graph provided in Chapter 1, as they are considered veritable pillars for the very existence of the bank: Economic performance, Protection of financial stability, Risk management and Governance and decision-making processes. Such topics, adequately developed in the initial chapters of the NFS particularly as regards the areas of application of Italian Legislative Decree 254/2016, are dealt with in the Directors' Report.

The materiality analysis carried out did not identify the topic of direct and indirect environmental impacts as relevant to ensure an understanding of business activities and the impact they generate. However, the decision was made to report environmental impacts deriving from the bank's operations in the NFS anyway, not only in compliance with the requirements of Italian Legislative Decree 254/2016, but also due to the Bank's attention and sensitivity to this topic, particularly protection of the climate (Chap. 7).

B. The reporting scope and standard

The scope of reporting of the NFS coincides with that of the Financial Statements, while the reporting year to which the information and data refer is 2017.

The reporting standard used by Volksbank for the preparation of its NFS is the "GRI Sustainability Reporting Standards", published in 2016 by the GRI – Global Reporting Initiative (GRI Standards), with reference to the selection of GRI Standards. In particular, according to what is laid out in the GRI 101: Foundation Standard, paragraph 3, in this NFS reference was made to the Reporting Standards identified in the table below. The individual Standard Disclosures are also correlated with the material topics that contribute towards representing:

GRI STANDARDS	GRI Disclosures	Description	Material topic	Reference paragraph
GRI 102 – General Disclosure	GRI 102-1	*Name of the organization*		1.16.1 A
	GRI 102-2	*Activities, brands, products, and services*		1.16.1 A
	GRI 102-3	*Location of headquarters*		1.16.1 A
	GRI 102-4	*Location of operations*		1.16.1 A
	GRI 102-5	*Ownership and legal form*		1.16.1 A
	GRI 102-6	*Markets served*		1.16.5 A
	GRI 102-8	*Information on employees and other workers*		1.16.6 A
	GRI 102-15	*Key impacts, risks, and opportunities*		1.16.1 D
	GRI 102-16	*Values, principles, standards, and norms of behavior*		1.16.1 A
	GRI 102-17	*Mechanisms for advice and concerns about ethics*		1.16.2 A
	GRI 102-18	*Governance structure*		1.16.1 C
	GRI 102-41	*Collective bargaining agreements*		1.16.6 A
	GRI 102-47	*List of material topics*		1.16.1 F
	GRI 102-50	*Reporting period*		1.16.8 B
GRI 201 – Economic Performance	GRI 201-1	*Direct economic value generated and distributed*	Local Bank	1.16.3 A
GRI 204 – Procurement Practices	GRI 204-1	*Proportion of spending on local suppliers*	Local Bank	1.16.2 C
GRI 205 – Anti-corruption	GRI 205-2	*Communication and training about anti-corruption policies and procedures*	Integrity and independence in corporate conduct	1.16.2 A
	GRI 205-3	*Confirmed incidents of corruption and actions taken*	Integrity and independence in corporate conduct	1.16.2 A
GRI 206 – Anti-competitive Behavior	GRI 206-1	*Legal actions for anti-competitive behavior, anti-trust, and monopoly practices*	Integrity and independence in corporate conduct	1.16.2 A
GRI 301 – Materials	GRI 301-1	*Materials used by weight or volume*		1.16.7 D
GRI 302 – Energy	GRI 302-1	*Energy consumption within the organization*		1.16.7 B
GRI 303 – Water	GRI 303-1	*Water withdrawal by source*		1.16.7 E
GRI 305 – Emissions	GRI 305-1	*Direct (Scope 1) GHG emissions*		1.16.7 C
	GRI 305-2	*Energy indirect (Scope 2) GHG emissions*		1.16.7 C
GRI 306 – Effluents and Waste	GRI 306-2	*Waste by type and disposal method*		1.16.7 D
GRI 401 – Employment	GRI 401-1	*New employee hires and employee turnover*	Quality of life in the company	1.16.7 G
	GRI 401-3	*Parental leave*	Quality of life in the company	1.16.6 D
GRI 403 – Occupational Health and Safety	GRI 403-2	*Types of injury and rates of injury, occupational diseases,* *lost days, and absenteeism, and number of work-related* *fatalities*	Protection of human and workers' rights	1.16.6 F
	GRI 403-4	*Health and safety topics covered in formal agreements with trade unions*	Protection of human and workers' rights	1.16.6 F
GRI 404 – Training and Education	GRI 404-1	*Average hours of training per year per employee*	Employee assessment and remuneration	1.16.6 B
GRI 405 – Diversity and Equal Opportunity	GRI 405-1	*Diversity of governance bodies and employees*	Protection of human and workers' rights	1.16.1 C
	GRI 405-2	*Ratio of basic salary and remuneration of women to men*	Protection of human and workers' rights	1.16.6 D
GRI 406 – Non-discrimination	GRI 406-1	*Incidents of discrimination and corrective actions taken*	Protection of human and workers' rights	1.16.6 G
GRI 417 – Marketing and Labelling	GRI 417-2	*Incidents of non-compliance concerning product and service information and labelling*	A bank close to its customers	1.16.5 B
	GRI 417-3	*Incidents of non-compliance concerning marketing communications*	A bank close to its customers	1.16.5 B
GRI 418 – Customer Privacy	GRI 418-1	*Substantiated complaints concerning breaches of customer privacy and losses of customer data*	A bank close to its customers	1.16.2 B
Financial Services Sector Disclosures	GRI FS6	*Percentage of the Portfolio for Business Lines by Specific Region, Size (E.G. Micro/Sme/Large) and by Sector*	A bank close to its customers	1.16.1 B
	GRI FS7	*Monetary Value of Products and Services Designed to Deliver a Specific Social Benefit for Each Business Line Broken Down by Purpose*	A bank close to its customers	1.16.5 E
	GRI FS8	*Monetary Value of Products and Services Designed to Deliver a Specific Environmental Benefit for Each Business Line Broken Down by Purpose*	A bank close to its customers	1.16.5 E

All indicators were reported on with no omissions.

C. The reporting process and the calculation methodologies

The definition of the content of the 2017 NFS which involved all relevant company functions responsible for the aspects dealt with in the section. The main calculation methodologies used are reported below:

- the injury frequency index is the ratio between the total number of injuries with absence exceeding one day and the total number of hours worked, multiplied by 1,000,000. The injury rate calculation includes those taking place while commuting;
- the severity index is the ratio between the total number of days of work lost and the total number of workable hours, multiplied by 1,000;
- the days of work lost represent the calendar days lost due to injury starting from the day subsequent to the injury;
- the absenteeism rate is the ratio between the days of absence in the reporting period and the total number of workable days in the same period;
- the following publication was used as the source for the conversion factors used to transform the various units of energy measurement into GigaJoules: UK Government GHG conversion factors for company reporting, 2016;
- the following emission factors were used to calculate the CO2e emissions reported in this NFS:
- Scope 1 direct emissions:
  Heating diesel: Italian Greenhouse Gas Inventory 1990 – 2015 – National Inventory Report 2016 Annex 6 National Emission Factors – Istituto Superiore per la Protezione e la Ricerca Ambientale (ISPRA) (http://unfccc.int/national_reports/annex_i_ghg_inventories/national_inventories_submissions/items/10116.php)
  Natural Gas:
- Scope 2 indirect emissions:

Location-based: National Grid Average Emission Factor from Source ISPRA - Report no. 257/2017 - Table 2.4 - Column 5 - 313 g CO2 /Kwhe

INDEPENDENT AUDITORS' REPORT ON THE NON-FINANCIAL STATEMENT

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Independent Auditors' Report

on the non-financial statement issued pursuant to article 3, paragraph 10, of Italian Legislative Decree 254/2016 and article 5 of CONSOB Regulation no. 20267

To the Board of Directors of
Banca Popolare dell'Alto Adige S.p.A.

Pursuant to article 3, paragraph 10, of Italian Legislative Decree no. 254 of 30 December 2016 (hereinafter "Decree") and article 5 of CONSOB Regulation no. 20267 we have been entrusted to carry out a limited assurance engagement regarding the non-financial statement issued by Banca Popolare dell'Alto Adige S.p.A. related to the period ended 31 December 2017, prepared pursuant to art. 3 of the Decree and approved by the Board of Directors on 23 March 2018 (hereinafter "NFS").

Responsibility of the Directors and of the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in compliance with the provisions of article 3 of the Decree and with the Global Reporting Initiative Sustainability Reporting Standards, as defined in 2016 by the GRI - Global Reporting Initiative (hereinafter GRI Standards), in reference to the application of the GRI Standards.

The Directors are also responsible, in the terms provided for by the law, for that part of the internal controls that they believe necessary for the preparation of an NFS that does not contain significant errors due to fraud or unintentional behaviours or events.

The Directors are also responsible for the identification of the contents of the NFS, in reference to the topics mentioned in article 3, paragraph 1, of the Decree, taking into account the activities and the characteristics of the Group and to the extent necessary to ensure the understanding of the activities carried out by the Group, its performance, results and the impact produced thereby.

Finally, the Directors are responsible for the definition of the corporate management and organisational model of the activities of the Group, as well as, in reference to the topics identified and reported on in the NFS, for the policies applied by the Group and for the identification and management of the risks generated or sustained thereby.

The Board of Statutory Auditors is responsible for overseeing, in the terms set forth by the law, compliance with the provisions of the Decree.

Independence of the auditing firm and quality control

We are an independent company, in compliance with the principles of ethics and independence set forth in the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, and based on the fundamental principles of integrity, objectivity, expertise and professional diligence, confidentiality and professional behaviour. Our auditing company applies the International Standard on Quality Control 1 (ISQC Italia 1) and consequently it uses a quality control system that includes documented directives and procedures for compliance with ethical principles, with professional standards and with the applicable provisions of the law and regulations.

Responsibilities of the Independent Auditors

It is our responsibility to express, on the basis of the carried out procedures, a conclusion about compliance of the NFS with the requirements stated in the Decree and in the GRI Standards.
Our work was carried out according to the provisions of the "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This principle provides for the planning and carrying out of procedures in order to acquire a limited level of certainty that the NFS does not contain significant errors. However, our work has required a shorter duration than is required for the performance of a complete analysis according to the ISAE 3000 Revised ("reasonable assurance engagement") and consequently, does not give us the certainty that we have become knowledgeable of all significant facts and circumstances that could be identified with the performance of said analysis.

The procedures carried out on the NFS were based on our professional judgement and have involved consultations, primarily with the staff of the company responsible for the preparation of the information included in the NFS, as well as an analysis of the documents, recalculations and other procedures aimed at acquiring the necessary evidence.

In particular, we have carried out the following procedures:

1. analysis of the topics that were relevant in terms of the activities and characteristics of the company, reported in the NFS, in order to evaluate the reasonableness of the adopted screening process in compliance with the provisions of article 3 of the Decree and taking into account the reporting standards used;
2. analysis and assessment of the criteria for the identification of the consolidation area, in order to verify its compliance with the provisions of the Decree;
3. comparison of the data and the economic-financial information included in the NFS with the data and information included in the Financial Statements of Banca Popolare dell'Alto Adige;
4. understanding of the following elements:
   - corporate management and organisational model applied to the Group's activities, with reference to the management of the topics set forth in article 3 of the Decree;
   - policies applied by the companies and related to the topics indicated in article 3 of the Decree, the achieved results and the related fundamental performance indicators;
   - main risks, generated or sustained, related to the topics indicated in article 3 of the Decree.

   As regards these aspects, consistency with the information contained in the NFS was verified in addition to all other assessments as described in the following point 5, letter a).
5. understanding of the processes underlying the generation, recognition and management of the qualitative and quantitative significant information included in the NFS.
   In particular, we have carried out interviews and conversations with the management of Banca Popolare dell'Alto Adige S.p.A. and we have performed limited document audits in order to collect information regarding the processes and procedures in support of the collection, aggregation, processing and transfer of data and information, of a non-financial nature, to the function responsible for the preparation of the NFS.

In addition, as regards significant information, taking into account the activities and the characteristics of the Company:

a) with reference to the qualitative information contained in the NFS, and in particular with the corporate model, with the policies adopted and the main risks, we have carried out interviews and acquired support documentation in order to verify consistency with the available evidence;

b) with reference to the quantitative information, we have applied both analytical procedures and limited audits to ensure, on a sample basis, a correct data aggregation;

c) we have carried out on-site visits during which we have met with the managers and have acquired documentation about the correct application of the procedures and methods for calculating the indicators.

Conclusions

Based on the work performed, no elements have come to our attention that would make us believe that the NFS of Banca Popolare dell'Alto Adige S.p.A., covering the period ended 31 December 2017, was not prepared, in all its most significant aspects, in compliance with the provisions of article 3 of the Decree and the GRI Standards.

Other aspects

The comparison data presented in the NFS, regarding the period ended 31 December 2016, were not audited.

Milan, 27 March 2018

BDO Italia S.p.A.

Francesca Scelsi

Francesca Scelsi
Partner

REPORT BY THE BOARD OF STATUTORY AUDITORS

REPORT BY THE BOARD OF STATUTORY AUDITORS

REPORT BY THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017 PURSUANT TO ART. 2429(2) OF THE ITALIAN CIVIL CODE

Dear Shareholders,
The Report by the Board of Statutory Auditors discusses the activities of supervision and control performed during the year ended 31 December 2017. It was prepared in accordance with the norms of Italian Civil Code - namely art. 2429 – and art. 153(1) of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance - TUF).

Summary and results of supervisory actions

During 2017, the Board of Statutory Auditors performed the audits required by the Italian Civil Code, Italian Legislative Decree no. 385/1993 (Consolidated Banking Law - TUB), the guidelines issued by public authorities that exercise supervisory and control functions, and according to the standards and recommendations of the National Board of Accountants and Bookkeepers. More specifically, it:

- took part in the Shareholders' Meetings, all meetings of the Board of Directors, as well as, also through a representative or as part of joint sessions, meetings of the Risk Committee and the Supervisory Board established by the Bank pursuant to Italian Legislative Decree 231/2001, and obtained exhaustive information on the activities performed and transactions of greatest significance carried out by the Bank, and confirmed validity of operations through periodic audits (25 meetings);
- obtained the necessary information on compliance with the law, the articles of association and regulations, compliance with the principles of proper management and the adequacy of the Bank's organisational structure and the internal control and administrative/accounting systems;
- obtained significant information from the Directors and General Management, its development and on transactions of significant equity, economic and financial impact;
- conducted audits on the internal control system, including through the presence of the Manager of the Internal Audit Department at its meetings, as well as by interacting with the Managers of the Risk Management, Compliance and Anti-Money Laundering departments, thus ensuring the necessary connection with the performance of their respective control duties and reporting on the relative results;
- monitored the adequacy and function of the organisational structure, the system of internal controls, the risk management system, and the accounting-administration of the Bank, and the reliability of the latter to correctly represent the affairs of the Company. More specifically, meetings with the heads of the main corporate departments, the Independent Auditors, the Manager responsible for the preparation of corporate accounting documents and the Internal Audit Department, did not reveal any critical issues relating to the adequacy or reliability of the administrative-accounting system in correctly representing the affairs of the Company and providing proper financial disclosure;
- received from BDO Italia S.p.A., pursuant to art. 17 of Italian Legislative Decree no. 39/2010, confirmation of its independence, as well as communication of non-audit services provided to the Bank by said company or other companies belonging to its network;
- verified, on the basis of the declarations provided by the individual Directors and the assessments jointly expressed by the Board of Directors, that the criteria and procedures adopted by the latter to evaluate the independence of its members were properly applied;
- verified observance of legal and regulatory standards inherent in the process of forming the financial statements;
- checked the transactions falling within the scope of art. 136 of the Consolidated Banking Law, and monitored compliance with the obligation, under art. 2391-bis of the Italian Civil Code, to adopt rules ensuring transparency and substantive and procedural correctness of transactions with related parties. No significant issues emerged from these checks. The disclosure on transactions with related parties is illustrated in Section H of the Notes to the Accounts;
- no reports were received pursuant to art. 2408 of the Italian Civil Code.

Significant economic, financial and equity transactions performed by the Bank

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

The Board deems it appropriate to refer to several significant events below which characterised the year 2017, making reference to the Directors' Report for a more detailed description:

- during the year, some without recourse disposals were carried out on doubtful and unlikely to pay loans. Such disposals entailed the definitive transfer of the associated risks to the assigned counterparties with the resulting recognition of their economic effects in the income statement;
- Volksbank participated in the Voluntary Programme managed by the Inter-Bank Deposit Protection Fund established in November 2015. During the Extraordinary Meeting of member banks, convened on 7 September 2017 for the approval of the increase in the Programme's capital from Euro 700 to 795 million and the resulting amendment of art. 45, paragraph 2 of Title II of the Articles of Association, Volksbank exercised its right to withdraw from the Voluntary Programme;
- with reference to the right of withdrawal pursuant to art. 2437, paragraph 1, letter b) of the Italian Civil Code of the Bank's shareholders who did not approve the resolution for transformation into a joint-stock company passed by the extraordinary shareholders' meeting of 26 November 2016, in July 2017 the Bank proceeded with the acquisition of the 1,533,352 shares subject to withdrawal, corresponding to Euro 18,553,559, for which all conditions laid out by law for the payment of the relative price were satisfied.

Non-Financial Statement

Starting from 2017, Volksbank is required to prepare the non-financial statement in compliance with directive 2014/95/EU, transposed in Italy with Italian Legislative Decree no. 254/2016 (the "Decree").

As the control body, the Board of Statutory Auditors, as part of the performance of the functions attributed to it by the legal system, is called upon to monitor observance of the provisions established in the Decree and to report on this in its annual report to the shareholders' meeting.

The Board of Statutory Auditors monitored respect for the legal provisions laid out on the matter, also with reference to the methods and timing for the publication of the Non-Financial Statement, with respect to the objective and subjective scope of application, respect for the "comply or explain" principle relating to the policies enacted as well as the adequacy of the organisational, administrative and reporting and control system set up by the Bank so as to allow for an accurate and complete representation in the Non-Financial Statement of the business activities, their results and their impacts with respect to the non-financial topics referred to in art. 3, paragraph 1 of the Decree.

In particular, it monitored the adequacy of all procedures, processes and structures that oversee the production, reporting, measurement and representation of the non-financial results and information.

As permitted, the Non-Financial Statement was included in a specific section of the directors' report and appropriately labelled as such.

The Independent Auditors responsible for auditing the Non-Financial Statement issued their report on 27 March 2018. The report brought to light no significant critical issues in the internal control system relative to the process of preparing the Non-Financial Statement, nor were there other issues that required being brought to the attention of the Board of Statutory Auditors.

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

With regard to the financial statements as at 31 December 2017, we report the following:

- pursuant to art. 2409-bis of the Italian Civil Code, legally required audits of Banca Popolare dell'Alto Adige accounts were performed by Independent Auditors BDO Italia S.p.A.;

- on 27 March 2018, the Independent Auditors issued their report on the financial statements as at 31 December 2017 pursuant to arts. 14 and 16 of Italian Legislative Decree 39/2010 and 10 of EU Regulation no. 537 of 16 April 2014, which did not find any irregularities or inconsistencies with regard to the financial statements. This report also included an opinion on the consistency of the Directors' Report;
- the application of the accounting standards, as well as the recognition and representation in the financial statements of significant economic, financial, and equity items, were discussed at meetings with the Independent Auditors. During these discussions, the Auditors detected no anomalies, critical issues or omissions;
- the draft financial statements as at 31 December 2017, approved by the Board of Directors on 23 March 2018, were obtained and in this regard the Board of Statutory Auditors expressed its consent to the waiver of the terms laid out pursuant to art. 2429 of the Italian Civil Code and acquired information on the presentation format of the financial statements, their general compliance with regulations in terms of format and structure, also taking into consideration IAS/IFRS international accounting standards and the provisions issued by the Bank of Italy in Circular no. 262 of 22 December 2005 and later updates;
- in its role as Internal Control and Audit Committee, it carried out the supervisory activity set forth in art. 19 of Italian Legislative Decree no. 39/2010, verifying in particular the methodology adopted in the financial statement asset impairment process, as well as obtaining the results of the audits carried out by the Independent Auditors on the regular management of the company's accounting and on the proper recognition of the operational events in accounting entries;
- on 27 March 2018 it received from the Independent Auditors the "Additional Report for the Board of Statutory Auditors" which explains the results of the audit they carried out, from which no significant critical issues emerged concerning in the internal control system relative to the financial reporting process, nor were there other issues that required being brought to the attention of the Board of Statutory Auditors;
- the 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;
- it was not found that the directors made use of the exemption laid out in art. 2423, paragraph 4 of the Italian Civil Code; during meetings held with the Manager responsible for the preparation of corporate accounting documents, there were no signs of significant gaps in the administrative-accounting processes and in controls, such so as to affect the assessment of the adequacy and effective application of the administrative-accounting procedures set up to monitor the correct representation of operational events, in compliance with governing international accounting standards;
- the Chairman of the Board of Directors and the Manager responsible for the preparation of corporate accounting documents signed the report for the year 2017 on 23 March 2018, in accordance with what is established in art. 154-bis of the Consolidated Law on Finance and art. 81-ter of Consob Regulation 11971/1999. This report brings to light no gaps that could negatively affect the opinion of adequacy on the administrative/accounting procedures.

With reference to the proposed distribution of a dividend, taking into account what emerged during the assessment by the Board of Directors, the Board of Statutory Auditors acknowledges that this does not conflict with provisions of law or the articles of association, calls for the use of freely available sums by the shareholders' meeting and is compatible with the Bank's financial equilibrium.

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

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

Bolzano, 27 March 2018

THE BOARD OF STATUTORY AUDITORS

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

CERTIFICATION ON THE FINANCIAL STATEMENTS

CERTIFICATION ON THE FINANCIAL STATEMENTS

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

1. The undersigned, Otmar Michaeler, as Chairman of the Board of Directors of Banca Popolare dell'Alto Adige Società per Azioni and Alberto Caltroni as the Manager responsible for the preparation of corporate accounting documents for Banca Popolare dell'Alto Adige Società 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 2017.

2. It is further certified that:

   2.1. the financial statements as at 31 December 2017:

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

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

Bolzano, 23 March 2018

Chairman of the Board of Directors	The Manager responsible for the preparation of corporate accounting documents
Otmar Michaeler	*Alberto Caltroni*

INDEPENDENT AUDITORS’ REPORT ON THE FINANCIAL STATEMENTS

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Independent Auditors' Report

pursuant to art. 14 of Italian Legislative Decree no. 39 of 27 January 2010 and art. 10 of Regulation (EU) no. 537/2014

To the shareholders of Banca Popolare dell'Alto Adige S.p.A.

Report on the Auditing of the Financial Statements

Opinion

We have audited the financial statements of Banca Popolare dell'Alto Adige S.p.A. (the Bank), composed of the balance sheet as at 31 December 2017, income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement for the year ended at that date, as well as the notes to the accounts which included a summary of the most significant accounting standards applied.

In our opinion, the financial statements provide a true and fair view of the equity and financial position, economic result and cash flows of the Bank as at and for the year ended 31 December 2017, in compliance with the International Financial Reporting Standards adopted by the European Union, as well as with the provisions issued in accordance with article 9 of Italian Legislative Decree no. 38/05 and article 43 of Italian Legislative Decree no. 136/15.

Elements for a qualified opinion

We have carried out the audit in compliance with the International Standards on Auditing (ISA Italia). Our responsibilities, pursuant to these principles, are further described in the section *Responsibilities of the Independent Auditors for the audit of the financial statements* of this report.

Our company is independent from the Bank, in compliance with the provisions and principles of ethics and independence applicable, under Italian laws, to the auditing of financial statements. We believe we have acquired sufficient and appropriate evidence on which to base our opinion.

Key elements of the auditing

The key elements of the auditing are those which, according to our professional judgement, have been most significant within the scope of the auditing of the financial statements being reported. We have analysed these elements within the scope of our auditing process and for the formulation of our overall audit opinion; therefore, we do not express a separate opinion regarding these elements.

Bari, Bergamo, Bologna, Brescia, Cagliari, Florence, Genoa, Milan, Naples, Padua, Palermo, Pescara, Potenza, Rome, Turin, Treviso, Trieste, Verona, Vicenza

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BDO Italia S.p.A., an Italian joint-stock company, is a member of BDO International Limited, a UK company (company limited by guarantee), and is part of the BDO international network, a network of independent companies.

Key elements	Audit procedures in response to the key elements
ASSESSMENT OF LOANS TO CUSTOMERS Notes to the Accounts: "Part A – Accounting policies, paragraph A.2.4 Loans and receivables"; "Part B – Information on the Balance Sheet – Assets, section 7 – Loans to customers - item 70"; "Part C – Information on the income statement, section 8 – net losses/recoveries on impairment – item 130"; "Part E – Information on risks and related hedging policies, section 1 – credit risk". Loans to customers, as at 31 December 2017, showed a balance of Euro 6,961 million, corresponding to 72% of the total assets of the financial statements. This item was considered to be significant within the scope of the auditing process given its amount and the complexity and significance of the discretional components inherent to the assessment processes and models which are characterised by the estimate of several variables such as, primarily, the existence of indicators of possible impairments, the determination of the expected cash flows and related recovery times, as well as the realisable value of the guarantees, if any.	The main auditing procedures carried out in response to the key element about the measurement of loans to customers concerned the following: ■ analysis of the procedures and processes related to the item being audited and assessments carried out on the efficacy of the identified key controls on said procedures and processes; ■ analysis of the adequacy of the digital environment related to the software deemed as relevant in the process for assessing loans to customers; ■ procedures for the balancing and reconciliation of the data residing in the operational system and the information recorded in the financial statements; ■ analysis of the classification criteria used by the Bank in order to assign the loans to customers to homogeneous regulatory categories and analysis, on a sample basis, of the appropriate classification of loans, based on the information available on the borrower's status and other, including external, information; ■ procedures for a comparative analysis and assessment of the results with the involved corporate functions; ■ analysis of the criteria and the methods used for measuring receivables (analytical and collective) and determination of the reasonableness of the main assumptions and variables contained therein; ■ performance, on a sample basis, of procedures on validity, also by obtaining and analysing written confirmations from the legal advisers entrusted by the Bank, aimed at verifying the reasonableness of the valuation assumptions, regarding both the expected cash flows and the time estimated for their collection, keeping into account the underlying guarantees, if any; ■ verification of the completeness and appropriateness of the information provided in the notes to the accounts.

MEASUREMENT OF THE GOODWILL

Notes to the Accounts: "Part A – Accounting Policies, paragraph A.2.9 – Intangible assets, paragraph A.2.17 Other information, Business Combinations and Goodwill"; "Part B – Information on the Balance Sheet – Assets, section 12 – Intangible assets- item 120"; "Part C – Information on the Income Statement, section 16 – value adjustments to goodwill – item 230".

The Bank has recorded in the financial statements a goodwill for Euro 99.6 million.

This item was deemed to be significant within the scope of the auditing activity in consideration of its amount and the subjectivity and complexity inherent in its measurement; the recoverability of the goodwill is related to the materialising of the assumptions based on the strategic plan, the actualisation rates and the future growth rates used, as well as further parameters characterised by subjectivity.

The main auditing procedures performed were:

- understanding of the process adopted by the Bank in setting up the impairment test,
- assessment of the reasonableness of the main assumptions and hypotheses underlying the strategic plan, also based on the actual results compared with the estimates;
- verification, with the support of an expert, of the adequacy of the impairment model used;
- verification, also with the support of an expert, of the key assumption used at the basis of the impairment model, in particular those related to the projections of the cash flows, the actualisation rates, the long-term growth rate;
- verification of the mathematical accuracy of the impairment model used;
- verification of the sensitivity analyses of the impairment with the changing of key assumptions;
- verification of the completeness and appropriateness of the information provided in the notes to the accounts.

Responsibility of the Directors and the Board of Statutory Auditors for the financial statements

The Directors are responsible for drafting financial statements that provide a true and fair view, in compliance with the International Financial Reporting Standards adopted by the European Union, as well as with the provisions issued in the implementation of article 9 of Italian Legislative Decree 38/05 and article 43 of Italian Legislative Decree no. 136/15, and in compliance with the law, for that part of the internal control deemed necessary to allow for the preparation of financial statements that do not contain significant errors due to fraud or unintentional behaviours or events.

The Directors are responsible for the assessment of the capacity of the Bank to continue to function as an operating entity and, in preparing the financial statements, for the appropriateness of the use of the going concern assumption, as well as for adequate information on this issue. The Directors use the going concern assumption in preparing the financial statements unless they have determined that there are conditions for the winding-up of the Bank or for the discontinuation of its activities or if there are no realistic alternatives to these choices.

The Board of Statutory Auditors is responsible for overseeing, in the terms set forth by the law, the preparation process adopted for the Bank's financial reporting.

Responsibilities of the Independent Auditors for the audit of the financial statements

Our objectives are (i) the acquisition of a reasonable certainty that the financial statements as a whole do not contain significant errors, due to fraud or unintentional behaviours or events, and (ii) the issuing of an audit report that includes our opinion. Reasonable certainty means a high level of certainty which, however, does not provide the guarantee that an audit carried out in compliance with the international standards on auditing (ISA Italia) can always identify a significant error, if existing. Errors may result from fraud or unintentional behaviours or events and are considered to be significant if there are justifiable reasons to believe that, individually or collectively, they are capable of influencing the financial decisions made by the users on the basis of the financial statements.

Within the scope of the auditing process carried out in compliance with the international standards on auditing (ISA Italia) we have applied a professional judgement and have maintained a professional scepticism throughout the entire audit process. In addition:

- we have identified and assessed the risks for significant errors in the financial statements due to fraud or unintentional behaviours or events; we have defined and carried out auditing procedures in response to these risks; we have acquired sufficient and appropriate evidence on which to base our opinion. The risk about not identifying a significant error due to fraud is greater than the risk of not identifying a significant error resulting from unintentional behaviours or events, since the fraud may involve the existence of collusion, counterfeiting, intentional omissions, misleading representations or misuse of the internal controls;
- we have acquired an understanding of the internal controls, deemed essential for the purpose of the auditing, in order to define the auditing procedures that are appropriate for the circumstances and not for expressing an opinion on the efficacy of the internal controls of the Bank;
- we have assessed the appropriateness of the accounting standards applied as well as the reasonableness of the accounting estimates made by the Directors, including the related reporting;
- we have concluded on the appropriateness of the use by the Directors of the going concern assumption and, based on the acquired evidence, on the existence of a significant uncertainty concerning the events or circumstances that may raise significant doubts on the capacity of the Bank to continue to function as an operating entity. In the presence of a significant uncertainty, we are required to draw attention, in our auditing report, to the related financial information or, if this information is inadequate, to include this circumstance in the formulation of our opinion. Our conclusions are based on the evidence acquired as of the date of this report. However, subsequent events or circumstances may entail the ceasing of operations of the Bank;

- We have assessed the presentation, the structure and the contents of the financial statements as a whole, including the report, and whether the financial statements reflect the underlying operations and events so as to provide a correct representation thereof.

We have also communicated to the managers of the bodies responsible for corporate governance, identified at an appropriate level as required by the ISA Italia, including the scope and timing planned for the auditing and the significant emerging results, including any significant shortcomings in the internal controls, as identified during the auditing process.

We have also provided the bodies responsible for corporate governance with a declaration on the fact that we have complied with the provisions and principles of ethics and independence applicable under Italian laws and we have communicated to them every situation that may reasonably have an effect on our independence and, where applicable, all related safeguarding measures.

Among the aspects communicated to the bodies responsible for corporate activities, we have identified those that have been most relevant during the auditing of the financial statements and that have represented the key elements of the auditing. We have described these elements in the auditing report.

Other information that was communicated pursuant to article 10 of Regulation (EU) 537/2014

The Shareholders' Meeting of Banca Popolare dell'Alto Adige S.p.A. has entrusted to us, on 20 April 2010, the legally required auditing of the financial statements of the Bank for the period from 31 December 2010 to 31 December 2018.

We hereby declare that no services, other than the auditing services, not permitted pursuant to art. 5, paragraph 1, of Regulation (EU) 537/2014, were carried out and that we have remained independent from the Bank while performing the legally required audit.

We are hereby confirming that the opinion on the financial statements expressed in this report is in line with the information provided in the additional report for the Board of Statutory Auditors, in its function as a Committee for internal controls and statutory audit, prepared pursuant to article 11 of the aforementioned Regulation.

Report on other legal and regulatory provisions

Opinion pursuant to art. 14, paragraph 2, letter e), of Legislative Decree 39/10 and art. 123-bis of Italian Legislative Decree no. 58/98.

The Directors of Banca Popolare dell'Alto Adige S.p.A. are responsible for preparing the Directors' Report and the report on corporate governance and ownership structures of Banca Popolare dell'Alto Adige S.p.A. as at 31 December 2017, including their consistency with the Financial Statements and their compliance with the law.

We have carried out the procedures set forth in the standards on auditing (SA Italia) no. 720B, in order to express an opinion on the consistency of the Directors' Report and some specific information contained on the report on corporate governance and ownership structures, as stated in article 123-bis, paragraph 4 of Legislative Decree 58/98, with the financial statements of Banca Popolare dell'Alto Adige S.p.A. as at 31 December 2017, and their consistency with the provisions of the law, as well as in order to issue a declaration on any identified significant errors.

In our opinion, the Directors' Report and some specific information contained in the report on corporate governance and ownership structures are consistent with the financial statements of Banca Popolare dell'Alto Adige S.p.A. as at 31 December 2017, and were prepared in compliance with the law.

With reference to the Declaration pursuant to article 14, paragraph 2, letter e) of Legislative Decree 39/10, issued on the basis of the knowledge and understanding of the company and its related context, acquired during the auditing process, we have nothing to report.

Declaration pursuant to article 4 of the Consob Regulation implementing Italian Legislative Decree no. 254 of 30 December 2016

The Directors of Banca Popolare dell'Alto Adige S.p.A. are responsible for the preparation of the non-financial statement pursuant to Italian Legislative Decree no. 254 of 30 December 2016. We have verified the approval issued by the Directors regarding the non-financial statement.

Pursuant to article 3, paragraph 10 of Italian Legislative Decree no. 254 of 30 December 2016, this statement is subject to a separate certification of conformity issued by us.

Milan, 27 March 2018

BDO Italia S.p.A.

Francesca Scelsi

Francesca Scelsi
Partner

FINANCIAL STATEMENT SCHEDULES

Balance Sheet

Assets		31.12.2017	31.12.2016
(in euro)			
10.	Cash and cash equivalents	71,358,997	59,170,988
20.	Financial assets held for trading	11,531,233	14,394,347
40.	Financial assets available for sale	1,090,651,594	1,625,719,283
50.	Investments held to maturity	822,971,649	260,923,680
60.	Due from banks	109,745,557	41,916,636
70.	Loans to customers	6,961,711,865	6,727,222,564
100.	Investments	5,793,248	6,913,336
110.	Property and equipment	139,577,074	142,475,976
120.	Intangible assets	119,213,815	120,370,270
	of which:		
	- goodwill	99,601,776	99,601,776
130.	Tax assets	169,106,370	183,995,804
	a) current	59,540,633	59,943,447
	b) deferred	109,565,737	124,052,357
	of which: Law 214/2011	69,457,433	79,438,462
150.	Other assets	136,274,793	132,982,832
	Total assets	**9,637,936,195**	**9,316,085,716**

Liabilities and shareholders' equity		31.12.2017	31.12.2016
(in euro)			
10.	Due to banks	1,150,659,435	1,085,006,401
20.	Due to customers	6,396,871,221	6,001,785,846
30.	Debt securities issued	944,837,002	1,099,040,171
40.	Financial liabilities held for trading	2,074,535	2,269,549
50.	Financial liabilities designated at fair value through profit or loss	9,738,439	9,720,698
80.	Tax liabilities	33,831,834	31,850,865
	a) current	3,668,215	1,844,721
	b) deferred	30,163,619	30,006,144
100.	Other liabilities	190,010,556	187,328,133
110.	Employee termination indemnities	19,751,789	20,523,562
120.	Provisions for risks and charges:	16,791,778	17,139,791
	a) pensions and similar commitments	-	-
	b) other provisions	16,791,778	17,139,791
130.	Valuation reserves	681,778	(5,543,206)
160.	Reserves	284,365,657	276,644,070
170.	Share premium reserve	383,158,533	383,158,533
180.	Share capital	199,439,716	199,439,716
190.	Treasury shares	(18,553,559)	-
200.	Net income (loss) for the year (+/–)	24,277,481	7,721,587
	Total liabilities and shareholders' equity	**9,637,936,195**	**9,316,085,716**

Income Statement

	Income Statement	31.12.2017	31.12.2016
(in euro)			
10.	Interest and similar income	181,256,313	176,930,136
20.	Interest and similar expense	(29,320,643)	(38,031,970)
30.	**Interest margin**	**151,935,670**	**138,898,166**
40.	Fee and commission income	97,895,095	90,620,801
50.	Fee and commission expense	(9,689,201)	(8,526,675)
60.	**Net fee and commission income**	**88,205,894**	**82,094,126**
70.	Dividends and similar income	4,476,479	6,453,969
80.	Profits (losses) on trading	2,281,525	2,213,643
100.	Profits (losses) on disposal or repurchase of:	10,829,366	13,699,432
	a) receivables	(2,871,380)	(258,114)
	b) financial assets available for sale	13,278,185	13,633,780
	c) investments held to maturity	1,872	(8)
	d) financial liabilities	420,689	323,774
110.	Profits (losses) on financial assets and liabilities designated at fair value through profit or loss	(66,841)	152
120.	**Net interest and other banking income**	**257,662,093**	**243,359,488**
130.	Net losses/recoveries on impairment of:	(59,501,999)	(91,891,075)
	a) receivables	(52,046,970)	(89,205,421)
	b) financial assets available for sale	(7,403,397)	(2,260,305)
	c) investments held to maturity	-	-
	d) other financial transactions	(51,632)	(425,349)
140.	**Net income from financial activities**	**198,160,094**	**151,468,413**
150.	Administrative expenses:	(174,426,100)	(181,564,617)
	a) personnel expenses	(99,771,207)	(99,090,206)
	b) other administrative expenses	(74,654,893)	(82,474,411)
160.	Net provisions for risks and charges	(2,689,594)	(671,851)
170.	Net adjustments to /recoveries on property and equipment	(7,042,860)	(7,368,327)
180.	Net adjustments to /recoveries on intangible assets	(1,336,198)	(1,848,253)
190.	Other operating income/expenses	21,000,211	20,950,554
200.	**Operating costs**	**(164,494,541)**	**(170,502,494)**
210.	Profits (losses) on investments in associates and companies subject to joint control	(1,067,588)	2,438,900
240.	Profits (losses) on disposal of investments	305,619	2,554,000
250.	**Income (loss) before tax from continuing operations**	**32,903,584**	**(14,041,181)**
260.	Taxes on income from continuing operations	(8,626,103)	21,762,768
270.	**Net current operating profit (loss) after tax**	**24,277,481**	**7,721,587**
290.	**Net income (loss) for the year**	**24,277,481**	**7,721,587**

Statement of Comprehensive Income

Items		31.12.2017	31.12.2016
(in euro)			
10.	**Net income (loss) for the year**	**24,277,481**	**7,721,587**
	Other comprehensive income after tax without reclassification to profit or loss		
40.	Defined benefit plans	78,044	(537,405)
	Other comprehensive income after tax with reclassification to profit or loss		
100.	Financial assets available for sale	6,146,940	(4,990,499)
130.	**Total other comprehensive income after tax**	**6,224,984**	**(5,527,904)**
140.	**Comprehensive income (Item 10+130)**	**30,502,465**	**2,193,683**

Statement of Changes in Shareholders' Equity

Statement of Changes in Shareholders' Equity from 1 January to 31 December 2017

(in euro)	Balance as at 31.12.2016	Adjustment to opening balances	Balance as at 01.01.2017	Allocation of result from previous year		Changes during the year								Shareholders' equity as at 31.12.2017
				Reserves	Dividends and other allocations	Changes to reserves	Equity transactions					Stock options	Comprehensive income for 2017	
							Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares			
Share capital	**199,439,716**	**-**	**199,439,716**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**199,439,716**
a) ordinary shares	199,439,716	-	199,439,716	-	-	-	-	-	-	-	-	-	-	199,439,716
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**383,158,533**	**-**	**383,158,533**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**383,158,533**
Reserves	**276,644,070**	**-**	**276,644,070**	**7,721,587**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**284,365,657**
a) retained earnings	276,644,070	-	276,644,070	7,721,587	-		-	-	-	-	-	-	-	284,365,657
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	**(5,543,206)**	**-**	**(5,543,206)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,224,984**	**681,778**
Equity instruments	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,553,559)**	**-**	**-**	**-**	**-**	**-**	**(18,553,559)**
Net income for the year	**7,721,587**	**-**	**7,721,587**	**(7,721,587)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**24,277,481**	**24,277,481**
Shareholders' equity	**861,420,700**	**-**	**861,420,700**	**-**	**-**	**-**	**-**	**(18,553,559)**	**-**	**-**	**-**	**-**	**30,502,465**	**873,369,606**

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

(in euro)	Balance as at 31.12.2015	Adjustment to opening balances	Balance as at 01.01.2016	Allocation of result from previous year		Changes during the year								Shareholders' equity as at 31.12.2016
				Reserves	Dividends and other allocations	Changes to reserves	Equity transactions					Stock options	Comprehensive income for 2016	
							Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares			
Share capital	**179,535,732**	**-**	**179,535,732**	**-**	**-**	**-**	**19,948,412**	**-**	**-**	**(44,428)**	**-**	**-**	**-**	**199,439,716**
a) ordinary shares	179,535,732	-	179,535,732	-	-	-	19,948,412	-	-	(44,428)	-	-	-	199,439,716
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**307,527,281**	**-**	**307,527,281**	**-**	**-**	**-**	**75,803,966**	**-**	**-**	**(172,714)**	**-**	**-**	**-**	**383,158,533**
Reserves	**267,738,225**	**-**	**267,738,225**	**8,902,345**	**-**	**-**	**-**	**-**	**-**	**3,500**	**-**	**-**	**-**	**276,644,070**
a) retained earnings	267,738,225	-	267,738,225	8,902,345	-	-	-	-	-	3,500	-	-	-	276,644,070
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	**(15,302)**	**-**	**(15,302)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,527,904)**	**(5,543,206)**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net income for the year	**22,367,508**	**-**	**22,367,508**	**(8,902,345)**	**(13,465,163)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,721,587**	**7,721,587**
Shareholders' equity	**777,153,444**	**-**	**777,153,444**	**-**	**(13,465,163)**	**-**	**95,752,378**	**-**	**-**	**(213,642)**	**-**	**-**	**2,193,683**	**861,420,700**

Cash Flow Statement

A. OPERATING ACTIVITIES	31.12.2017	31.12.2016
(in euro)		
1. Operations	**82,566,051**	**88,594,965**
- interest received (+)	181,256,313	176,930,136
- interest paid (-)	(29,320,643)	(38,031,970)
- dividends and similar income (+)	4,476,479	6,453,969
- net fee and commission income (+/-)	88,205,894	82,094,126
- personnel expenses (-)	(99,771,207)	(99,090,206)
- other costs (-)	(76,545,987)	(85,495,579)
- other revenues (+)	22,891,305	23,971,721
- taxes and duties (-)	(8,626,103)	21,762,768
- costs/revenues after tax from discontinued operations (+/-)	-	-
2. Cash flows generated/absorbed by financial assets	**226,045,962**	**(556,108,164)**
- financial assets held for trading	33,432,178	63,605,703
- financial assets designated at fair value through profit or loss	-	-
- financial assets available for sale	540,942,477	(227,159,883)
- loans to customers	(292,097,245)	(369,487,039)
- due from banks: on demand	4,832,992	(4,664,163)
- due from banks: other receivables	(72,661,913)	7,551,232
- other assets	11,597,473	(25,954,014)
3. Cash flows generated/absorbed by financial liabilities	**281,916,250**	**479,699,974**
- due to banks: on demand	(55,721,512)	32,530,209
- due to banks: other amounts due	121,374,546	214,013,529
- due to customers	395,085,375	793,795,846
- debt securities issued	(153,834,112)	(471,748,187)
- financial liabilities held for trading	(28,482,553)	(37,552,838)
- financial liabilities designated at fair value through profit or loss	(49,100)	28,530
- other liabilities	3,543,606	(51,367,115)
Net cash flow generated/absorbed by operating activities	**590,528,263**	**12,186,775**

B. INVESTMENT ACTIVITIES		
1. Cash flows generated by	**3,260,413**	**5,964,260**
- sales of investments in associates and companies subject to joint control	-	277,398
- dividends from investments in associates and companies subject to joint control	52,500	17,500
- sale of investments held to maturity	1,872	-
- sale of property and equipment	3,206,041	5,669,362
- sale of intangible assets	-	-
- sale of business branches	-	-
2. Cash flows absorbed by	**(569,272,092)**	**(98,147,896)**
- purchase of investments in associates and companies subject to joint control	-	-
- purchase of investments held to maturity	(562,047,969)	(90,497,894)
- purchase of property and equipment	(7,044,380)	(7,368,327)
- purchase of intangible assets	(179,743)	(281,675)
- purchase of business branches	-	-
Net cash flow generated/absorbed by investment activities	**(566,011,679)**	**(92,183,636)**

C. FINANCING ACTIVITIES		
- issue/purchase of treasury shares	(18,553,559)	95,535,236
- issue/purchase of equity instruments	6,224,984	(5,524,404)
- dividend distribution and other allocations	-	(13,465,163)
Net cash flow generated/absorbed by financing activities	**(12,328,575)**	**76,545,669**
NET CASH FLOW FROM/USED IN ACTIVITIES DURING THE YEAR	**12,188,009**	**(3,451,192)**

RECONCILIATION	31.12.2017	31.12.2016
Cash and cash equivalents at the beginning of the year	59,170,988	62,622,180
Net cash flow from/used in activities during the year	12,188,009	(3,451,192)
Cash and cash equivalents: impact of exchange differences	-	-
Cash and cash equivalents at year end	**71,358,997**	**59,170,988**

NOTES TO THE ACCOUNTS

PART A ACCOUNTING POLICIES

A.1 GENERAL PART

Section 1 STATEMENT OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

These financial statements, prepared 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 2017 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 2017 or those approved in previous financial years, whose application is prescribed or permitted for 2017, 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 2017 were drafted on the basis of "Instructions for drafting company financial statements and the consolidated financial statements of banks and financial parent companies of banking groups" issued by the Bank of Italy, by means of Ruling dated 22 December 2005, which provides, among other things, for the obligation to prepare the financial statements in accordance with the instructions contained in Circular no. 262 of 22 December 2005 "Bank financial statements: formats and compilation regulations", and subsequent updates. These Instructions impose requirements on what schedules to use for the financial statements and how to compile them, along with the contents of the Notes to the accounts.

Section 2 BASIS OF PREPARATION

The financial statements are composed of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement, and the notes to the accounts and are accompanied by the Directors' Report on operations and on the capital and financial position of 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 informational details (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 financial year, or for the previous financial year are not indicated in the balance sheet or in the income statement.

- *Principle of substance over form:* transactions and other events are recorded and represented in conformity with their substance and economic reality and not only in accordance with their legal form;
- Offsetting: assets and liabilities, and income and costs are not offset unless this is allowed or required by an international accounting standard or by an interpretation thereof or prescribed by the afore-mentioned Bank of Italy's Circular;
- *Comparative information:* For each balance-sheet and income-statement account, comparative information relative to the previous financial year is provided, unless an accounting standard or an interpretation does not allow it or prescribes otherwise. The data relative to the previous financial year may be appropriately adapted, where necessary, to guarantee 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

BCP withdrawal and purchase of SEC shares

Following the withdrawal from SEC Servizi S.C.p.A. by Banca di Credito Popolare di Torre Del Greco on 30 December 2015, effective 1 January 2018, as set forth in the Articles of Association of SEC Servizi S.C.p.A., the shares of the latter were divided among all the shareholders proportionally to the shares held by them respectively. The withdrawing shareholder was entitled to an allowance, following the withdrawal, for the transfer of its shares. Within the scope of the withdrawal, Volksbank purchased 302,525 shares and the investment in the share capital of SEC Servizi rose to 18.76% from the previous 17.55%.

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) sets forth that, within one hundred twenty days after the close of the financial year, the financial statements shall be approved and the annual financial reports containing the financial statements, the Directors' Report, and the certification under art. 154-bis, paragraph 5 shall be published.

The draft financial statements were approved by the Board of Directors' meeting on 23 March 2018.

Independent Audit

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

Amendments to the accounting standards approved by the European Commission

The table below lists the new international accounting standards or the amendments to accounting standards already in force, with the relevant approval regulations by the European Commission, with obligatory application starting - for financial statements drawn up in accordance with the calendar year - from 1 January 2017 or subsequently.

Regulation	Description	Effective date	Approval date
1989/2017	Amendments to IAS 12 Taxes	01/01/2017	First period starting on 1 January 2017 or subsequently
1990/2017	Amendments to IAS 7 Statement of cash flows	01/01/2017	First period starting on 1 January 2017 or subsequently

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

Regulation	Description	IASB eff. date
1905/2016	IFRS 15 Revenue from contracts with customers	01/01/2018 - First period starting on 01/01/2018 or subsequently
2067/2016	IFRS 9 Financial instruments	01/01/2018 - First period starting on 01/01/2018 or subsequently
1986/2017	IFRS 16 Leases	01/01/2019 - First period starting on 01/01/2019 or subsequently
1987/2017	Amendments to IFRS 15 Revenue from contracts with customers	01/01/2018 - First period starting on 01/01/2018 or subsequently
1988/2017	Amendments to IFRS 4 Insurance contracts	01/01/2018 - First period starting on 01/01/2018 or subsequently

International accounting standards not yet approved as at 31 December 2017

Standard/Interpretation	Description	IASB eff. date
IFRIC 22	Foreign Currency Transactions and Advance Consideration	08/12/2016
IFRS 17	Insurance Contracts	18/05/2017
IFRIC 23	Uncertainty over Income Tax Treatments	07/06/2017
IFRS 2	Classification and Measurement of Share-based payment Transactions	20/06/2016
IFRS 1	First-time Adoption of International Financial Reporting Standards	08/12/2016
IFRS 12	Disclosure of Interests in Other Entities	08/12/2016
IAS 28	Investments in Associates and Joint Ventures	08/12/2016
IAS 40	Transfers of Investment Property	08/12/2016
IFRS 9	Prepayment Features with Negative Compensation	12/10/2017
IAS 28	Long-term Interest in Associates and Joint Ventures	12/10/2017
IFRS 3	Business Combination	12/12/2017
IFRS 11	Joint Arrangement	12/12/2017
IAS 12	Income Taxes	12/12/2017
IAS 23	Borrowing Costs	12/12/2017

IFRS 9: new accounting standard on financial instruments

In compliance with the requirements set forth by the European Securities and Markets Authority (ESMA) as well as IAS 8 paragraphs 30 and 31, we are hereby reporting on the project activities carried out for the application of the standard IFRS 9 – Financial Instruments.

Regulatory Provisions

The new international accounting standard, IFRS 9, issued by the IASB in July 2014 and approved by the European Commission with Regulation no. 2067/2016, replaces, starting 1 January 2018, IAS 39 which until 31 December 2017 governed the classification and measurement of the financial instruments.
IFRS 9 includes three different areas of classification and measurement of financial instruments, impairment and hedge accounting.
According to IFRS 9, the classification and measurement of the financial instruments is guided, on one side, by the characteristics of the contractual cash flows of the instrument and on the other side by the business model within which these assets are held. Instead of the four accounting categories of IAS 39, according to IFRS 9, the financial assets are classified – based on the two aforementioned drivers – into three categories: *Financial assets measured at amortised cost, Financial assets designated at fair value through other comprehensive income* - for debt instruments the reserve is transferred to profit or loss in the event of sale of the instrument - and, finally *Financial assets designated at fair value through profit or loss*. The financial assets may also be recognised in the first two categories and, therefore, measured at their amortised cost or at fair value under equity, only if it is demonstrated that they generate cash flows consisting solely of payments of principal and interest – SPPI Test. Equity instruments are normally recognised in the third category and designated at fair value through profit or loss, unless the entity chooses (irrevocably, upon initial recording), for the shares not held for trading purposes, to show the changes in value in an equity reserve, which will never be transferred to the income statement, not even in the case of sale of the financial instrument (Financial assets designated at fair value through other comprehensive income without being recognised in the income statement).
As for financial liabilities, no substantial changes were introduced with respect to the current standard, regarding their classification and measurement. The only change is about the accounting treatment of the credit risk of the issuer: the changes in fair value attributable to the change in the credit risk of the liabilities designated at fair value (known as fair value option liabilities) are recognised in shareholders' equity, unless this treatment creates or enlarges the accounting mismatch in the profit for the period, while the residual amount from the changes in the fair value of the liabilities is recognised in the income statement.
The impairment of instruments measured at amortised cost and at fair value, with a contra-entry in shareholders' equity and different from the equity instruments, is calculated according to a model based on the concept of "expected loss", instead of the current "incurred loss", so as to also recognise the losses expected from the changes in the economic cycle. IFRS 9 requires that entities recognise expected losses in the following 12 months (stage 1) starting from initial recognition of the financial instrument.
The time horizon for the calculation of the expected loss becomes, on the other hand, the entire residual life of the asset subject to valuation, if the credit quality of the financial instrument has been subject to a "significant" impairment versus the initial measurement (stage 2) or if it is "impaired" (stage 3). More specifically, the introduction of the new impairment rules involves:

- the assignment of performing financial assets to different stages of the credit risk (staging), with corresponding value adjustments based on the losses expected in the following 12 months ("Stage 1"), or over the lifetime, i.e. for the entire duration of the instrument ("Stage 2"), in the presence of a significant increase in the credit risk (SICR) determined through a comparison between the Probabilities of Default at the initial recognition date and at the reporting date;
- the assignment of impaired financial assets to "Stage 3", also with value adjustments based on the expected lifetime losses;
- the inclusion, in the calculation of the "Expected Credit Losses" (ECL), of forward-looking information related, inter alia, to the development of the macro-economic scenario.

- Finally, with reference to hedge accounting, the new model related to hedging – which, however, does not apply to "macro hedging" – tends to align the accounting representation with risk management activities, and to strengthen the disclosure of risk management activities undertaken by the entity that prepares the financial statements.

Implementation project

Given the significant impact of the changes introduced by IFRS 9, both in business terms and from an organisational and reporting perspective, as already mentioned in the report on the 2016 financial statements, the Bank launched, starting in 2016, a project aimed at further analysing the different areas to be affected by the standard, at defining its qualitative and quantitative impacts, as well as identifying and implementing the application and organisational measures that are necessary for a consistent, organic and effective adoption thereof.
Under the responsibility of the Administration and Accounting Reporting Area and with the active participation of multiple structures of the Bank, some task groups were created based on the directives on which the standard is based.
In order to ensure an operational implementation of the standard aligned with the directives of the new standard and with the best practices, a specific workgroup was created aimed at supporting the task groups in their analyses and at directing their choices so as to create a basis on which to set up the implementation activities.
In addition to the involvement of the Departments for the analysis of the impact of the standard on the business areas, the impact of the standard on projects already under way has also been assessed for the purpose of determining the necessary measures to be applied to the information systems by the provider SEC Servizi so as to arrive at a definition of consistent IT solutions.
The project in question, which is nearing its conclusion, is currently focusing on supporting and monitoring the activities related to the First Time Adoption (FTA) of the new standard, as well as the implementation of the latest application and organisational measures which intend to guarantee a consistent and correct application of the new regulations.
Before analysing the main activities carried out within the project, as regards the areas impacted by IFRS 9, worthy of note are the main choices made by the Bank for the representation of the impact resulting from the application of the new impairment rules on own funds, according to the most recent changes to prudential regulations, as well as the representation of the comparable balances during the first time adoption of the standard. More specifically:

- on 12 December 2017, the European Parliament and the Council issued Regulation (EU) 2017/2395 "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds" which updates Regulation 575/2013 CRR, with the inclusion of the new article 473-bis "Introduction of IFRS 9" that offers the possibility to banks to mitigate the impacts on the own funds deriving from the introduction of the accounting standard IFRS 9 over a transitional 5 year period (from March 2018 to December 2022) thus neutralising in the CET1 the impact through the application of percentages decreasing over time. The Bank chose to adopt the so-called "dynamic approach" to be applied to the impact resulting from the comparison between the value adjustments from IAS 39 as at 31/12/2017 and those of IFRS 9 as at 1/1/2018. Those who opt for a transitional treatment, starting in 2018 must in all cases provide market disclosure concerning the Available Capital, RWA, Capital Ratio and Leverage Ratio, fully loaded, as required by the Guidelines issued on 12 January 2018;
- finally, with reference to the methods for representing the effects of the first time application of the standard, the Bank will use the option set out in paragraph 7.2.15 of IFRS 9 and in paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which – notwithstanding the required retrospective application of the new measurement and presentation rules – a mandatory and homogeneous re-exposure of the comparison data in the financial statements where the new standard is adopted for the first time, is not required. According to the guidelines contained in the document issued as the 5th update to Circular 262 "Banks' financial statements: layout and preparation" - published at the end of December 2017 - the banks that use the exemption from the redetermination obligations of the comparative values must, in all cases, include in the first financial statements prepared according to the new Circular 262, a statement that shows the methods used and that provides a reconciliation between the data of the most recent and approved financial statements and the first financial statements prepared based on the new provisions. The presentation form and contents of this information can be decided by the competent corporate bodies.

From an analysis of the development of the IFRS 9 project, following is a description of the activities carried out and now near completion as regards the main impact areas as previously defined.

Classification and Measurement

In order to comply with the requirements of IFRS 9 – which introduces a model based on which the classification of financial assets, on the one hand, is guided by the contractual characteristics of the cash flows of the instruments and, on the other hand, by the operating intent with which they are held – the methods for performing the tests on the contractual characteristics of the cash flows (SPPI testing) have been defined and the business models adopted by the Bank structures have been formalised.
As regards the SPPI test to be performed on the financial assets, the methodology to be used has been defined and, at the same time, the analysis of the composition of the currently existing securities and loans portfolios has been finalised in order to identify the correct classifications upon First Time Adoption (FTA) of the new standard.
As regards debt securities, a detailed analysis was carried out on the characteristics of the cash flows of the instruments classified at amortised costs and assigned to the category of Financial assets available for sale, according to IAS 39, in order to identify the assets which, not passing the SPPI test, must be designated at fair value through profit or loss, according to IFRS 9. No significant impacts on the debt securities segment were identified.
For the loans segment, the project carried out modular analyses taking into account the significance of the portfolios and their homogeneity. To this regard, some different approaches were used for the retail loans, small and medium sized companies loans and corporate loans portfolios. Within this segment, some limited circumstances emerged which, given specific contractual clauses or the nature of the loan, may determine the failure of the SPPI testing. Therefore, also for the loans segment, no significant impacts were identified in the FTA phase.
As regards the second driver for the classification of financial assets (business model), the process for defining the business model to be adopted pursuant to IFRS 9 was completed. As for the Hold to Collect portfolio, thresholds were defined for the admission of the sales that are frequent but non-significant (individually and jointly) or infrequent but of a significant amount. Based on the analyses carried out, the securities portfolios that at the reporting date are classified based on their amortised costs show normally fewer changes, consistent with the strategy of a Hold to Collect business model. With reference to the debt securities that are currently classified as Financial assets available for sale, the adoption of a Hold to Collect and Sell business model, for most of the portfolios, was defined; only in a few cases, with reference to the portfolios of a contained amount, upon FTA, some portfolio reclassifications were carried out in order to take into consideration the underlying business model as at the First Time Adoption date of IFRS 9.
In addition, in principle, the current method for managing loans, with retail and corporate counter-parties, is essentially based on a Hold to Collect business model.
As regards equity securities, some instruments – classified in the category of financial assets available for sale, pursuant to IAS 39, and for which, based on the FTA, it was possible to exercise the option of a classification at fair value through other comprehensive income (without recycling to profit or loss) – were identified; in addition, some general criteria for guidance to the appropriate choices were defined, and the related organisational processes were formalised.
It should also be noted that, at the end of an appropriate valuation process, it was decided not to apply the fair value option (with a separate recognition under equity of the fair value changes attributable to the Bank's credit rating) to the stock of financial liabilities existing as at 1 January 2018.
Furthermore, since the control and verification process of the reclassifications is not yet concluded, data related to the impacts deriving from the first application of the standard is not yet available.

Impairment

As regards the Impairment area, (for which some specific project steps were developed for both lending and debt securities transactions):

- the definition of the methods for measuring the development of the credit quality of the positions included in the portfolios of financial assets measured at amortised cost and designated at fair value with a contra-entry in shareholders' equity, is being finalised;
- the definition of the parameters for the determination of the significant increase in credit risk for the appropriate assignment of performing exposures to stage 1 or 2, is being finalised. Conversely, with reference to impaired exposures, the alignment of the definitions of accounting and regulatory defaults – already present – allows for considering as identical the logic currently applied to the classification of exposures under "impaired", and the logic applied to the classification of exposures in stage 3;
- the models - including forward looking information - to be used for staging assignment (based on the use of the lifetime PD) and for the calculation of the expected credit loss (ECL) within one year (to be applied to the exposure in stage 1) and lifetime expected credit loss (to be applied to the exposures in stage 2 and stage 3), are being finalised.

With regard to the tracking of credit quality, in line with the regulatory contents of the standard, an analysis – based on the appropriate project steps and as a policy choice to be applied, in an unambiguous way, to all types of exposures subsequently to the entry into effect of the IFRS 9 – of the credit quality of each relationship (both in a certified form and in the form of an actual loan) was carried out for the purpose of identifying: any "significant impairment" from the date of their first recognition; the consequent necessity for a classification in stage 2 and, likewise, the assumptions for a reclassification from stage 2 to stage 1. In other words, the choice that was made involves, on a case by case basis and at each reporting date, the comparison – for stage assignment purposes – between the credit quality of the financial instrument at the time of valuation and that at the initial time of disbursement or purchase.

As regards the above, the elements that will represent the main determining factors to be taken into consideration for assessing the "passages" from one stage to another, are the following:

- the changes in the lifetime probabilities of default, starting from the time of initial recognition of the financial instrument in the financial statements. This is therefore an assessment based on a "relative" criterion, which constitutes the main "driver";
- the presence of an item which – notwithstanding the thresholds of significance identified in the applicable regulations – has been past due for at least 30 days. In this case, since the credit risk of the exposure is presumably considered as "significantly increased", the "passage" to stage 2 is the obvious consequence (if the exposure was previously classified in stage 1);
- the presence of forbearance measures which, also on an assumption basis, entails the classification of the exposures among those with "significantly increased" credit risk compared with the initial recognition.

As previously described, an item that is absolutely relevant for the purpose of the estimates of expected losses is the inclusion of forward-looking factors and, in particular, of the macro-economic scenarios. From a methodological perspective, some possible alternative approaches were analysed in order to take into consideration those elements.

In particular, for the purpose of calculating expected losses (ECL) and stage assignment, it was decided to consider the loss on receivables as being determined by the most likely base scenario to which an adjustment must be added in order to reflect the effects deriving from the non-linearity – as far as the impact of the macro-economic parameters is concerned – of the variables being used. The forward-looking component in question is being defined by referring to paths, alternative to the base scenario, identified according to the reference variables. As regards impaired loans, although in the presence of a substantial harmonisation of the definition of a credit-impaired financial asset, as stated in IFRS 9 versus the standard previously in effect, the methods for calculating the lifetime ECL have involved methodological repercussions also for the valuations to be carried out in this segment, especially as regards the consideration of alternative recovery scenarios, in particular that of the sale of credit assets, in connection with the possible transfer of portions of the impaired portfolio, and as regards

the corporate objectives for the reduction of the non-performing assets to which the probability of occurrence must be attributed and included in the overall valuation.
By focusing the attention on alternative recovery scenarios, it must be noted how the Bank, as regards the objectives for a reduction of doubtful loans, included in the strategy for managing NPLs, considers the sale of some portfolios as a method that can, under certain conditions, optimise the recovery of cash flows. Consequently, the "base" scenario which hypothesises a recovery strategy based on the credit collection, typically through legal actions assigned to collection agencies and using secured-by-mortgage guarantees (internal workout), can also be accompanied by a scenario providing for the sale of said credit. In light of the above, as regards specific doubtful loans with the characteristics of transferability, in order to determine the overall expected exposure loss, the amounts recoverable based on the ordinary process of internal collection and the amounts recoverable from sales, estimated on the basis of market valuation, are weighted according to the portion of the portfolio held for sale as provided for in the NPL management strategy, compared with the total amount of the transferable portfolio.
It should be noted that, as regards the impairment, an "Impairment Policy" document was prepared in compliance with the provisions of IFRS 9, and was approved by the competent governance levels.

Hedge accounting

As regards hedge accounting, the regulatory changes concern exclusively the General Hedge and are strictly related to the option given to the Bank to opt-in/opt-out (i.e. the possibility of implementing the new IFRS 9 standard rather than maintaining the old IAS 39 standard). This option is not applicable to the Bank, since there are no hedge accounting transactions under way.

Impacts on the Information Systems

A rational and effective process for the implementation of the changes introduced with IFRS 9, in terms of Classification and Measurement, and especially, of Impairment, has made it necessary to adopt measures with a significant impact on the information systems. To this end, jointly with the service provider SEC Servizi S.C.p.A., some analyses were carried out for the identification of the main impact areas; consequently SEC Servizi has outlined the target application architectures to be implemented and has identified the applications and procedures to be updated as well as the changes to be made.
The measures to be applied to the systems – for the purpose of complying with the new requirements set forth in the standard in terms of classification of the portfolios, tracking and measurement of the credit risk, accounting and disclosure – have involved both the implementation, within the already existing procedures, of the features necessary for this purpose, and the integration of new software applications for a more effective and efficient management of the items in question.
As regards the Classification and Measurement areas once the methods to be used for performing the SPPI test were outlined, the application and procedures for their implementation were identified, and when necessary, they were acquired/updated in reference to both securities and credit exposures.
As regards the Impairment area, after making the main choices on the parameters to be considered for the purpose of assessing a significant impairment, as well as the methods for calculating the ECL (also keeping into consideration the forward looking report), the risk management applications, used to track the credit risk at the level of a single position and to calculate the related ECL, were identified and implemented along with the necessary adjustments and upgrades.
Similar analyses and actions were defined and are currently at an advanced phase of implementation as regards the adjustment of the accounting applications, in order to guarantee the appropriate disclosures, as provided for, by the 5th update of the Circular 262 issued by the Bank of Italy and effective 1 January 2018.

Organisational impacts and further developments

Concurrently with the IT implementations, similar organisational interventions were carried out. More specifically, the principal organisational impacts involved the review and adaptation of existing operating processes, the design and the implementation of new processes and related control activities, as well as the review of the breadth and depth of skills available in various departments, in terms of both operations as well as administration and control.
In particular, some actions concerning classification and measurement were taken first of all as regards the Sales departments and the Credit department aiming at the identification and definition of the Business Models as well as the management and monitoring of the processes for the performance of the SPPI test.
As regards Impairment, the objective was an increasingly more effective and integrated implementation of the on-going methods for monitoring the credit risk, in line with the provisions of IFRS 9, in order to guarantee preventive actions through the monitoring of potential deviations from the positions in stage 2, as well as to identify changes in value in a consistent and timely manner based on the actual credit risk.
It should be noted that internal regulations – in particular Internal Accounting regulations, the new Impairment Policy and the definition of the Business Model – were subject to the appropriate updates, as approved by the Board of Directors.

Effects of "First Time Adoption" (FTA)

It should be noted that, to date, the expected impacts on shareholders' equity, following the first time adoption of IFRS 9 as at 1 January 2018, have not yet been identified with sufficient accuracy. Following are indications concerning the nature of these impacts, broken down by type of financial instruments, and taking into consideration both the amount and the composition of shareholders' equity:

- redetermination of value adjustments on the financial assets of the portfolio (both performing and impaired) using the "expected credit losses" model – inclusive of the above mentioned forward looking components – replacing the pre-existing model of "incurred credit losses". In particular, as regards performing exposures, an increase in value adjustments is expected, attributable to (i) the assignment of a portion of the performing portfolio to Stage 2, based on the defined assignment criteria, with the consequent need to calculate the expected loss for the entire residual duration of the financial assets and (ii) the inclusion in the calculation of the expected losses based on forward looking parameters deriving from future macro-economic scenarios. As regards impaired loans, the impact is essentially due to the inclusion of the sale scenario set forth in the corporate objectives for the reduction of the non-performing assets of a portion of the doubtful loan portfolio with transferability characteristics;
- the requirement to reclassify some financial assets in the portfolio on the basis of the combined result of the two classification drivers, as set forth in the standard: the business model based on which these instruments are managed and the contractual characteristics of the related cash flows (SPPI test).

As regards the prudent ratios, the negative impact of the first-time adoption of IFRS 9 on the CET 1 can be estimated only upon completion of the estimation process. In order to mitigate the above effect on the CET 1, the Bank has chosen to adopt the so called "dynamic approach". This amount will represent the basis on which to apply the decreasing factors during the transitional period in order to determine the portions to neutralise in CET 1 (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022).
In 2018, the Bank will therefore be able to neutralise in the CET 1 95% of the negative net impact of the Impairment of performing loans and debt securities and of impaired loans.

TLTRO

The EU resolution 810/2016 which governs, inter alia, the methods for calculating the interests applicable to financing, provides that the interest rate applicable to the amount borrowed within each TLTRO-II, is the rate applied to the main refinancing transaction at the time of the issuing of the related TLTRO-II. However, if eligible net loans issued in the reference period 01/02/2016-31/01/2018 record a growth exceeding the reference level set at +2.5%, the interest rate applied to the amounts borrowed by the parties involved, equals the interest rate applied to the deposits present at the Central Bank at the time of the issuing of each TLTRO-II.
Since in March 2016 the ECB reduced the rate on the main refinancing transactions to zero and the rate on deposits to -0.40%, the -0.40% rate, instead of 0.00% is applied to all the transactions carried out by the Bank, if the set out threshold is exceeded.
As at 31 January 2018, the issuing of eligible net loans based on the EU Resolution 2016/810 showed a growth, compared with the same data as at 1 February 2016, far exceeding the threshold set at 2.5%.
Therefore the negative rate of -0.40% is applied to the acquisitions by ECB within the TLTRO-II programme. In application of IAS 39, the positive contribution of the interest deriving from the TLTRO II loan, recognised according to the effective interest method, as set forth in the international accounting standards, was recorded on an accrual basis, reducing the item "interest expense" in consideration of the expected growth in loans for the period from 1 February 2016 to 31 January 2018.

Domestic tax consolidation option

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. The option was ultimately renewed for the three year period 2017-2019 with a resolution issued by the Council on 22 December 2017.
This tax regime permits individual subsidiaries participating in tax consolidation, after having calculated the tax owed, to transfer the corresponding taxable income (or tax loss) to the parent company, who will calculate - making the adjustment for the intercompany interest expense provided regarding the deductibility of interest expense - a consolidated taxable income or tax loss, as the algebraic sum of its own income/losses and of the individual subsidiaries forming part of the consolidation, with identification of the tax credit or debit with respect to the Inland Revenue Authorities.
The offsetting of the transfers resulting from the tax gains and losses between the parent company and the subsidiaries is 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 2017 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 2017 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.
Any derivatives implicit in these instruments that are not strictly correlated to them and that satisfy conditions that define derivatives, are separated from the primary contract and measured at fair value. The relevant accounting treatment is applied to the primary contract.

Classification criteria

This classification includes all financial assets (debt securities, equity securities, mutual investment fund units, loans and derivatives, etc.) held for trading, therein including derivatives related to assets/liabilities designated at fair value and derivatives separated on an accounting basis from the underlying structured financial instrument when the unbundling requirements have been met.
A derivative contract is a financial instrument whose value is related to the progression of an interest rate, the performance of a financial instrument, the price of a good, a currency exchange rate, a price or rate index or other indexes; it is settled on maturity and requires a limited initial net investment.
Derivative contracts embedded in complex financial instruments must be separately recognised when the following conditions are met:
- their economic characteristics and risks are not strictly correlated with the characteristics of the underlying contract;
- the embedded instruments, even if separate, satisfy the definition of a derivative;
- the hybrid instruments which they are part are not carried at fair value with the relevant variations recognised in the income statement.

Reclassifications to other financial asset categories are not allowed unless other unusual events occur and it is very unlikely they will reoccur in the short term, except for the cases specifically envisaged by IAS 39. In these cases, debt and equity securities no longer held for trading may be reclassified to other categories defined by IAS 39 whenever the conditions for recognition are met (investments held to maturity, financial assets available for sale, and loans).
The transfer value is represented by the fair value at the time of reclassification. During reclassification, checks are performed to detect the presence of any embedded derivative contracts to be separated.

Valuation criteria

Following initial recognition, financial assets held for trading are recorded at fair value at the reference date. The effects of the valuation are recorded in the income statement.
To determine the fair value of the financial instruments listed on an active market, reference is made to market prices, normally corresponding to the bid price at the closing date. In the absence of an active market, prices from information providers, such as Bloomberg, are used, or valuation models that take into account all risk factors correlated with the instruments and based on data obtainable on the market, such as: methods based on the valuation of instruments that have similar characteristics ("comparables" method); discounted cash flow calculations; models for determining option prices; values recognised in recent comparable transactions ("recent transactions" method).
Whenever approaches indicated above cannot be used, appraisal methods and valuation models are adopted that also consider inputs not directly observable on the market.
Equity securities and the correlated derivative instruments, for which it is impossible to reliably determine the fair value, are retained at cost and written down in case of impairment losses. Such impairment losses cannot be subsequently reversed.

Derecognition criteria

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

Income recognition criteria

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

2. Financial assets available for sale

Recognition criteria

Initial recognition takes place on the settlement date for debt securities and equity instruments and, for loans, on the date they were disbursed.
At the time of initial recognition, the assets are recorded at fair value, which normally corresponds to the consideration paid, including the transaction costs or proceeds directly attributable to the instrument itself.

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

Classification criteria

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

Valuation criteria

Following the initial recognition, the financial assets available for sale continue to be designated at fair value, with the change in value resulting from the application of the original effective interest rate method (known as "amortised cost") recognised under profit or loss, whereas any gains or losses resulting from a change in fair value are recognised in a special reserve under shareholder's equity until the financial asset is derecognised or an impairment loss is recorded.
Fair value is determined based on the criteria previously illustrated for financial assets held for trading.
Equity securities and UCITS units for which there is no price available on an active market and for which the fair value may not be measured reliably, and related derivatives that must be paid by delivery of the aforesaid instrument, are kept at cost and written down in the event of impairment.
Financial assets available for sale undergo impairment testing to identify objective evidence of impairment. If such evidence exists, the amount of the loss is measured as the difference between the purchase cost of the asset and the fair value having deducted any impairment loss previously recognised in the income statement. In the case of impairment, and when being divested, the accumulated loss recognised in the equity reserve is removed from that reserve and charged to the income statement.
As regards equity securities, a significant or prolonged reduction of fair value below the carrying amount is evidence of impairment.
If there is a difference between the fair value and the carrying amount, this in itself is insufficient reason for recognition of an impairment loss. This evidence is simply a first sign of a possible impairment, which must however be supplemented by a qualitative analysis, aimed at identifying possible negative events, that might imply the assets' carrying amount is not fully recoverable.
If the reasons that led to recognition of the impairment loss cease to apply following an event occurring after the recognition, a write-back is recorded in the income statement if it refers to debt securities or loans, or to a specific reserve under shareholder's equity for equity securities. For debt securities and loans, this reversal of the impairment loss does not in any case result in a carrying amount greater than what the amortised cost would have been had the loss not been recognised.

Derecognition criteria

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

Income recognition criteria

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

3. Investments held to maturity

Recognition criteria

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

Classification criteria

This category includes debt securities with a fixed term and fixed or calculable payments which the Company has the intent and capacity to hold until maturity.
If, during a financial year, prior to maturity, a non-insignificant amount of the instruments classified in this category is sold or reclassified, the remaining financial assets classified as held to maturity are reclassified as financial assets available for sale and the portfolio in question may not be used for the following two financial periods (known as the "tainting rule") unless the sales or reclassifications:
- are so close to maturity or to the instrument option exercise date that the fluctuations of market interest rates would not have a significant effect on the fair value of the financial asset;
- occurred after payment of substantially all the original capital of the financial asset through ordinary programmed or prepaid payments; or

- can be attributed to an uncontrollable isolated event, that is non recurring and therefore cannot be reasonably predicted.

Valuation criteria

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

Derecognition criteria

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

Income recognition criteria

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

4. Loans and receivables

Recognition criteria

Loans are initially recognised on the date they were disbursed or, in case of a debt security, on the settlement date, based on the fair value of the financial instrument. The latter is normally equal to the amount disbursed, or to the subscription price, including costs/income directly attributable to the individual loan and calculable since the start of the transaction, even if paid at a later date. Costs which, despite having the aforesaid characteristics, will be repaid by the debtor or can be considered as standard internal administrative costs are excluded.
Default interests on doubtful loans are recognised only at the time of their collection.
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 among financial asset portfolios (IAS 39 amendment)".
The initial recognition value of any loans disbursed at conditions other than those of the market is at the fair value of such loans, calculated using measurement techniques. The difference between the fair value and the amount disbursed or subscription price is recognised in the income statement.

Classification criteria

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

Valuation criteria

After the initial recognition, loans are valued at amortised cost, equal to the initial recognition value reduced/increased by capital repayments, by any value adjustments/recoveries and the amortisation – calculated based on the original effective interest rate – of the difference between the sum disbursed and that repayable at maturity, usually the cost/income directly attributed to the individual loan. The effective interest rate is identified by calculating the rate at which the present value of future flows of the loan, for capital and interest, is equal to the amount disbursed, including costs/income attributed to the loan.
The estimation of cash flows must factor in all the contractual clauses that may influence the amounts and the maturity dates, without however considering the expected losses on the loan. This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the loan.
The amortised cost method is not used for loans whose short duration makes this effect negligible or in any case where the effect resulting from application of the original effective interest rate method is insignificant, regardless of the duration. Such loans are valued at historical cost. The same valuation criterion is adopted in the case of loans with no fixed maturity or valid until cancelled.
At the end of each year or infra-annual reporting period, loans are tested to identify those which, as a result of events occurring after recognition, show objective evidence of impairment. Included in this category are loans assigned the status of unlikely to pay or doubtful, in compliance with current regulatory provisions.
These impaired loans are subject to an analytical measurement process or a process to calculate expected losses by similar categories and analytical allocation to each position. The amount of write-down of each loan is equal to the difference between the book value at the time of measurement - amortised cost - and the present value of the

expected future cash flows, calculated applying the original effective interest rate. The write-down is recorded in the income statement.
The expected cash flows take into account the expected recovery times, the estimated realisable value of any guarantees, as well as the expected costs incurred to recover the credit exposure.
The effective original rate of each loan remains unchanged over time even if there has been a restructuring of the relationship that entailed the change in contractual rate and even if the relationship becomes interest free.
The original value of the loan is written back in subsequent financial years to the extent the reasons that led to the adjustment cease to exist, provided that said valuation is objectively associated with an event that took place after the adjustment. The write-back is recorded in the income statement and in any case may not exceed the amortised cost which the loan would have had in the absence of previous adjustments.
The list of impaired loans also includes past-due exposures, i.e. loans continuously overdue or that show repeated delayed payments, according to the current rules established by regulatory provisions. The adjustments of said loans, though determined in accordance with a lump-sum/statistical calculation method, are represented as “Specific value adjustments”, in observance of instructions contained in the Bank of Italy’s Circular no. 262.
Performing loans for which no objective evidence of impairment loss has been individually identified, including those to counterparties in countries at risk, are valued on a collective basis. This valuation takes place for loan categories that are homogeneous in terms of credit risk and the relevant impairment percentages are estimated taking time series data into account, based on facts observable on the valuation date, which allow the value of latent impairment to be estimated in each loan category. The collectively determined value adjustments are charged to the income statement. At the end of each year and each infra-annual reporting period, any additional adjustments or write-backs are recalculated differently in relation to the entire portfolio of performing loans on the same date.

Derecognition criteria

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

Income recognition criteria

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

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

Recognition criteria

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

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 previously illustrated for financial assets held for trading.

Derecognition criteria

The financial assets are derecognised when the contractual rights to the cash flows resulting from the assets expire or if the sale leads to the substantial transfer of all risks and rewards associated with the assets.
On the other hand, whenever a significant portion of the risks and rewards relevant to the financial assets sold have been retained, they continue to be recorded in the financial statements, even if their ownership is transferred.

Income recognition criteria

The valuation results are recorded in the income statement.

6. Hedging Transactions

Recognition criteria

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

Classification criteria

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

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

Valuation criteria

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

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

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

Derecognition criteria

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

Income recognition criteria

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

7. Investments

Recognition criteria

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

Classification criteria

This item includes interests in subsidiaries, jointly-owned companies, and associates or that are recorded on the basis of the equity method.
Subsidiaries are defined as those entities in which the Bank is exposed to variable returns or holds rights to said returns, resulting from its relationship with the subsidiaries and, at the same time, the Bank has the ability to influence these returns by exercising its power over the entity.
Those companies for which contractual arrangements or other types of arrangements exist, based on which unanimous consent is required from all parties sharing control to make financial and operational decisions of strategic significance, are considered jointly controlled.
Associated companies are defined as those subject to considerable influence, in which the Bank owns at least 20% of voting rights (including "potential" voting rights) or in which - even with a smaller percentage of voting rights - the Bank has the power to participate in setting financial and management policies of the company due to its particular legal relationship, such as participation in shareholders' agreements.

Valuation criteria

If evidence exists that the value of an investment may have been impaired, the recoverable amount 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 recoverable amount is less than the carrying amount, the corresponding difference is recognised in the income statement.
If the reasons for impairment cease to apply following an event occurring after the impairment is recognised, a write-back of the investment is recorded, with a contra-entry in the income statement.

Derecognition criteria

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

Income recognition criteria

The carrying amount is subsequently increased or reduced to reflect the portion of profits or losses, as a contra entry to the income statement item "210 Profits (losses) on investments in associates and companies subject to joint control". Dividend income reduces the carrying amount of the investment.
The last validly approved financial statements of the investee are used as reference.
If value adjustments have to be made due to changes in the shareholders' equity of the investee company that have not been recorded in their income statement, the amount of those changes pertaining to the Company is recorded directly in the equity reserve items.

8. Property and equipment

Recognition criteria

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

Classification criteria

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

Valuation criteria

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

- land, since it has an indefinite useful life. If its value is incorporated in the building value, due to application of the component approach, it is considered an asset separable from the building; the value of the land and of the building are subdivided based on independent expert opinions;

- assets qualifying as artistic heritage, since the useful life of a work of art cannot be estimated and its value is normally assumed to increase over time.

Derecognition criteria

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

Income recognition criteria

Depreciation is recognised in the income statement. If any evidence exists that an asset may have suffered an impairment loss, a comparison is made between its carrying amount and its recoverable amount, equal to the higher between the fair value, net of selling costs, and the value in use of the asset, understood to be the actual value of future cash flows expected from the asset. Any adjustments are recognised in the income statement.
If the reasons that led to recognition of the impairment loss cease to apply, a write-back is made, which may not exceed the value that the asset would have had, net of depreciation, calculated in the absence of previous impairment losses.

9. Intangible assets

Recognition criteria

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

Classification criteria

Intangible assets are identifiable non-monetary assets, without physical substance, originating from legal or contractual rights, and possessed for use in a multiyear period.
Intangible assets include:

- technology-based intangible assets, such as application software, which are amortised as a function of the assets' obsolescence and over a maximum period of five years;
- costs incurred internally for the development of software projects are intangible assets and are recorded under assets only if all the following conditions are fulfilled: i) the cost attributable to the development can be reliably calculated, ii) there is the intention, availability of financial resources and technical capacity to make the asset available for use or sale, iii) it can be proven that the asset can produce future economic benefits. Capitalised software development costs only include the costs incurred that can be directly attributed to the development process. Capitalised software development costs are systematically amortised over the estimated life of the relative product/service so as to reflect the way that the future economic benefits deriving from the asset are expected to be consumed by the entity from the beginning of production and throughout the estimated life of the product;
- intangible assets associated with customers represented by the valuation, when aggregating, of the asset management relationships, the insurance portfolio, and the core deposits. These assets, all with definite lives, are originally valued, using a rate that represents the time value of money and the specific risks of the asset, by discounting the flows representing the income margins over a period that expresses the residual estimated life of the relationships in place at the time of aggregation;

- goodwill, which represents the positive difference between the acquisition cost and the fair value of the assets and liabilities owned by an acquired entity.

Goodwill may be recorded when the positive difference between the amount transferred and the fair value of the equity components acquired represents the future capacity of the investment to generate profit.
If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the business acquired, the difference is charged to the income statement.

Valuation criteria

For assets with definite 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 indefinite useful lives are not subject to systematic amortisation, but to periodic impairment tests.
Every year - and any time evidence of an impairment loss exists - a test is performed to verify the suitability of the goodwill value. The Cash Generating Unit ("CGU") to which the goodwill must be allocated is identified for this purpose. For Volksbank, the CGU corresponds to the business entity as a whole. The amount of any impairment is calculated based on the difference between the recognition value of the goodwill and the recoverable amount, if lower. This recoverable amount 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 definite useful life may have suffered an impairment loss, the recoverable amount 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 amount. The recoverable amount is represented by the higher of fair value net of selling costs and value in use. If the reasons that led to the write-down of an intangible asset component other than goodwill no longer apply, a write-back is recognised in the income statement. The write-back cannot exceed the value the asset would have had, net of amortisation, if calculated in the absence of previous impairment losses.

10. Non-current assets and groups of assets held for sale and associated 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 as the lesser value between the carrying amount and their fair value net of selling or divestiture costs.

Valuation and income recognition criteria

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

11. Current and deferred taxes

Recognition criteria

Income taxes for the period, calculated in compliance with tax regulations in force, are accounted for at cost based on the accrual principle, consistent with the recognition in the financial statements of the costs and revenues which generated them.
They therefore represent the balance of current and deferred taxes related to the income for the year.
If the deferred tax assets and liabilities regard transactions that involved the shareholders' equity on a direct basis but with no effect on the income statement (such as adjustments due to the first time application of IAS/IFRS or the measurement of available-for-sale financial instruments), they are recorded as a contra entry in shareholders' equity, involving specific reserves where provided for (usually the valuation reserves).
Latent taxation of the "taxable if used" equity items is recorded in the financial statements as a reduction of shareholders' equity. Deferred taxes related to revaluations due to translation to Euro, directly charged to the specific reserve pursuant to art. 21, Italian Legislative Decree 213/98 in deferred taxation, are recorded in the financial statements as a reduction of the translation reserve.
The latent taxation referring to the "taxable only if distributed" items in equity is not recorded in the financial statements since the amount of the available reserves already subject to taxation means that it can be considered that no taxable transactions will be made.

Classification criteria

The current tax assets and liabilities are presented in the balance sheet with balances offset, whenever settlement will take place based on the net balance, due to the existence of a legal right to offsetting.
Deferred tax assets and liabilities are recognised in the balance sheet with open balances and no offsetting, recorded under "Tax assets" and "Tax liabilities" respectively.
When the results of transactions are recognised directly in shareholders' equity, current taxes, deferred tax assets and deferred tax liabilities are also recorded in shareholders' equity.
Tax liabilities include the allocations, made based on IAS 37, to manage the expenses that could result from already announced audits or in any case from ongoing disputes with the tax authorities.
Subsequent to adoption of the domestic tax consolidation with reference to the investment in Voba Invest S.r.l. in liquidation and Valpolicella Società Agricola S.r.l., the tax positions attributable to the Company and those originating from Voba Invest S.r.l. in liquidation and Valpolicella Società Agricola S.r.l. are managed separately in administrative terms.

Current tax assets and liabilities

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

financial years. Current tax assets also include tax credits for which the Company has requested a rebate from the relevant tax authorities.
The current tax assets and liabilities are presented in the balance sheet with balances offset, whenever settlement will take place based on the net balance, due to the existence of a legal right to offsetting.

Deferred tax assets and liabilities

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

Valuation criteria

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

Derecognition criteria

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

Valuation and income recognition criteria

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

12. Provisions for risks and charges

Recognition and classification criteria

Retirement benefits and similar commitments

The provisions for retirement benefits were set up to implement company agreements and can be classified as defined benefit plans. The liabilities relating to these plans and the related social security contribution costs are calculated on the basis of actuarial assumptions by applying the "Projected Unit Credit" method, which involves projecting future payments on the basis of time series statistical analyses and the demographic curve and the financial discounting of these flows on the basis of a market interest rate. The contributions paid each year

are considered as separate units, recorded and measured separately in order to calculate the final obligation. The rate used for discounting is calculated as the average of the market rates related to the measurement dates. The present value of the bond at the date of the financial statements is also adjusted by the fair value of any assets serving the plan.
The actuarial gains and losses are recognised in a specific equity reserve.

Other provisions

Other provisions for risks and charges include provisions for legal obligations or related to employee relationships or disputes, including tax disputes, resulting from past events for which it is probable that payments will have to be made to fulfil said obligations, as long as a reliable estimate of said amounts can be made.
Therefore, a provision will be recognised if and only if:
- a present obligation (legal or implicit) exists owing to a past event;
- it is probable that an outflow of resources expected to produce economic benefits will be required to fulfil the obligation;
- a reliable estimate of the probable future disbursement can be made.

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

Derecognition criteria

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

Valuation and income recognition criteria

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

13. Payables and debt securities issued

Recognition criteria

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

Classification criteria

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

Valuation and income recognition criteria

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

Derecognition criteria

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

14. Financial liabilities held for trading

Recognition criteria

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

Classification criteria

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

Valuation criteria

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

Derecognition criteria

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

Income recognition criteria

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

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

Recognition criteria

At the time of initial recognition, financial assets are recorded at fair value, without considering the transaction costs or proceeds directly attributable to the instrument itself.
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 considerably eliminates or reduces a lack of uniformity in the valuation or in the recognition that would otherwise result from the asset or liability valuation or from the recognition of the relevant profits and losses over different bases;
   ii. a group of financial assets, financial liabilities, or both, are managed and its performance is valued based on fair value in accordance with a documented risk-management or investment strategy. Based on this, the group disclosure is provided internally to key management personnel.

Valuation criteria

The financial liabilities in question are carried at fair value from the time of initial recognition. The initial income and expenses are immediately charged to the income statement.

Derecognition criteria

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

Income recognition criteria

The valuation results are recorded in the income statement.

16. Currency transactions

Recognition criteria

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

Valuation criteria

At the close of each financial year or infra-annual reporting period, items in foreign currency are valued as follows:
- monetary items are translated at the exchange rate recorded as at the closing date;
- non-monetary items measured at historical cost are translated at the exchange rate in effect on the date of the transaction;
- non-monetary items measured at fair value are translated at the exchange rate in effect on the closing date.

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

Derecognition criteria

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

Income recognition criteria

Exchange rate differences relating to the settlement of non-monetary components or to the translation of monetary components at exchange rates other than those used for the initial translation, or for translation in the previous financial statements, are recognised in the income statement for the period in which they arise.
When a profit or a loss relative to a non-monetary component is recorded in shareholders' equity, the exchange difference relative to said component is also recognised in shareholders' equity. Similarly, when a profit or a loss is recognised in the income statement, the relative exchange difference is also recognised in the income statement.
Costs and revenues in foreign currency are recognised at the exchange rate in effect at the time they are recorded or, if they have not yet accrued, at the exchange rate in effect at the balance sheet date.

17. Other information

a) Content of other financial statement items

Cash and cash equivalents

The item includes currencies that are legal tender, including banknotes, foreign currency coin and demand deposits with Central Banks. The item is recorded at nominal value. For foreign currencies, the nominal value is translated into Euro at the exchange rate as at the date of the financial statements.

Other assets

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

Employee termination indemnities

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

- "defined contribution plan" for the portions of employee termination indemnities maturing from 1 January 2007 (date of entry into force of the supplementary pension reform pursuant to Italian Legislative Decree no. 252 of 5 December 2005), both for cases in which the employee chooses a supplementary pension plan and in cases of allocation to the INPS Treasury fund. The amount accounted for these portions as personnel expenses is calculated on the basis of the contributions due without the application of actuarial calculation methods;

- “defined benefit plan”, and therefore recorded on the basis of the actuarial value calculated using the “Projected Unit Credit” method, for the portion of employee termination indemnities accrued up to 31 December 2006.

The amounts relating to the “defined benefit plans” are recorded on the basis of their actuarial value calculated using the “projected unit credit” method, without application of the pro-rata of the service provided since it is a current service cost of the employee severance indemnity and almost entirely matured, and its revaluation, for the upcoming years, is not considered to provide significant benefits for the employees.
For discounting purposes, the rate used is determined with reference to the market yield, considering the residual average duration of the liabilities, weighted in accordance with the percentage of the amount paid and paid in advance, for each due date, with respect to the total to pay and advance until the entire obligation has been paid.
The service costs for the plan are recorded as personnel expenses, whilst actuarial gains/losses are immediately included in the calculation of net payables to employees as a contra-entry to a shareholders’ equity item (OCI, Other comprehensive income) in the statement of comprehensive income for the period.

Provisions for guarantees and commitments

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

Valuation reserves

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

Share capital and treasury shares

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

Securitisations

All outstanding securitisations were performed after 1 January 2004.
The loans assigned are not derecognised from the financial statements when there is substantial retention of the risks and rewards, even if formally subject to factoring without recourse to a special purpose vehicle. This occurs, for example, when the Company subscribes a tranche of Junior securities or similar exposures, since it bears the risk of the first losses and, likewise, benefits from returns on the transaction.
Consequently, the loans appear in the financial statements as “Assets sold and not derecognised” with respect to the loan received from the special purpose vehicle, net of securities issued by the SPV and subscribed by the originator Company. Similar presentation criteria, based on substance over form, are applied for recognition on an accrual basis.

b) Recognition of revenues and costs

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

- interest amounts are recognised on an accruals basis according to the contractual interest rate or actual interest rate if the amortised cost method is applied; Interest income (interest expense) also includes the positive (negative) spreads or margins, accrued up to the reporting date with respect to financial derivative contracts:
  - a) classified on the balance sheet in the trading portfolio, but related to the financial assets and/or liabilities measured at fair value ("fair value option");
  - b) related to the assets and liabilities classified in the trading portfolio and which provide for payment of differentials or margins with more than one maturity date;
- default interest, if envisaged by contract, is recorded in the income statement only when actually collected;
- dividends are recognised in the income statement during the year in which their distribution was decided;
- commissions for service revenues are recorded, on the basis of contractual arrangements, in the period in which the services were provided. The commissions considered in the amortised cost in order to calculate the effective interest rate are recorded under interest;
- revenues or costs resulting from the sale of financial instruments, calculated from the difference between the amount paid or received from the transaction and the fair value of the instrument, are charged to the income statement when recording the transaction if the fair value can be calculated with reference to official prices available on active markets, or by assets and liabilities measured on the basis of measurement techniques that use inputs other than quoted market prices included within level 1 that are observable for the asset or liability (level 1 and level 2 of the fair value hierarchy). If the reference parameters used for the measurement are unobservable on the market or the instruments have reduced liquidity (level 3), the financial instrument is recorded at an amount equal to the transaction price; the difference compared to the fair value is recorded on the income statement for the duration of the transaction;
- profits and losses 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 envisaged that category transfers were not allowed, except for transfers between the "Financial assets available for sale" and "Investments held to maturity" categories.
Based on the instructions in paragraphs 50D and 50E of the new version of IAS 39, the following reclassifications may be made:

- financial instruments, other than derivatives, previously classified as financial instruments held for trading. It is not possible instead to reclassify the financial instruments belonging to the category "Financial assets designated at fair value through profit or loss" subsequent to the adoption of the so-called "fair value option". The new accounting category of destination is "Loans 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 "Financial assets available for sale" or from the category "Financial assets held for trading" to "Investments held to maturity" (only for debt instruments), whenever said instruments are no longer held for trading in the short term; however this is admissible in accordance with paragraph 50B in rare cases only.
The reclassified financial asset is recorded in the new category ("Loans and receivables", "Investments held to maturity" or "Financial assets available for sale") at its fair value, which represents the new cost or amortised cost as at its reclassification date.
Once transferred, the financial instruments follow the accounting valuation and recognition rules characteristic of the destination category, except in the cases specified below; therefore, for assets valued at amortised cost, the effective rate of return to be used starting from the date of the reclassification must be determined.
For reclassified assets, every subsequent positive change in the expected cash flow helps determine the effective interest rate as at the reclassification date and will be recorded throughout the remaining residual life of the instrument instead of modifying the asset's carrying amount with a contra-entry in the income statement, as envisaged for assets not subject to reclassification.
Conversely, any subsequent decrease in the estimated cash flows from the reclassification date will follow the rules previously in force, i.e. they will be immediately recorded in the income statement if they present an impairment loss.
Profits and losses previously suspended in the shareholders' equity reserve for financial assets available for sale, if referring to an instrument with a predetermined maturity, are amortised throughout the investment's life, according to the amortised cost criterion; conversely, if the instrument does not have a predetermined maturity (e.g., perpetual instruments), they remain suspended in the reserve until the time of sale or of settlement.
In case of reclassification of the financial asset and until its settlement, it is necessary to provide an illustration of the consequential effects and of those that would have occurred in the absence of reclassification.

d) Business Combinations and Goodwill

A business combination consists in the joining of separate companies or business activities into a single entity required to prepare financial statements.
A combination may give rise to a participatory relationship between the Parent Company acquirer and the subsidiary acquired. Under these circumstances, the acquirer applies IFRS 3 in the consolidated financial statements, whereas in the separate financial statements it recognises the interest acquired as an investment in subsidiaries applying accounting standard IAS 27 "Consolidated and Separate Financial Statements".
A combination may also anticipate acquisition of the net assets of another entity, including any goodwill, or also the acquisition of another entity's capital (mergers, business transfers and acquisitions of business branches). A combination of this type does not translate into an investment relationship similar to that between a parent company and a subsidiary and therefore, in this case, accounting standard IFRS 3 also applies in the acquirer's separate financial statements.
Business combinations are recorded using the acquisition method, based on which the identifiable assets acquired, the identifiable liabilities assumed, including potential liabilities, must be recognised at their respective fair values as at the acquisition date.

The excess consideration transferred with respect to the fair value of the identifiable net assets is recognised as goodwill and is allocated, as at the acquisition date, to the individual cash generating units, or to the groups of cash generating units which should benefit from the synergies of the combination, regardless of the fact that other assets or liabilities of the acquiree are assigned to said units or groups of units.
If the consideration of the transfer is less than the fair value of the identifiable net assets, the difference is immediately recognised in the income statement as revenue under item "Other operating income", after having made a new measurement to ascertain the correct identification process for all the assets acquired and liabilities assumed.
The consideration transferred in a business combination is equal to the fair value, as at the acquisition date, of the assets disposed, the liabilities incurred and the equity instruments issued by the acquirer in exchange for obtaining control over the acquiree. The consideration that the acquirer transfers in exchange for the acquiree includes any assets and liabilities resulting from an agreement on the potential consideration, to be recognised as at the acquisition date based on fair value. Modifications may be made to the consideration transferred if they derive from additional information on facts and circumstances that existed as at the acquisition date and are recognisable within the measurement period of the business combination (that is within twelve months from the date of acquisition, as specified below). Every other change deriving from events or circumstances subsequent to the acquisition, such as, for example, that recognised to the seller associated with the attainment of specific income performance, must be recognised in the income statement.
The identification of the fair value of the assets and liabilities must be finalised within a maximum twelve months from the acquisition date (measurement period).
The costs related to the acquisition, which include brokerage, legal, accounting, and professional consulting fees, general administrative costs, including those for maintaining an acquisitions office, are recorded in the income statement when incurred, except for the costs to issue equity securities and debt securities which are recognised based on the instructions of IAS 32 and IAS 39.
Transactions performed for the purpose of company reorganisation between two or more companies or business activities belonging to the same group are not considered business combinations. International accounting standards do not in fact regulate transactions under common control, recorded at the acquiree's pre-transaction carrying amounts in the acquirer's financial statements, whenever they do not exhibit a significant influence on future cash flows. This in compliance with the provisions of IAS 8§10 that, in the absence of a specific standard, requires the use of one's own judgement 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-type 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 quality of the instrument, insofar as it incorporates counterparty risk.
IFRS 13 defines a hierarchy of three levels of fair value based on the possibility of observing market values and parameters. On the basis of this distinction, the classification of fair value from an IFRS perspective is carried out in accordance with the principles presented below:

1. *Level 1* - The instruments are listed on markets deemed to be active (mark-to-market);
2. *Level 2* - The instruments are not listed, or are listed on markets deemed to be inactive: the adoption of an evaluation model (mark-to-model) is therefore required. For classification in Level 2, it is necessary that all the model input data that have a substantial effect on the overall instrument valuation can be obtained or

deduced from the market and that said input data are representative of all the risk factors that influence the valuation of that instrument (interest rates, foreign exchange rates, credit spread, market volatility, etc.). The input data may refer to the instrument itself or, if absent, to instruments deemed to be comparable ("comparable approach"). For certain types of instruments (for example shares), approaches such as significant transactions recently conducted on the instrument or on similar products are also included in the comparable approach method;

3. *Level 3* - The instruments are not listed, or are listed on markets deemed to be inactive: the adoption of an evaluation model (mark-to-model) is therefore required. For classification in Level 3, it is necessary that at least one of the model input data having a substantial effect on the overall valuation of the instrument cannot be obtained or deduced from the market, but is subject to estimation by the valuator (e.g. application of future cash flow estimation methods, repayment plans or correlations between underlying assets of options or structured products).

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

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

For these financial instruments, fair value is determined:
- through the use of prices acquired from the financial markets, in the case of instruments listed in active markets;
- through the use of internal valuation models, for other financial instruments.

Mark to Market

In determining fair value, whenever available the Company uses information based on market data obtained from independent sources, these being considered the best evidence of fair value. In this case, fair value is the market price of the financial instrument itself subject to valuation - that is without changes or recompositions of the instrument itself - inferred from the trade prices expressed by an active market. A market is considered active whenever the trade prices reflect normal market transactions, are properly and readily available through stock exchanges, listing services and brokers, and if said prices represent actual and regular market transactions.
The following are normally considered active markets:
- regulated markets for securities and derivatives, with the exception of the Luxembourg market;
- organised trading systems;
- certain electronic OTC trading circuits (e.g. Bloomberg), whenever specific conditions exist based on the presence of a certain number of contributors with executable proposals and characterised by bid - ask spreads, i.e. from the difference between the price at which the counterparty pledges to sell the securities (ask price) and the price at which it pledges to buy them (bid price), contained within a particular tolerance threshold;
- the secondary market for UCITS, expressed by the official NAV (Net Asset Value), based on which the issuing asset management company must liquidate the units. This NAV may be accordingly corrected to make allowance for the poor marketability of the fund, i.e. of the time interval elapsing between the date of the redemption request and the actual date of repayment, as well as to take into account any back-end fees.

Mark to Model

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

1. *Comparable approach:* in this case, the instrument's fair value is inferred from the prices observed 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 issues;
- structured bond loan issues whose pay off is related to interest rate structures, to inflation rates, or similar indexes.

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

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

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

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

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

Due from and to banks and customers, Debt securities issued, Investments held to maturity

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

- for 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 amount is considered to be a good approximation of the fair value;

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

f) Methods for the determination of amortised cost

The amortised cost of a financial asset or liability is the value at which the financial asset or liability was measured upon initial recognition net of reimbursements of capital, increased or decreased by overall amortisation, calculated using the effective interest method, of the differences between the initial value and the value at maturity, net of any impairment loss.
The effective interest rate is the rate at which the present value of a financial asset or liability is equal to the discounted contractual flow of future cash payments or those received until maturity or at the next price recalculation date. For the present value calculation, the effective interest rate is applied to the flow of the future collections or payments throughout the entire useful life of the financial asset or liability - or for a shorter period in the presence of certain conditions (for example revision of market rates).
After initial recognition, the amortised cost allows revenues and expenses to be allocated to increase or decrease the instrument value throughout its entire expected life via the amortisation process. The measurement of amortised cost differs depending on whether the financial assets/liabilities subject to valuation are at a fixed or floating rate and – in the latter case – depending on whether or not the rate variability is known beforehand. For fixed-rate instruments or with fixed rates for set periods, the future cash flows are quantified based on the known interest rate (fixed or floating) during the life of the loan facility. For floating-rate financial assets/liabilities whose variability is not known beforehand (for example because it is linked to an index), the cash flows are determined based on the last rate known. The repayment plan and the effective rate of return over the entire useful life of the instrument, i.e. until the maturity date, are recalculated on each interest adjustment date.
The adjustment is recognised as cost or income in the income statement.
The amortised cost valuation is performed for loans, investments held to maturity, debts, and debt securities issued.
Financial assets and liabilities traded under market conditions are initially recognised at their fair value, which normally corresponds to the amount disbursed or, for instruments value at amortised cost, the amount paid including directly attributable transaction costs and fees.
The internal or external marginal costs and income attributable to the issue, to the acquisition or to the disposal of a financial instrument which cannot be charged back to the customer are considered transaction costs. These fees, which must be directly attributable to the individual financial asset or liability, influence the original effective yield and render the effective interest rate associated with the transaction different from the contractual interest rate. Excluded are costs/income indistinctly relevant to more than one transaction and the components related to events that can occur during the life of the financial instrument, but that are not certain at the time of the initial definition, such as for example: fees for retrocession, for non-use or for early redemption.
The amortised cost measurement criteria does not apply to hedged financial assets/liabilities that anticipate the recognition of changes in fair value relative to the hedged risk in the income statement (limited to the hedged risk). The financial instrument is, however, again valued at amortised cost in case of termination of the hedge, when changes in fair value previously recognised are amortised, calculating a new effective interest rate with a yield that takes into consideration the value of the loan having adjusted the fair value of the hedged portion, until maturity of the originally scheduled hedge. Furthermore, as already mentioned in the paragraph regarding the valuation criteria for receivables, payables and securities issued, the valuation at amortised cost does not apply for financial assets/liabilities whose short duration entails a negligible discounting effect or for loans without a defined maturity or valid until cancelled.

g) Method for determining the impairment losses of financial assets

On every balance sheet date, all financial assets, except those designated at fair value through profit or loss, are subject to an impairment test to verify the existence of objective evidence of impairment that can imply that the carrying amount 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 financial 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 is determined with reference to the financial asset's fair value.

Method for determining the impairment losses of investments

On every balance sheet date, investments are subject to an impairment test to verify the existence of objective evidence of impairment that can imply that the investment's carrying amount is not entirely recoverable. The process for detecting impairment involves verifying the presence of possible impairment indicators and determining the write-down, if appropriate.

The impairment indicators are essentially divided into two categories: qualitative indicators and quantitative indicators. Qualitative indicators include:

- posting of negative economic results, or in any case, a significant variance with respect to objectives from the budgets or multi-year plans communicated to the market;
- announcement/launch of bankruptcy proceedings or restructuring plans;
- downgrading of the rating of more than two notches;
- non-compliance with obligations for timely and full payment of debt securities issued;
- use of business policy tools aimed at managing serious crises or that allow businesses to undertake restructuring/reorganisation processes.

Quantitative indicators include:

- reduction in fair value below the book value for a sustained amount or period of time;
- market capitalisation that is below the company's carrying amount for shareholders' equity, if the securities are traded on active markets, or carrying amount for the investment in the separate financial statements that is greater than the carrying amount in the consolidated financial statements of the net asset and goodwill of the investee company, or distribution by the latter of a dividend that is greater than its comprehensive income.

The presence of impairment indicators results in the recognition of a write-down that is equivalent to the amount by which the recoverable amount is less than the carrying amount. The recoverable amount is represented by the higher of fair value net of selling costs and value in use.

Value in use is the current value of expected cash flows from the asset. It reflects the estimated future cash flows of the asset, the estimate of possible changes in the amount and/or timing of cash flows, the time value of money, the price required to compensate for the asset's risk, and other factors that may influence the realisation by market operators of the asset's expected cash flows.

Impairment of other non-financial assets

Property and equipment and intangible assets with a definite useful life are subject to impairment testing if there is an indication that the carrying amount can no longer be recovered. The recoverable amount is calculated in reference to the fair value of the property and equipment or intangible assets, net of disposal costs, or the value in use if it is determinable and is greater than the fair value.

To verify the existence of impairment in property, a test is conducted each year on the property value, by collecting information on its market value. If the analyses suggest impairment, a specific appraisal is conducted on the relative property.

For other equipment and intangible assets (other than those recognised following a merger), it is assumed that the carrying amount normally corresponds to the value in use, as it is determined by a depreciation/amortisation process estimated based on the effective contribution of the asset to the operating process and as the calculation of fair value can be extremely uncertain. Value in use may vary from the carrying amount in certain specific cases, for example due to damage, removal from operating processes, or other similar, non-recurring circumstances. In this case, a test is performed to ascertain if there is impairment.

Intangible assets recognised following a merger and in application of IFRS 3 are subject to an impairment test at every balance sheet date to verify the existence of objective evidence of impairment.

If there are indications of impairment on intangible assets with a definite useful life, represented by the value of the client relationship, a new valuation process is undertaken to verify the recoverability of the carrying amount. The recoverable amount is calculated based on the value in use, determined using the current value of income margins generated by existing relationships at the valuation date over a period that expresses the residual estimated life of the relationships, using a discount rate that represents the time value of money and the specific risks of the asset.

Intangible assets with indefinite useful lives are represented by goodwill that, as it does not have independent cash flows, is annually subjected to a test on the adequacy of the carrying amount. The amount of any impairment is calculated based on the difference between the carrying amount of the CGU and its recoverable amount, represented by the higher of fair value net of selling costs and value in use.

A.3 INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

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

On 15 October 2008, the European Commission approved Regulation no. 1004, which adopted the changes to IAS 39, in relation to the reclassification of financial instruments, and to IFRS 7, for relevant disclosure requirements.
Based on this amendment, under specific conditions, it is now possible to reclassify to another accounting category financial instruments recorded, at the time of purchase, under "Financial assets held for trading" category or the "Financial assets available for sale" category as described in detail "Part A. 2." (to which the reader is referred for further information).
Based on the cited regulatory changes, in October 2008 a nominal Euro 83.7 million of debt securities and unlisted UCITS units, held for trading, having a counter-value in the financial statements of Euro 144.8 million, were reclassified as financial instruments available for sale, and a nominal Euro 13.0 million of debt securities held for trading corresponding to a carrying amount of Euro 11.4 million were reclassified as financial instruments held to maturity.
This reclassification was expedient in consideration of the crisis characterising world financial markets, which would not have allowed the reasonable pursuit of the goals which had justified the financial instruments being classified as financial assets held for trading, forcing, in fact, their retention in the foreseeable future or until maturity. As allowed by the amendment to IAS 39, by virtue of the exceptional situation, the transfer was conducted essentially based on the prices as at 1 July 2008, having resolved upon the reclassification before 1 November 2008.
Furthermore, in accordance with the cited regulations, effective as of 8 November 2011, unlisted financial assets held by the Company for trading, with a nominal value of Euro 48.3 million corresponding to a carrying amount of Euro 42.5 million, were reclassified as loans, taking into consideration that the state of uncertainty which characterised the financial markets during the last quarter of that year would not have permitted the reasonable pursuit of the management objectives that had justified the recognition of the financial instruments under financial assets held for trading, resulting in the need to classify them as loans. As anticipated by IAS 39, the transfer was essentially conducted based on the prices as at 7 November 2011.
During the course of the year 2017, no further reclassifications were carried out. An illustration of the residual book value as at 31 December 2017 is shown below.

(thousands of Euro)

Type of financial instrument	Source Portfolio	Destination Portfolio	Book value as at 31.12.2017	Fair value as at 31.12.2017	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	-	-	-	13	12	1
UCITS units	HFT	AFS	149	149	(627)	20	(627)	20
Debt securities	HFT	HTM	619	543	48	-	-	-
Debt securities	HFT	LRO	-	-	-	-	-	-

The book value of the debt securities as at 31 December 2017 amounts to Euro 0.6 million (Euro 2.4 million as at 31 December 2016) and their fair value amounts to Euro 0.5 million (Euro 2.3 million as at 31 December 2016).

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

No further reclassifications of financial assets were made in 2017.

A.3.3 The transfer of financial assets held for trading

The 2008 crisis was expressly identified by the IASB as an unusual event. 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 loans 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 2017.

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

No further reclassifications of financial assets were made in 2017.

A.4 INFORMATION ON FAIR VALUE

QUALITATIVE INFORMATION

For more information on the methods adopted to measure the fair value of the assets and liabilities in order to make budgetary assessments and provide information in the notes to the accounts for each asset valued at cost, please refer to the paragraph on "Method for determining the fair value of assets and liabilities" in the part "A.2 – Information on the Main Items of the Financial Statements", "17 - Other information".

A.4.1 Fair value Levels 2 and 3: measurement techniques and inputs used

For assets and liabilities measured at fair value on a recurring basis, where no directly observable prices are available from active markets, the fair value is determined based on valuation models, or based on prices observed for financial instruments with similar characteristics. These instruments are those that belong to the fair value Levels 2 and 3.
In order to assess the fair value of Level 2 instruments, a discounting model for expected future flows is used that includes, firstly, the risk-free rate curve (in its different forms, or based on swap rates vs 6-month or 3-month Euribor rates and other inputs) that can be directly observed on the market.
More specifically, in the case of instruments denominated in Euro, three risk-free rate curves are used: one curve for simple discounting (partially based on Euribor 3-month or 3-month futures, in part on 6-month curve for the medium/long-term maturities), and two curves (one 3-month and one 6-month) to calculate the forwards in the securities at the indexed Euribor 3-month or 6-month rate.
The credit spread is also applied to the discount calculation, quantified based on directly observable prices on the market (though not the stock market) and provided by external contributors. If there are no prices available, they are quantified based on comparables or in line with similar securities in terms of duration, issuer's credit quality, and the sector to which they belong.
The table below summarises the main types of instruments, showing the relative valuation models and the main inputs:

Financial instrument category	Product	Valuation model	Valuation model input
Debt securities	Treasury securities, corporate bonds	Discounting of expected flows using market parameters, corrected for issuer risk. For structured securities, the optional component is also valued.	Interest rate curves, credit spreads communicated by contributors, credit spreads from comparables
Unlisted equity securities	Shareholdings	Method of directly observed transactions on the same instrument, or if this is not available, on similar instruments. Alternatively, multiple market method of comparable companies. Alternatively, financial, income or asset valuation methods.	Figures related to prices provided by the contributors, most recent financial statements available
Investments in UCITS units	Hedge funds, private equity funds, real estate funds	NAV made available by the fund administrator or the asset management company.	n/a
OTC derivatives	Financial derivatives on interest rates - SWAP	Discounting of expected flows	Interest rate curves
	Financial derivatives on interest rates - Cap-floor	Black model	Volatility matrices, risk-free rates

Securities classified as Level 3 are usually structured securities; in the specific case of the owned portfolio held by the Bank, they are indexed CMS securities (constant maturity swap), inflation-linked structured securities, or securities where the credit spread cannot be quantified with the qualitative level mentioned above.
For CMS securities, the forward rates (implicit in the valuations) that could be, theoretically, directly observed on the market are used. However, the Bank believes that the quality of these forward rates cannot be compared to the quality of the Euribor 3-month or 6-month forward rates, widely used by the market in pricing similar indexed 3- or 6-month securities.
When pricing CMS securities, the Euribor forward rates are therefore used, despite the issues described above, without applying convexity adjustments, while for the rest (discount curve and credit spread), the same operating methods noted above for the Level 2 securities are used.
For inflation-linked securities, indexed as a minimum to the Euribor and inflation, the forward curves for the Euribor and inflation are used, based on the swap rate curve against inflation.
For Level 3 securities, the credit spread is defined on each occasion, referring to any external contributions or by converting the results of the creditworthiness analyses, based on the most recent financial statements available, into credit spreads.
The calculation of the Credit Value Adjustment ("CVA") determines the future credit exposure, taking into account the probability that, in the future, the current value of the contract, if positive, may increase or, if negative, may turn into a credit position. This probability is linked to the volatility of the underlying market factors as well as the residual duration of the contract. The future credit exposure is determined with reference to all contracts, irrespective of the portfolio to which they are allocated - with fair value both positive and negative - multiplying the nominal value of each contract by a percentage established based on the contract type and the residual duration of the transactions.
As at 31 December 2017, the exposure at default ("EAD") came to Euro 2.9 million. It refers to derivative trading contracts vis-à-vis 2 institutional counterparties. The contract of a greater importance is a swap plain vanilla, the other contract is a cap on interest rates (for only Euro 20 million in notional values).
As regards properties held for investment purposes, the fair value is calculated primarily through external appraisals, whose reference point is represented by current prices for similar assets (value by square metre, prices of similar transactions).
The fair value calculated in this way is classified under fair value hierarchy Level 3.

A.4.2 Valuation processes and sensitivity

Valuation techniques are applied by the Investment Department (front office).
The Risk Management Office - hierarchically independent from the front office - carries out a check of the prices expressed by the Investment Department, using rate curves and fair value assessments provided by the external financial services provider.
The check substantially entails verifying the theoretical correctness of the valuation model selected and the independent repricing of the individual instruments.
The Risk Management Office also checks newly introduced valuation models, including in relation to the acquisition of new financial instruments.
The instruments used by the Risk Management Office include the ICVS function to construct the risk-free curves. The Risk Management Office also carries out a check of similar curves adopted by the Investment Department.
The BVAL (Bloomberg VALuation) instrument is also used to directly verify these prices. These Bloomberg prices have the following characteristics:

- in the case of liquid securities, BVAL prices may be considered to be a weighted average of the existing prices provided by the various contributors (in addition to the stock market prices themselves of course, if it is a security listed on a regulated market);
- if the security is illiquid, Bloomberg uses the information contained in securities with similar characteristics, but that are liquid (and therefore with reliable prices) in order to correctly price the illiquid security. It effectively uses, where present, the few "liquid" prices of the security to check the historical performance of the spread

of the security with similar securities belonging to the same peer group (defined on a sector basis by duration and CDs): relying on simple linear regression and thereby reconstructing the spread and the price to the new date;

- on the other hand, if the security to price is completely, or almost, without any significant prices, the BVAL will make direct use of creditworthiness proxies of the security to infer either a par coupon curve (using issues with identical creditworthiness) or a spread curve (using the figures obtained in the previous step, or where possible, issues from the same issuer of the target security) with which to price the bond.

For structured securities that are highly complex (e.g., "delta CMS"), for which Level 2 prices are not available (such as prices offered by Bloomberg contributors) the Risk Management Office makes an estimate based on Montecarlo simulations in order to provide an adequate verification of all the market values.
For sensitivity analyses to be performed on inputs that are "not directly observable", relating to the valuations of Level 3 securities, based on the above with respect to indexed CMS securities and the scarcity of these exposures in relation to structured securities, sensitivity analyses on Level 3 debt instruments issued by unlisted parties were carried out.
In this case, the impact of 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 purposes of providing disclosure on transfers between the levels provided in paragraphs A.4.5.1, A.4.5.2 and A.4.5.3 below, with respect to securities in place as at 31 December 2017, and which have a different level of fair value compared to that in place as at 31 December 2016, it was assumed that the transfer between levels was made with reference to the balances existing at the beginning of the reference period.

A.4.4 Other information

As at 31 December 2017, there was no information to report in accordance with IFRS 13, paragraphs 51, 93 (i), and 96 since:

- there are no assets designated at fair value based on highest and best use;
- the option to measure the fair value at the level of overall portfolio exposure to account for the offsetting of credit risk and market risk of a certain group of financial assets or financial liabilities was not used.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities designated at fair value on a recurring basis: breakdown by fair value levels

The recurring valuations refer to the assets or liabilities measured at fair value in the balance sheet on the basis of what is provided or permitted in accordance with international accounting standards. The only assets and liabilities designated at fair value on a recurring basis are those of a financial nature for the Company.
For this reason, the disclosure required by the IFRS 7, approved with EC Reg. no. 1165 of 27 November 2009, the fair value hierarchy for financial asset and liability portfolios subject to measurement at fair value is provided below.

(thousands of Euro)		**31.12.2017**			**31.12.2016**		
Financial assets/liabilities measured at fair value		**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1.	Financial assets held for trading	202	11,230	99	1,351	12,945	98
2.	Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
3.	Financial assets available for sale	725,664	321,973	31,333	866,813	711,498	31,016
4.	Hedges	-	-	-	-	-	-
5.	Property and equipment	-	-	-	-	-	-
6.	Intangible assets	-	-	-	-	-	-
	Total	**725,866**	**333,203**	**31,432**	**868,164**	**724,443**	**31,114**
1.	Financial liabilities held for trading	531	1,544	-	294	1,976	-
2.	Financial liabilities designated at fair value through profit or loss	-	9,738	-	-	9,721	-
3.	Hedges	-	-	-	-	-	-
	Total	**531**	**11,282**	**-**	**294**	**11,697**	**-**

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

Financial assets measured at fair value on a recurring basis

Financial assets valued on the basis of prices drawn from active markets (Level 1) or determined based on parameters observable on the market (Level 2) represent 97.1% of the book value of financial assets designated 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 2.9%, and are represented by a limited number of securities classified in financial assets held for trading, mainly from Italian bank issuers, for which the fair value has been mainly inferred from information from outside contributors, from sources not publicly available, as well as by equity related investments of minority shares valued based on internal models (income, equity, or mixed methods) classified in financial assets available for sale. The fair value thus obtained for these instruments has been conservatively classified at Level 3.
Euro 3.2 million of financial assets held for trading consist of derivative instruments held for trading; these are over-the-counter (OTC) contracts measured using valuation models that make significant use of parameters that can be observed on the market or drawn from independent sources (Level 2). Only a residual amount, equivalent to Euro 99 thousand, is calculated through models that make limited use of market parameters (Level 3).

Financial liabilities measured at fair value on a recurring basis

Almost all financial liabilities held for trading are represented by derivatives held principally for trading, whose fair value is obtained through valuation techniques that make significant use of observable market parameters (Level 2).
Financial liabilities designated at fair value are represented by the Bank's bond issues hedged by derivatives, for which the fair value option was used. These instruments are valued using valuation models that make significant use of parameters observable on the market or drawn from independent sources.

Transfer between fair value levels (Level 1 and Level 2)

There were no transfers of assets or liabilities designated at fair value from Level 2 to Level 1 in 2017, 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**	**-**	**31,016**	**-**	**-**	**-**
2. Increases	**1**	**-**	**945**	**-**	**-**	**-**
2.1 Purchases	-	-	521	-	-	-
2.2 Profits allocated to:	1	-	326	-	-	-
2.2.1 Income Statement	1	-	31	-	-	-
- of which capital gains	1	-	-	-	-	-
2.2.2 Shareholders' equity	X	X	295	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	-	-	98	-	-	-
3. Decreases	**-**	**-**	**628**	**-**	**-**	**-**
3.1 Sales	-	-	139	-	-	-
3.2 Reimbursements	-	-	-	-	-	-
3.3 Losses allocated to:	-	-	463	-	-	-
3.3.1 Income Statement	-	-	-	-	-	-
- of which capital losses	-	-	-	-	-	-
3.3.2 Shareholders' equity	X	X	463	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	26	-	-	-
4. Closing balance	**99**	**-**	**31,333**	**-**	**-**	**-**

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

At the balance sheet date, there are no financial liabilities designated at fair value in the Level 3 category.

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

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis *(thousands of Euro)*	**31.12.2017**				**31.12.2016**			
	BV	**L1**	**L2**	**L3**	**BV**	**L1**	**L2**	**L3**
1. Investments held to maturity	822,972	772,673	66,315	543	260,924	248,562	19,334	558
2. Due from banks	109,746	-	109,745		41,917	-	41,917	-
3. Loans to customers	6,961,712	-	7,209,045		6,727,223	-	6,984,945	-
4. Property and equipment held for investment	8,890	-	-	-	1,793	-	-	-
5. Non-current assets and groups of assets held for sale	-	-	-	-	-	-	-	-
Total	**7,903,320**	**772,673**	**7,385,105**	**543**	**7,031,857**	**248,562**	**7,046,196**	**558**
1. Due to banks	1,150,659	-	1,099,733		1,085,006	-	994,670	-
2. Due to customers	6,396,871	-	5,920,529		6,001,786	-	5,462,467	-
3. Debt securities issued	944,837	-	924,688	13,376	1,099,040	-	1,049,047	43,324
4. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**8,492,367**	**-**	**7,944,950**	**13,376**	**8,185,832**	**-**	**7,506,184**	**43,324**

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

Assets and liabilities not designated at fair value

For the methods adopted to measure fair value and the levels of the financial assets and liabilities designated at cost and for which the fair value is requested for disclosure purposes, please refer to the paragraph on "Method for determining the fair value of assets and liabilities" in part "A.2 – Information on the Main Items of the Financial Statements", "17 - Other information".

Assets and liabilities designated 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 2017.

A.5 DISCLOSURE ON "DAY ONE PROFIT/LOSS"

According to IFRS 7, paragraph 28, evidence of the amount of the "Day One Profit or Loss" recognised in the income statement as at 31 December 2017, as well as a reconciliation with respect to the opening balance, must be provided. "Day One Profit or Loss" is understood to be the difference between the fair value upon the initial recognition of a financial instrument acquired or issued (transaction price) and the amount determined on that date using a valuation technique.
It is noted that no accounting events are subject to disclosure in this section.

PART B INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 CASH AND CASH EQUIVALENTS – ITEM 10

1.1 Cash and cash equivalents: breakdown

(thousands of Euro)	31.12.2017	31.12.2016
a) Cash	71,359	59,171
b) Demand deposits at Central Banks	-	-
Total	**71,359**	**59,171**

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)	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	-	8,196	91	-	9,856	90
1.1 Structured securities	-	608	-	-	2,384	-
1.2 Other debt securities	-	7,588	91	-	7,472	90
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	27	8	-	27	8
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**-**	**8,223**	**99**	**-**	**9,883**	**98**
B. Derivatives						
1. Financial derivatives	202	3,007	-	1,351	3,062	-
1.1 held for trading	202	144	-	1,351	192	-
1.2 related to the fair value option	-	2,863	-	-	2,870	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 related to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**202**	**3,007**	**-**	**1,351**	**3,062**	**-**
Total (A+B)	**202**	**11,230**	**99**	**1,351**	**12,945**	**98**

Cash assets are classified as listed or unlisted depending on whether they relate to instruments with or without a price on an active market, as illustrated in Part A - Accounting Policies.
They are included under listed derivatives only where the transactions are negotiated on organised markets.

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

(thousands of Euro)	31.12.2017	31.12.2016
A. CASH ASSETS		
1. **Debt securities**	**8,287**	**9,946**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	608	2,527
d) Other issuers	7,679	7,419
2. **Equity securities**	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. **UCITS units**	**35**	**35**
4. **Loans**	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	**8,322**	**9,981**
B. DERIVATIVES		
a) Banks	3,010	4,205
b) Customers	199	208
Total B	**3,209**	**4,413**
Total (A+B)	**11,531**	**14,394**

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

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

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

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

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

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

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

Section 4 FINANCIAL ASSETS AVAILABLE FOR SALE – ITEM 40

4.1 Financial assets available for sale: breakdown by type

(thousands of Euro)	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	725,664	271,245	31,333	866,807	396,762	31,016
1.1 Structured securities	-	19,921	-	-	19,901	-
1.2 Other debt securities	725,664	251,324	31,333	866,807	376,861	31,016
2. Equity securities	-	7,128	11,682	6	7,027	16,392
2.1 Designated at fair value	-	7,128	-	6	7,027	-
2.2 Carried at cost	-	-	11,682	-	-	16,392
3. UCITS units	-	43,600	-	-	307,709	-
4. Loans	-	-	-	-	-	-
Total	**725,664**	**321,973**	**43,015**	**866,813**	**711,498**	**47,408**

The decrease in the item "Debt securities – Other debt securities" for Level 1 can be mainly attributed to the sale of listed Italian government securities (Treasury Credit Certificates, Long-Term Treasury Bonds, and Zero Coupon Bonds).
The decrease in the item "Debt securities – Other debt securities" for Level 2 can mainly be attributed to the sale of bonds issued by EU area banks.
The item "Equity securities" consists of investments representing the voting rights of less than 20% of the share capital of companies that cannot be classified as controlling interests, associated or joint control, and which do not represent a strategic investment for the Bank.

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

(thousands of Euro)	31.12.2017	31.12.2016
1. Debt securities	**1,028,241**	**1,294,586**
a) Governments and central banks	730,755	871,890
b) Other public entities	71	141
c) Banks	203,178	321,416
d) Other issuers	94,237	101,139
2. Equity securities	**18,810**	**23,424**
a) Banks	9,647	10,704
b) Other issuers:	9,163	12,720
- Insurance companies	1,155	1,751
- Financial companies	1,765	1,765
- Non-financial companies	6,243	9,204
- Other	-	-
3. UCITS units	**43,601**	**307,709**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**1,090,652**	**1,625,719**

4.3 Financial assets available for sale subject to micro-hedging

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

Results of impairment test on financial assets available for sale

With reference to the values as at 31 December 2017, an impairment test was performed to recognise any impairment losses in the income statement, in conformity with IAS 36 and with the criteria described in "Part A – Accounting policies" of these Notes to the Accounts.
The test is performed to verify the presence of impairment indicators and determine any write-downs. Impairment indicators can essentially be subdivided into two categories: indicators deriving from internal factors inherent to the company issuing the instruments subject to valuation, and hence qualitative, and external indicators deriving from the market value of the instrument (for the case of listed equity securities). The presence of an internal impairment indicator for the issuer and of a trading price significantly lower than the carrying amount for a significant period implies the recognition of impairment. When deemed necessary, the impairment test was also corroborated by specific analysis results relative to the security and to the investment.
The continued uncertainty surrounding financial markets and the intensification of the financial crisis means that the adequacy of the impairment indicators has to be monitored continuously. In order to draft these financial statements, an attentive evaluation of the financial instruments classified as available for sale (AFS) was made in order to determine whether there was any impairment.
For debt securities, the impairment indicator is the specific issue rating. All debt securities are from issuers with investment-grade ratings and are all listed instruments. Overall, the exposure in terms of debt securities as at 31 December 2017 amounted to Euro 1,028.2 million. There were no impairment indicators for these specific instruments.
With reference to impairment of UCITS units and securities, the valuation policy set thresholds for significance and duration parameters, identified as a significant reduction in fair value of more than 50% compared to its carrying amount if this difference is built up over one financial year only, or a reduction in fair value of between 30% and 50% over a three-year time period, normalised for volatility. Overall, the exposure in terms of debt securities as at 31 December 2017 amounted to Euro 43.6 million.
Equity securities are mainly made up of unlisted equity investments for which no recent transactions are available. Considering the objective complexity of valuing them - apart from listed equity investments where it is possible to identify the fair value - the best indication of fair value of these investments is usually the purchase cost. In this context where fair value is calculated on a prudent basis, the check for impairment is based on the examination of information from the most recent financial statements available, performance indicators and other company information available that can provide evidence of any possible impairment. Overall, the exposure in terms of equity securities as at 31 December 2017 amounted to Euro 18.8 million.
With specific reference to the investment held by Volksbank in SEC Servizi S.C.p.A., it should be noted that, following the bailout of Banca Popolare di Vicenza and of Veneto Banca by the IntesaSanpaolo Group, the SEC client portfolio was significantly reduced. The scope of the residual service, determined on the basis of the turnover, was estimated to be at 35% of what was previously generated in terms of revenue. In light of the foregoing, and of the new operating situation of the Company, for the purpose of preparing the financial statements as at 31 December 2017, it was deemed necessary to assess, given the afore referenced impairment signals, a loss in value of the investment held. The business plan is characterised by the following elements:

- the total revenue is expected to be significantly lower in 2018 with a gradual recovery during the plan's period and standing, at the end of the plan, at lower values than those recorded in 2017;
- the performance of the revenue in the short term was penalised by the effects of the migration of the Veneto banks. The recovery in the following periods is to be essentially attributed to the widening of the customer base for outsourcing services and the launch of new services and products;
- the other revenue from the Back Office activities are expected to be stable;
- the operational costs will decrease in the short term but, also due to the fixed costs, not proportionally to the revenue;
- the cost/income ratio is estimated to be at 75% under normal circumstances;
- Normalised EBITDA is expected to be negative in 2018 and to go back to positive territory by the end of the plan;

- a break-even situation is expected toward the end of 2019 or the beginning of 2020. The net result is expected to be positive at the end of the plan.

The significant and unavoidable uncertainties related to the ability of the company to achieve the objectives set by the plan, as well as to the corporate governance situation, have affected the development of the valuations. Within this scope, it was deemed appropriate to define a method for a valuation based on the Discounted Cash Flow Method approach. The amount resulting from this model was compared with the shareholders' equity as at 31 December 2017, in order to determine any value adjustments due to impairment. From the application of the method, the valuation of the share capital of SEC, at the reference date of 31 December 2017, was Euro 10.9 million, which involved an impairment of Euro 2.3 million applied to the 18.76% portion of the capital share held by Volksbank, taking also into consideration the portion related to the withdrawal of Banca di Credito Popolare di Torre del Greco.

Section 5 INVESTMENTS HELD TO MATURITY – ITEM 50

5.1 *Investments held to maturity: breakdown by type*

(thousands of Euro)	31.12.2017				31.12.2016			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Debt securities	822,972	772,673	66,314	543	260,924	248,562	19,334	558
- Structured	-	-	-	-	-	-	-	-
- Other	822,972	772,673	66,314	543	260,924	248,562	19,334	558
2. Loans	-	-	-	-	-	-	-	-
Total	**822,972**	**772,673**	**66,314**	**543**	**260,924**	**248,562**	**19,334**	**558**

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

The item "Debt securities – other securities" consists primarily of long-term treasury bonds and treasury credit certificates.

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

(thousands of Euro)	31.12.2017	31.12.2016
1. Debt securities	**822,972**	**260,924**
a) Governments and central banks	757,693	241,052
b) Other public entities	-	-
c) Banks	37,070	12,072
d) Other issuers	28,209	7,800
2. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**822,972**	**260,924**
Total fair value	**839,530**	**268,454**

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

At the balance sheet date, as in the previous year, there are no investments held to maturity subject to micro-hedging.

Results of impairment tests for investments held to maturity

With reference to the values as at 31 December 2017, an impairment test was performed to recognise any impairment losses in the income statement, based on the criteria described in "Part A – Accounting policies" of these Notes to the Accounts.

This category comprises a single financial instrument, relating to a senior tranche of a securitisation for residential properties, whose book value was Euro 0.6 million as at 31 December 2017, as well as debt securities.
The tranche of the securitisation is rated by the three biggest ratings agencies: Standard & Poor's, Moody's and Fitch, therefore the impairment indicator was identified as the impairment of the specific issue rating. The issuer rating for the purpose of checking impairment was calculated using the median value of the ratings assigned by the reference agencies (Moody's, Standard & Poor's, Fitch). Instead, the values of the issuer probability of default (PD) emerge from the application of an internal hybrid model and Bloomberg. The issue had a weighted average life of 5.2 years at the reference date. No elements were detected that suggested impairment, considering also that the figures for the pool factor (0.25 as at December 2017) and loan to value were still positive.
Other instruments are represented by long-term treasury bonds issued by the Italian State and debt securities issued by Cassa Depositi e Prestiti, Banca Monte dei Paschi di Siena and Cassa del Trentino, in relation to which no evidence of impairment was found.

Section 6 DUE FROM BANKS – ITEM 60

6.1 Due from banks: breakdown by type

(thousands of Euro)	31.12.2017				31.12.2016			
	BV	Fair Value (*)			BV	Fair Value (*)		
		L1	L2	L3		L1	L2	L3
A. Due from Central Banks	**104,016**	**-**	**104,016**	**-**	**31,045**	**-**	**31,045**	**-**
1. Fixed-term deposits	-	X	X	X	-	X	X	X
2. Compulsory reserve	104,016	X	X	X	31,045	X	X	X
3. Repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Due from banks	**5,730**	**-**	**5,730**	**-**	**10,872**	**-**	**10,872**	**-**
1. Loans	5,730	-	5,730	-	10,872	-	10,872	-
1.1 Current accounts and demand deposits	3,990	X	X	X	8,822	X	X	X
1.2 Fixed-term deposits	50	X	X	X	50	X	X	X
1.3 Other loans	1,690	X	X	X	2,000	X	X	X
- Repurchase agreements	-	X	X	X	-	X	X	X
- Finance lease	-	X	X	X	-	X	X	X
- Other	1,690	X	X	X	2,000	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	**109,746**	**-**	**109,746**	**-**	**41,917**	**-**	**41,917**	**-**

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

(*) As regards the determination of the fair value level, please refer to "Part A - Information on the Main Items of the Financial Statements, 17 - Other information".

Considering the short-term expiry of the amount due from banks, the best fair value measure is given by the book value. As at 31 December 2017, there were no impaired assets from banks.
This category includes unlisted financial assets on an active market (Level 2 and Level 3) held at banks (current accounts, guarantee deposits, debt securities etc.) classified in the "loans and receivables" portfolio. Operating receivables related to the provision of financial services and assets sold that do not meet the conditions of IAS 39 to be derecognised from the financial statements ("sold and not derecognised") and impaired assets are included in the category.

6.2 Due from banks subject to micro-hedging

At the balance sheet date, as in the previous year, there are no amounts due from banks subject to micro-hedging.

6.3 Finance lease

At the balance sheet date, as in the previous year, there are no amounts due from banks associated with financial lease transactions.

Section 7 LOANS TO CUSTOMERS – ITEM 70

7.1 Due from banks: breakdown by type

(thousands of Euro)	31.12.2017						31.12.2016					
	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	**6,250,468**	**-**	**542,484**	**-**	**7,209,045**	**-**	**5,893,608**	**-**	**668,926**	**-**	**6,984,945**	**-**
1. Current accounts	1,115,427	-	243,622	X	X	X	1,149,021	-	303,933	X	X	X
2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Mortgages	4,557,738	-	278,709	X	X	X	4,121,785	-	324,690	X	X	X
4. Credit cards, personal loans and loans on salary	115,677	-	2,817	X	X	X	111,530	-	3,581	X	X	X
5. Finance lease	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans	461,626	-	17,336	X	X	X	511,272	-	36,722	X	X	X
Debt securities	**168,760**	**-**	**-**	**-**	**-**	**-**	**164,689**	**-**	**-**	**-**	**-**	**-**
8. Structured securities	-	-	-	-	X	-	-	-	-	-	-	-
9 Other debt securities	168,760	-	-	X	X	X	164,689	-	-	X	X	X
Total	**6,419,228**	**-**	**542,484**	**-**	**7,209,045**	**-**	**6,058,297**	**-**	**668,926**	**-**	**6,984,945**	**-**

Loans disbursed with the Bank's own funds and the portion of loans provided by public entities with related risk borne by the Bank amount to Euro 151.7 million, 107.7 million of which by public entities.

7.2 Loans to customers: breakdown by debtor/issuer

(thousands of Euro)	31.12.2017			31.12.2016		
	Not impaired	Impaired		Not impaired	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities:	**168,760**	**-**	**-**	**164,689**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	168,760	-	-	164,689	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	168,760	-	-	164,689	-	-
- other	-	-	-	-	-	-
2. Loans to:	**6,250,468**	**-**	**542,484**	**5,893,608**	**-**	**668,926**
a) Governments	-	-	-	-	-	-
b) Other public entities	34,488	-	-	25,506	-	-
c) Other entities	6,215,980	-	542,484	5,868,102	-	668,926
- non-financial companies	3,733,792	-	427,464	3,539,215	-	546,045
- financial companies	134,045	-	3,358	95,652	-	5,788
- insurance companies	130	-	-	142	-	-
- other	2,348,013	-	111,662	2,233,093	-	117,093
Total	**6,419,228**	**-**	**542,484**	**6,058,297**	**-**	**668,926**

7.3 Loans to customers: assets subject to micro-hedging

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

7.4 Finance lease

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

Section 8 HEDGES – ITEM 80

8.1 Hedges: breakdown by type and level

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

8.2 Hedges: breakdown by portfolios hedged and by hedge type

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

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

9.1 Value adjustments of hedged assets: breakdown by portfolios hedged

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

9.2 Assets subject to macro-hedging for interest rate risk

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

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

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

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

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

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

10.3 Significant investments: accounting information

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

10.4 Minor investments: accounting information

Company Name	Book value of 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 income compo-nents after tax (2)*	*Compre-hensive income (3) = (1)+(2)*
A. Wholly-owned subsidiaries									
1. Voba Invest S.r.l. in liquidation	2,115	2,287	172	815	(145)	-	(145)	-	(145)
2. Valpolicella Alta Società Agricola S.r.l.	2,948	4,301	4,463	218	(179)	-	(179)	-	(179)
B. Companies subject to joint control									
C. Companies subject to significant influence									
1. Casa di cura Villa S. Anna (*)	549	7,549	5,710	5,799	258	-	258	-	258
2. Quartiere Brizzi S.r.l. (*)	16	6,062	7,731	-	(1,719)	-	(1,719)	-	(1,719)
3. Tre S.r.l. (*)	165	367	285	1	(2)	-	(2)	-	(2)

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

10.5 Investments: annual changes

(thousands of Euro)	31.12.2017	31.12.2016
A. Opening balance	**6,913**	**4,769**
B. Increases	**38**	**2,285**
B.1 Purchases	-	-
B.2 Recoveries	-	2,260
B.3 Revaluations	38	25
B.4 Other changes	-	-
C. Decreases	**1,158**	**141**
C.1 Sales	-	-
C.2 Adjustments	1,158	141
C.3 Other changes	-	-
D. Closing balance	**5,793**	**6,913**
E. Total revaluations	**273**	**235**
F. Total adjustments	**3,675**	**2,517**

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

The item C.2 "Adjustments" refers to the change in equity investments due to the recognition of the loss reported by the investee companies, recognised at equity.

Results of impairment tests on the investments

As described in the "Part A – Accounting Policies", the investments were subject to impairment testing to evaluate the recoverability of the carrying amount.
In identifying potential signs of impairment, particular attention was given to the analysis of economic results after the date control was acquired, as well as, when available, the prospective future profitability.
In order to detect any impairment, the carrying amount was compared with the recoverable amount of the equity investment. Based on IAS 36, the recoverable amount is represented by the higher of the fair value net of selling costs and the value in use.

Based on the above, the impairment test on investments as at 31 December 2017 did not result in the need to make adjustments.

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

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

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

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

10.8 Significant restrictions

At the balance sheet date, as in the previous year, there are no significant restrictions in reference to investments.

10.9 Other information

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

Section 11 PROPERTY AND EQUIPMENT – ITEM 110

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

(thousands of Euro)	31.12.2017	31.12.2016
1 Assets owned	**131,689**	**140,683**
a) Land	37,205	38,323
b) Buildings	83,199	91,908
c) Movable assets	2,435	2,588
d) Electronic systems	5,875	4,973
e) Other	2,975	2,891
2 Assets acquired under finance lease	**-**	**-**
a) Land	-	-
b) Buildings	-	-
c) Movable assets	-	-
d) Electronic systems	-	-
e) Other	-	-
Total	**131,689**	**140,683**

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

(thousands of Euro)	31.12.2017	31.12.2016
Assets owned	**7,888**	**1,793**
a) Land	1,239	185
b) Buildings	6,649	1,608
Assets acquired under finance lease	**-**	**-**
a) Land	-	-
b) Buildings	-	-
Total	**7,888**	**1,793**

11.3 Property and equipment for business use: breakdown of revalued assets

At the balance sheet date, as in the previous financial year, there was no revalued property and equipment for business use.

11.4 Property and equipment held for investment purposes: breakdown of assets measured at fair value

At the balance sheet date, as in the previous financial year, there was no property and equipment held for investment 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	**38,323**	**136,217**	**42,894**	**33,729**	**43,040**	**294,203**
A.1 Net total impairment	-	44,309	40,306	28,756	40,149	153,520
A.2 Net opening balance	**38,323**	**91,908**	**2,588**	**4,973**	**2,891**	**140,683**
B. Increases:	**-**	**824**	**301**	**2,337**	**1,087**	**4,549**
B.1 Purchases	-	-	301	2,337	1,087	3,725
B.2 Expenditure for capitalised improvements	-	824	-	-	-	824
B.3 Recoveries	-	-	-	-	-	-
B.4 Positive changes in fair value charged to:						
a) Shareholders' equity	-	-	-	-	-	-
b) Income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment purposes	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
B.8 Business combinations	-	-	-	-	-	-
C. Decreases	**1,118**	**9,533**	**454**	**1,434**	**1,004**	**13,543**
C.1 Sales	64	339	-	-	2	405
C.2 Depreciation	-	3,843	454	1,434	1,002	6,733
C.3 Losses on 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	1,054	5,351	-	-	-	6,405
b) assets held for sale	1,054	5,351	-	-	-	6,405
C.7 Other changes	-	-	-	-	-	-
C.8 Business combinations	-	-	-	-	-	-
D. Net closing balance	**37,205**	**83,199**	**2,435**	**5,876**	**2,974**	**131,689**
D.1 Net total impairment	-	44,740	40,730	29,587	40,704	155,761
D.2 Gross closing balance	**37,205**	**127,939**	**43,165**	**35,463**	**43,678**	**287,450**
E. Valuation at cost	-	-	-	-	-	-

11.6 Property and equipment held for investment purposes: annual changes

(thousands of Euro)		Land	Buildings
A.	**Opening balance**	**185**	**1,608**
B.	**Increases:**	**1,054**	**5,351**
	B.1 Purchases	-	-
	B.2 Expenditure for capitalised improvements	-	-
	B.3 Positive changes in fair value	-	-
	B.4 Recoveries	-	-
	B.5 Positive exchange differences	-	-
	B.6 Transfers from properties for business use	1,054	5,351
	B.7 Other changes	-	-
C.	**Decreases**	**-**	**310**
	C.1 Sales	-	-
	C.2 Depreciation	-	310
	C.3 Negative changes in fair value	-	-
	C.4 Losses on impairment	-	-
	C.5 Negative exchange differences	-	-
	C.6 Transfers to other asset portfolios	-	-
	a) properties for business use	-	-
	b) non-current assets held for sale	-	-
	C.7 Other changes	-	-
D.	**Closing balance**	**1,239**	**6,649**
E.	Designated at fair value	-	-

11.7 Commitments for the purchase of property and equipment (IAS 16/74.c)

At the balance sheet date, as in the previous financial year, there were no commitments for the purchase of property and equipment.

Section 12 INTANGIBLE ASSETS – ITEM 120

12.1 Intangible assets: breakdown by type of asset

(thousands of Euro)	31.12.2017		31.12.2016	
	Definite life	**Indefinite life**	**Definite life**	**Indefinite life**
A.1 Goodwill	X	99,602	X	99,602
A.2 Other intangible assets	19,612	-	20,768	-
A.2.1 Assets carried at cost:	19,612	-	20,768	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	19,612	-	20,768	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**19,612**	**99,602**	**20,768**	**99,602**

Information on intangible assets and goodwill

The application of the IFRS 3 accounting standard in recording acquisition transactions may result in the recognition of intangible assets and goodwill. For Volksbank, the acquisition, on 25 February 2008, of the business unit consisting of 6 branches of Banca Intesa Group, as well as the merger, on 1 April 2015, with Banca Popolare di Marostica Group, resulted in the recognition of intangible assets and goodwill.
The following table shows a summary of the values of intangible assets and goodwill recognised in the financial statements for the period, broken down by Cash Generating Unit (CGU).

CGU	**31.12.2016**	**Amort.**	**Other changes**	**31.12.2017**
Client relationship former Popolare Marostica Group	20,386	(971)	-	19,415
Goodwill	99,601	-	-	99,601
Other	383	(365)	180	198
Total	**120,370**	**(1,336)**	**180**	**119,214**

For intangible assets with definite useful lives, represented by the customer relationship, and software, the amortisation for the year was charged to the income statement (included in item "210. Net adjustments to/recoveries on intangible assets") and amounts to a total of Euro 1.3 million prior to the tax effect. Worthy of note is, in particular, that the client relationship recognised in the scope of the incorporation of Gruppo Banca Popolare di Marostica, is amortised over a period of 22 years.
IAS 36 provides that intangible assets with indefinite useful lives and goodwill are subject to impairment testing at least annually. Furthermore, for intangible assets with definite useful lives, the impairment test must be performed each time there is an indicator of loss in value. The impairment test has the objective of determining if the recoverable amount is equal to or greater than the carrying amount. IAS 36 specifies that the recoverable amount is represented by the higher of value in use and fair value net of selling costs.
In addition, IAS 36 states that, in determining the value in use of intangible assets subject to impairment testing, reference must be made to cash flows for the intangible assets in its current condition on the date of the impairment test, without distinguishing between cash flows for the asset that was originally recognised in applying IFRS 3 and the cash flows for the asset on the impairment test date, as it would be difficult to separate the cash flows at the different times, especially in cases following significant turnover in volumes, customers, contracts, etc.
This concept is also replicable for determining, for purposes of impairment testing on goodwill, the value in use of the CGU, whose cash flows must be considered in reference to all assets and liabilities included in the CGU, and not only for assets and liabilities against which the goodwill was recognised when IFRS 3 was applied.

With regard to the impairment testing for the 2017 financial statements, as for previous years, in consideration of the volatility in financial markets and the values derived from the markets, the reference value for calculating the recoverable amount was the value in use.
Finally, note that the methodologies and assumptions underlying the impairment procedure for intangible assets and goodwill, defined by management, were approved by the Board of Directors prior to the approval of the 2017 financial statements.

Impairment testing for goodwill

Identification of the cash generating unit (CGU)

For Volksbank, the only intangible asset with indefinite useful life is goodwill, which does not generate cash flows independently, rather as part of all the other business assets. As previously stated, the impairment test was developed by estimating the value in use, as permitted by IAS 36.
Firstly, the cash generating unit is identified, defined by IAS 36 as the independent organisational unit from a management perspective that is able to generate cash flows essentially separated from those produced by other operating areas, but interrelated within the organisational unit that generates them.
IAS 36 specifies that the impairment test for goodwill requires the identification of the management reporting level that business management uses to identify the governance activities and monitor the trends in results. Hence, the definition of the significant reporting level for purposes of the impairment test depends on the relevant organisational structure in order to attribute management responsibilities as part of defining the guidelines for operating activities and resulting monitoring.
Consistent with the approach adopted for recognising goodwill, the recoverable amount for the impairment test includes the valuation of all synergies that Volksbank will obtain from integrating the assets acquired in the business combination that generated the goodwill.
The management organisational and governance model of Volksbank envisages that:
- management decisions are highly centralised in General Management;
- strategies, identification of new products or services, and sales initiatives are outlined and addressed centrally and applied indistinctly to all the regional sales departments;
- planning processes and reporting systems are managed at the business level, without being broken down into operating segments;
- financial risk management is highly centralised, ensuring consistency between capital allocation policies and financial risks assumed at the business level;
- there are no distinct operating divisions or operating segments for homogeneous markets or sectors or based on similar economic characteristics and degree of development.

As a result of the highly centralised structure, revenue flows are governed by business policies that are formulated centrally, based on balanced growth of the entire Bank entity.
Additionally, the individual business departments (Loans, Workout, Operations, Finance, Human Resources, Veneto Market Centre and Alto Adige Market Centre) have cash flows that are closely correlated to the policies formulated by Bank management and the Board of Directors. These policies are defined and implemented consistent with a single management design, which aims to achieve centralised governance and to ensure organic and balanced growth of all the individual structures, to obtain the overall growth of the business. Growth strategies of business initiatives, identification and development of new products and services, processes to define the limits of financial risk assumed, and planning and executing sales initiatives are centrally mapped out and managed. Sales departments then guide their respective network structures in these defined initiatives, implementing them in the specific regional entities.
Hence, a single business governance activity must follow, which is based on an integrated and uniform system of activating the governance processes and processes for controlling and monitoring results obtained, and, therefore, the reference CGU to which goodwill is allocated is the entire banking business.

Criteria for estimating value in use

As is known, the valuations for financial statement purposes, in particular when they express entity-specific valuations, such as in the case of value in use, are conventional measurements, in the sense that they satisfy the requirements of accounting standards. Thus, value in use, as determined for purposes of testing goodwill impairment, differs both in respect to the configuration of the fair value, and in respect to other value configurations. The value in use is identified by IAS 36 as the current value of the expected cash flows from the asset.

The CGU's value in use is calculated by estimating the current value of future cash flows that are expected to be generated by the CGU. These cash flows are estimated using the latest available business plan, approved by the Board of Directors in the second half of the year. Hence, the development of the estimation methodology is based and depends on the assumption that the business plan reflects realistic assumptions on the banking activity's business prospects.

The analytic forecast period includes a time horizon of five years. The cash flow of the last year of the analytic forecast is then projected in perpetuity using an appropriate growth rate, "g", to calculate the terminal value.

In determining the value in use, cash flows must be discounted at a rate that reflects current estimates of the time value of money and the specific risks of the asset. In particular, discount rates incorporate current market values in reference to the risk-free rate as well as a risk premium correlated to the equity component, observed over a period of time that is long enough to reflect market conditions and differentiated economic cycles, as well as in reference to an observable sample of comparable listed banks.

Estimating cash flows

In calculating the value in use as part of impairment testing for the 2017 financial statements, uncertainties that characterise the future macroeconomic scenario and trends in financial markets make it particularly difficult to define the expected cash flows from operations and the relevant growth rate to determine the terminal value of the CGU.

In 2017, growth in Europe stood at 2.3%, exceeding expectations. In 2018, growth should also be fairly close to the above percentage, however, a slowdown is possible in the next few years, in line with average rates of 1.3 - 1.4%. The expected inflation should stand above 1.5% in 2019.

In 2017, the Italian economy grew by approximately 1.5%, also in this case above expectations. Forecasts indicate a continuation of the recovery also in 2018, in line with the figures of 2017. For the following year, the forecast scenario is about 1.3% growth in 2018.

The growth scenario, below the 2% inflation objective, supports a projection for the ECB official rate at near zero levels throughout 2019. For the following years, possible increases to positive values may be negatively impacted by significant uncertainty about the monetary policies of the Eurozone.

As previously noted, financial valuation criteria, such as those used to estimate value in use, envisage that the value of a business at the end of the analytic forecast period for cash flows ("terminal value") is generally determined by capitalising to infinity the "standard" cash flow achieved, at an appropriate rate "g".

For purposes of developing the method, a minimum level of prudential requirements was assumed, calculated in reference to, amongst other things, the minimum SREP thresholds indicated by the Supervisory Authority for a sample of listed Italian banks and subject to European supervision, as well as assuming the theoretical issue of Tier 2 instruments.

For the impairment test as at 31 December 2017, consistent with those of previous years, the forecasted long-term inflation rate was used as the long-term growth rate.

In particular, as regards the estimate of cash flows, a two phase approach was adopted:

- Explicit period 2018-2021 estimated on the basis of the preliminary year-end data as at 31 December 2017 and for the following years on the basis of the forecast included in the Strategic Plan 2017-2021 prepared by the Board of Directors, according to the minimum level of capitalisation (Minimum Capital) necessary to guarantee the operations of the Bank. The 2017-2021 Strategic Plan has been approved by the Board of Directors on 7 November 2016 and shows, in reference to 2018, results in line with the figures of the 2018 budget.

- Terminal Value is estimated based on a sustainable dividend for the years following the explicit planning period. The sustainable dividend was estimated based on the 2021 expected results, adjusted in accordance with the extraordinary effects arising from the application of IFRS 3.

The expected profit for the years 2018-2021 was adjusted by taking into consideration the difference between the shareholders' equity underlying the projections and the shareholders' equity calculated based on the distribution/capital increase, representing the excess/deficit capital deriving from the required Minimum Capital, hypothesised for valuation purposes.

The minimum capital was estimated as follows:

- CET1 Ratio was defined starting from the minimum requirement of Tier 1, given the absence of Additional Tier 1 instruments also in the plan which was increased by:
    - capital conservation buffer ("CCB") according to the phased-in adjustment path set forth by the law;
    - Pillar II requirement as per the Bank of Italy communication dated 13 June 2017, equal to 0.55%;
    - Pillar II guidance equal to the level indicated in the Bank of Italy communication dated 13 June 2017 equal to 0.40%;
- Hypothesised Total Capital Ratio equal to CET1 Ratio increased by:
    - maximum percentage of Tier 2 set forth by the law equal to 2%;
    - additional percentage for the Pillar II requirement related to Total Capital Ratio, as per the Bank of Italy communication dated 13 June 2017, equal to 0.25%;
    - additional guidance percentage for the Pillar II requirement related to Total Capital Ratio, as per the Bank of Italy communication dated 13 June 2017, equal to 0.20%.

The figurative issuing of Tier II instruments was hypothesised, with a 5.4% spread corresponding to the spread required for the bond issue Tier II of 29 September 2017.

Discount rates for cash flows

In determining the value in use, cash flows must be discounted at a rate that reflects current market valuations, the time value of money, and specific risks of the asset.

In practice, current market conditions require the determination of all parameters based on the most recently updated information on the estimation date, in order to best account for current market valuations.

The long-term forecast of cash flows used in estimating value in use is particularly important. In fact, goodwill has, by definition, an indefinite useful life and, thus, expected cash flows from goodwill are normally projected in perpetuity. Hence, the long-term forecast will be reflected in all parameters of the discount rate through an appropriate choice of each of these parameters, so that they express "normal" conditions in the long term.

In the specific case of a bank, the discount rate is estimated considering the cost of own capital (Ke), consistent with the methods of determining cash flows that, as previously described, include cash flows generated by financial assets and liabilities. It is established practice that this is determined using the Capital Asset Pricing Model (CAPM). According to this model, the cost of capital is calculated as the sum of returns on risk-free investments plus a risk premium, which, in turn, is dependent on the specific risk of the asset (intended as both the risk the operating sector - in this case, banking - as well as "country risk").

The cost of capital is determined net of taxes, consistent with the cash flows being discounted.

Since the cash flows were determined in nominal terms, the discount rates were also determined in nominal terms, that is, incorporating inflation forecasts.

The rate of return on risk-free assets, was identified on the basis of the average gross yield of the last 12 months of the 10 year BTP recorded on 29 December 2017 and equal to 2.08%.

The equity risk premium, or the premium for the business risk, represented by the difference between equity market yields and yields on a risk-free investment determined in reference to a sufficiently long period of time, was determined to be 5.1%, compared to 5.7% for the previous year.
The Beta ratio, which indicates the risk of a specific equity security compared to the stock market as a whole, was estimated in this case based on the average historical 5-year Betas of a sample of listed Italian cooperative banks. In this case, it was estimated based on the average historical 5-year betas, recorded as at 29 December 2017, of a sample consisting of listed Italian cooperative banks.
The estimated growth rate used for test impairment purposes is 1.5%. This is in continuity with the 2016 impairment test, it is consistent with the long-term estimates provided for Italy by independent, external authoritative sources and takes into consideration the objective declared by the ECB for a target inflation, in the medium-long term period for the Euro area, at a level near 2%.
The table below summarises the relevant parameters used in determining the value in use.

Goodwill CGU	Risk-free	Beta	Risk premium	Ke	G
31.12.2017	2.08%	1.35	5.1%	8.95%	1.5%
31.12.2016	1.46%	1.34	5.7%	9.07%	1.5%

Results of the impairment test

The results of the impairment test show that, as at 31 December 2017, just as at 31 December 2016, the value in use of the goodwill CGU is higher than the carrying amounts. Hence, no write-downs were recognised.
The values in use calculated for the impairment test are greater than the values expressed in determining the withdrawal value following the transformation into a joint-stock company, as well as in comparison with the figures recorded on the negotiation platform of HI-MFT shares. For this reason, it is necessary to point out that the "fundamental" valuation, calculated at the reference date and developed according to the economic benefits offered by said asset and related risks, represented by the value in use, shows characteristics that differentiate it from other valuations, such as, for example, those generated for determining the withdrawal price or measuring the fair value, as well as the valuations expressed by the market.
Furthermore, in developing the valuation model, particularly in choosing the financial parameters, the cost of capital was determined based on market parameters, analytically considering various risk factors. Specifically, the cost of capital was estimated at 8.95% for 2017, a slight decrease from the value of 9.07% used in 2016.
Parameters and information used to verify the recoverability of intangible values with indefinite lives, including goodwill, are heavily influenced by the macroeconomic scenario and dynamics in financial markets that could result in unforeseen changes. If the macroeconomic scenario in the future were worse than assumed, it could have effects on the cash flow forecasts and on the key assumptions adopted in the business plan, as well as on the process for estimating valuation parameters, which could then result in financial results in upcoming years that are different than those expected in these financial statements.

Sensitivity analyses

Since the value in use is calculated using estimates and assumptions that may include elements of uncertainty, sensitivity analyses were performed that aimed to verify the susceptibility of the results obtained to changes in certain base parameters and assumptions, as required by IAS/IFRS standards and considering the recommendations contained in Bank of Italy, Consob, and ISVAP Document no. 4 of 3 March 2010.
In particular, the impact on the value in use of an increase in the cost of capital up to 25 bps and a change in the CET 1 ratio of 50 bps was verified.
The following table shows the results of the sensitivity analyses.

			Cost of capital	
		8.70%	8.95%	9.20%
	10.30%	942.2	910.2	880.2
CET 1 ratio	9.80%	973.0	940.5	910.1
	9.30%	1,003.7	970.7	939.9

It should be noted that the increase in the cost of capital (with respect to the starting value of 8.95%) – necessary for the value in use to equate to the carrying amount of the shareholders' equity – is 58 bps which corresponds to a cost of capital of 9.52%. At the same time, the application of an increase in the CET 1 level of 50 bps (10.30%) and in the Ke of 25 bps (9.20%) would result in a value in use of Euro 880.2, i.e. Euro 6.9 million less than the value in use taken into consideration. In addition to the sensitivity analyses discussed above, a stress test was carried out as regards the possible impacts deriving from the adoption of IFRS 9 to be applied starting 1 January 2018. The projections used for the purpose of the Impairment test, in fact, do not incorporate the potential effects deriving from the application of this accounting standard.
The process for determining the impacts from the First Time Adoption of IFRS 9 is under way. Hence, it is deemed appropriate to specify that, for the purpose of the stress analysis, reference was made to a range of values – which represents the best preliminary estimate and is subject to changes, at times significant – available as at the assessment date. Based on the sensitivity analysis carried out, the central value of the CGU represented by Volksbank would be greater than the shareholders' equity at the reference date.

Impairment testing of intangible assets with definite lives

Client relationship

The intangible asset "client relationship" booked for the first time in the financial statements of Volksbank as at 31 December 2015 due to the incorporation of the Banca Popolare di Marostica Group, is considered "definite life".
The customers taken as a reference for the valuation of the client relationship concerned solely the relations established before the acquisition date. Therefore, the intangible asset is linked to the status quo before the acquisition date and its fair value is of a limited duration, following the duration observed for relations between the company acquired and its customers. The capacity to generate new relationships, which cannot be separated and transferred to third parties unless the company is being transferred as a whole, is not valued in any way. This capacity to generate new relationships will therefore constitute indistinct goodwill. The client relationship was determined by valuing the following components:
- indirect funding (administered funding net of own securities, managed funding, insurance products);
- core deposits (ordinary free savings deposits, ordinary current accounts).

The client relationship was valued by discounting the net future economic flows related to it.
The value of this asset was calculated with reference to 1 April 2015, the effective date of the merger. The process for calculating the value of this asset was completed prior to the resolution to approve the draft financial statements.

The impairment tests relating to this asset are primarily based on an analysis of the main indicators of the value of the asset itself, nonetheless monitored during the year (including the trend in the volumes of core deposits and indirect funding, the evolution of the likelihood of the closure of relations ("lifting curve"), evolution of the interest rate curve, changes in profitability, the level of operating expenses, and cost of capital).
No changes were observed in 2017 in the aforementioned parameters that required an impairment test. Thus, these in-depth analyses did not lead to the identification of impairment indicators for the client relationship intangible asset.

12.2 *Intangible assets: annual changes*

(thousands of Euro)	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Gross opening balance	**99,602**	**-**	**-**	**29,375**	**-**	**128,977**
A.1 Net total impairment	-	-	-	8,607	-	8,607
A.2 Net opening balance	**99,602**	**-**	**-**	**20,768**	**-**	**120,370**
B. Increases	**-**	**-**	**-**	**180**	**-**	**180**
B.1 Purchases	-	-	-	180	-	180
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to income statement	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**1,336**	**-**	**1,336**
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	1,336	-	1,336
- Amortisation	X	-	-	1,336	-	1,336
- 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**	**-**	**-**	**19,612**	**-**	**119,214**
D.1 Total net value adjustments	-	-	-	9,943	-	9,943
E. Gross closing balance	**99,602**	**-**	**-**	**29,555**	**-**	**129,157**
F. Valuation at cost	-	-	-	-	-	-

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

12.3 *Other information*

At the balance sheet date, as in the previous financial year, no commitments are reported in relation to intangible assets.

Section 13 TAX ASSETS AND TAX LIABILITIES – ITEM 130 UNDER ASSETS AND ITEM 80 UNDER LIABILITIES

13.1 Deferred tax assets: breakdown

IRES	**31.12.2017**		**31.12.2016**	
(thousands of Euro)	**amount of timing differences**	**tax effect**	**amount of timing differences**	**tax effect**
- Losses on impairment of loans	222,004	61,051	242,359	66,649
- Provisions for risks and charges	16,794	4,619	17,142	4,714
- Administrative expenses	-	-	-	-
- Revaluation of fixtures and fittings (Italian Law 266, 23/12/05)	-	-	-	-
- Valuation of AFS securities	5,851	1,609	14,137	3,888
- Components directly recorded in the OCI statement	1,307	359	1,414	389
- Amortisation of prepaid tax on post-2008 purchases	1,267	349	2,397	659
- Goodwill from Banca di Treviso (written off by BPM)	7,904	2,174	7,904	2,173
- Goodwill from merger of BPM+BTV written off	53,289	14,654	59,210	16,283
- Client relationship from merger of BPM+BTV written off	971	267	971	267
- 2016 IRES tax loss	18,351	5,047	31,045	8,537
- Carry forward of ACE (aid for economic growth) to subsequent years	6,691	1,840	6,691	1,840
- 2015 tax loss for BPM+BTV	20,736	5,702	19,174	5,273
- Write-down of buildings (non-deemed cost)	-	-	-	-
- Other	2,585	711	3,713	1,021
- Tax losses of companies under tax consolidation	680	163	-	-
Total	**358,430**	**98,545**	**406,157**	**111,693**

IRAP	**31.12.2017**		**31.12.2016**	
(thousands of Euro)	**amount of timing differences**	**tax effect**	**amount of timing differences**	**tax effect**
- Losses on impairment of and losses on loans	120,195	6,140	131,248	6,694
- Provisions for risks and charges	16,794	858	17,142	874
- Revaluation of fixtures and fittings (Italian Law 266, 23/12/05)	-	-	-	-
- Valuation of AFS securities	5,851	299	14,137	712
- Write-down of buildings (non-deemed cost)	-	-	-	-
- Goodwill from Banca di Treviso (written off by BPM)	7,904	403	7,904	403
- Goodwill from merger of BPM+BTV written off	53,289	2,722	59,210	3,020
- Client relationship from merger of BPM+BTV written off	874	45	874	45
- Reversals of loans limited to net negative value	-	-	6,908	352
- Other	10,834	554	5,089	259
Total	**215,741**	**11,021**	**242,512**	**12,359**

Deferred tax assets, accounted for with reference to deductible temporary differences, amounted to Euro 109.6 million and refer, for Euro 107.3 million, to taxes recorded as a contra-entry in the income statement and, for Euro 2.3 million, to taxes booked as a contra-item in shareholders' equity.

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

13.2 Deferred tax liabilities: breakdown

IRES	31.12.2017		31.12.2016	
(thousands of Euro)	amount of timing differences	tax effect	amount of timing differences	tax effect
- Land depreciation	2,510	690	2,510	690
- Revaluation of property at deemed cost	55,989	15,397	57,592	15,838
- Valuation of AFS securities	8,967	2,466	7,387	2,031
- Components directly recorded in the OCI statement	-	-	-	-
- Revaluation of investments - AFS PEX	70	19	65	18
- Goodwill amortisation	23,058	6,341	20,891	5,745
- Client relationship	-	-	-	-
- Contribution to Voluntary Programme of Inter-Bank Deposit Protection Fund	-	-	1,153	317
- Gain on sale of buildings	1,668	459	2,223	611
- Other	79	22	89	25
Total	**92,341**	**25,394**	**91,910**	**25,275**

IRAP	31.12.2017		31.12.2016	
(thousands of Euro)	amount of timing differences	tax effect	amount of timing differences	tax effect
- Land depreciation	2,510	128	2,510	128
- Revaluation of property at deemed cost	55,989	2,860	57,592	2,937
- Valuation of AFS securities	8,967	458	7,387	372
- Revaluation of investments AFS PEX (*)	1,398	71	1,302	66
- Goodwill amortisation	22,932	1,172	20,765	1,059
- Client relationship from PPA of BPM+BTV merger	-	-	-	-
- Contribution to Voluntary Programme of Inter-Bank Deposit Protection Fund	-	-	1,529	78
- Other	1,577	81	1,782	91
Total	**93,373**	**4,770**	**92,867**	**4,731**

Deferred tax liabilities amounted to Euro 30.2 million and were booked as a contra-entry in the income statement for Euro 27.1 million, and as a contra-entry in shareholders' equity for Euro 3.1 million.

13.3 Changes in deferred tax assets (with contra-entry in the income statement)

(thousands of Euro)		IRES	IRAP	31.12.2017	31.12.2016
1.	**Initial amount**			**119,063**	**95,661**
2.	**Increases**	**1,064**	**492**	**1,556**	**32,076**
2.1	Deferred tax assets recognised during the year	901	492	1,393	32,076
	a) relating to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) recoveries	-	-	-	-
	d) other	901	492	1,393	32,076
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	163	-	163	-
2.4	Business combinations	-	-	-	-
3.	**Decreases**	**11,905**	**1,416**	**13,321**	**8,674**
3.1	Deferred tax assets cancelled during the year	8,540	1,045	9,585	6,650
	a) reversals	8,540	1,045	9,585	6,650
	b) write-downs for uncollectible amounts	-	-	-	-
	c) change of accounting standards	-	-	-	-
	d) other	-	-	-	-
3.2	Decreases in tax rates	-	-	-	-
3.3	Other decreases	3,365	371	3,736	2,024
	a) conversion into tax credits under Italian Law no. 214/2011	-	-	-	-
	b) other	3,365	371	3,736	2,024
4.	**Final amount**			**107,298**	**119,063**

As at 31 December 2017 the sub-items 2.3 "Other increases" and 3.3 b) "Other decreases – other" are primarily a result of the 2016 tax loss and of the effects from the supplementary declarations that have transformed deferred tax assets into tax credits.

13.3.1 Changes in deferred tax assets pursuant to Law 214/2011 (with contra-entry in the income statement)

(thousands of Euro)		IRES	IRAP	31.12.2017	31.12.2016
1.	**Initial amount**			**79,439**	**86,611**
2.	**Increases**	**-**	**-**	**-**	**3,936**
3.	**Decreases**	**9,076**	**918**	**9,994**	**11,108**
3.1	Reversals	5,585	565	6,150	3,843
3.2	Conversion into tax credits	-	-	-	-
	a) deriving from losses for the year	-	-	-	-
	b) deriving from tax losses	-	-	-	-
3.3	Other decreases	3,491	353	3,844	7,265
4.	**Final amount**			**69,445**	**79,439**

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

(thousands of Euro)		IRES	IRAP	31.12.2017	31.12.2016
1.	**Initial amount**			**27,519**	**33,201**
2.	**Increases**	**596**	**118**	**714**	**1,867**
2.1	Deferred tax liabilities recognised during the year	596	118	714	1,867
	a) relating to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) other	596	118	714	1,867
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	-
2.4	Business combinations	-	-	-	-
3.	**Decreases**	**914**	**151**	**1,084**	**7,549**
3.1	Deferred tax liabilities cancelled during the year	914	151	1,065	7,549
	a) reversals	914	151	1,065	597
	b) due to change in accounting standards	-	-	-	-
	c) other	-	-	-	6,952
3.2	Decreases in tax rates	-	-	-	-
3.3	Other decreases	-	-	19	-
4.	**Final amount**			**27,149**	**27,519**

13.5 Changes in deferred tax assets (with contra-entry under shareholders' equity)

(thousands of Euro)		IRES	IRAP	31.12.2017	31.12.2016
1.	**Initial amount**			**4,989**	**2,849**
2.	**Increases**	**-**	**10**	**10**	**2,144**
2.1	Deferred tax assets recognised during the year	-	10	10	2,144
	a) relating to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) other	-	10	10	2,144
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	-
2.4	Business combinations	-	-	-	-
3.	**Decreases**	**2,308**	**423**	**2,731**	**4**
3.1	Deferred tax assets cancelled during the year	2,308	423	2,731	4
	a) reversals	-	-	-	-
	b) write-downs for uncollectible amounts	-	-	-	-
	c) due to change in accounting standards	-	-	-	-
	d) other	2,308	423	2,731	4
3.2	Decreases in tax rates	-	-	-	-
3.3	Other decreases	-	-	-	-
4.	**Final amount**			**2,268**	**4,989**

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

13.6 Changes in deferred tax liabilities (with contra-entry under shareholders' equity)

(thousands of Euro)		IRES	IRAP	31.12.2017	31.12.2016
1.	**Initial amount**			**2,487**	**2,939**
2.	**Increases**	**436**	**92**	**528**	**-**
2.1	Deferred tax liabilities recognised during the year	436	92	528	-
	a) relating to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) other	436	92	528	-
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	-
3.	**Decreases**	**-**	**-**	**-**	**452**
3.1	Deferred tax liabilities cancelled during the year	-	-	-	452
	a) reversals	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) other	-	-	-	452
3.2	Decreases in tax rates	-	-	-	-
3.3	Other decreases	-	-	-	-
4.	**Final amount**			**3,015**	**2,487**

13.7 Other information

Breakdown of current tax assets

(thousands of Euro)		31.12.2017	31.12.2016
1.	Advance payment of IRES – IRAP – VAT taxes	-	3,496
2.	Advance payment of stamp duty, withholding tax on interest	15,836	17,810
3.	Withholding tax paid	3,209	2,264
4.	Other current tax assets	40,496	36,373
	Total	**59,541**	**59,943**

Breakdown of current tax liabilities

(thousands of Euro)		31.12.2017	31.12.2016
1.	Liabilities for direct taxes	3,102	1,505
2.	Indirect taxes	79	42
3.	Withholding tax at source to be paid	-	-
4.	Other current tax liabilities	487	298
	Total	**3,668**	**1,845**

Probability test on deferred taxes

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

- taxable temporary differences: a deferred tax liability must be recognised for all taxable temporary differences;
- deductible temporary differences: a deferred tax asset must be recognised for all deductible temporary differences, if it is likely that taxable income will be generated against which the deductible temporary difference will be used. Deferred tax assets not accounted for in the past - as there was no reason for their recognition - must be recorded in the year in which the conditions manifest themselves.

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

Considering the amount of deferred tax assets recorded, an analysis was conducted to verify whether the forecasts of future profitability are such as to guarantee their re-absorption and therefore justify their recognition and maintenance in financial statements ("probability test").

In particular, for deferred tax assets deriving from deductible temporary differences relating to write-downs and losses on loans ("qualified deferred tax assets" 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 deferred tax assets (IRES) recognised in the financial statements against tax losses deriving from the deferred deduction of qualified temporary differences (art. 2, paragraph 56-bis of Italian Law Decree no. 225 of 29 December 2010, introduced in art. 9 of Italian Law Decree no. 201 of 6 December 2011).

Effective from the 2013 tax period, a similar conversion is established, if the IRAP return shows a negative net value of production, in relation to deferred tax assets (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 of Italian 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 of Italian Law Decree no. 225/2010, as recently amended by Law no. 147/2013 - is suitable to ensure the recovery of qualified deferred tax assets 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 deferred tax assets would not result in a reduction of current taxes, but, nonetheless, through the recognition of deferred tax assets 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 Italian Law Decree no. 225/2010.

The convertibility of deferred tax assets 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 deferred tax assets 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 deferred tax assets 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 deferred tax assets, other than those relating to write-downs and losses on loans, goodwill and other intangible assets with an indefinite life ("unqualified deferred tax assets"), recognised in the financial statements;
- the analysis of these unqualified deferred tax assets and the deferred tax liabilities 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 deferred tax assets pursuant to previous points a).

The detailed analysis pursuant to points b) and c) was not necessary for deferred tax assets (and, subsequently, deferred tax liabilities) 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 Italian Law Decree no. 225/2010 and "unqualified" IRAP deferred tax assets were of a negligible amount.

The analysis conducted showed a forecasted taxable base sufficiently able to absorb deferred taxes recorded in the financial statements as at 31 December 2017.

Unused tax losses

The 2017 Financial Statements show deferred tax assets deriving from tax losses brought forward for about Euro 39.1 million, of which Euro 20.7 million referring to Banca Popolare di Marostica Group.

As at 31 December 2017, deferred tax assets of Euro 5.7 million were recognised against more than Euro 20.7 million in previous tax losses accumulated by Banca Popolare di Marostica Group (mainly deriving from impairments on loans), which can be used without any time limits.

Analyses conducted on profit forecasts included in the 2017-2021 Business Plan confirm the ability of the tax consolidation to use losses against the DTA provisions.
The tax losses posted by the Bank in 2016 amounts to Euro 31.0 million, of which Euro 12.7 million constitute deferred tax assets for reversals of previous impairments on loans and may be converted into tax credits for 2016 tax declarations. Hence, the residual tax loss to be reported amounts to Euro 18.4 million. Therefore, total tax losses reportable as at 31 December 2017 are Euro 39.1 million, of which Euro 20.7 million for Banca Popolare di Marostica Group, generated prior to the merger, and the remaining Euro 18.4 million relative to the Bank.

Section 14 NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 140 UNDER ASSETS AND ITEM 90 UNDER LIABILITIES

14.1 Non-current assets and groups of assets held for sale: breakdown by type of asset

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

14.2 Other information

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

14.3 Disclosure regarding investments in companies subject to significant influence not carried at equity

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

Section 15 OTHER ASSETS – ITEM 150

15.1 Other assets: breakdown

(thousands of Euro)	31.12.2017	31.12.2016
1. Unprocessed transactions with branches	2,169	4,047
2. Deposits	93	97
3. Work in progress	88,472	85,557
4. Various outstanding items (items waiting final allocation)	22,356	22,348
5. Income accrued and due to be received	21,070	18,979
6. Cash items in hand	181	44
7. Accruals and deferrals not reported	557	727
8. Expenditures on third party assets	1,377	1,184
Total	**136,275**	**132,983**

LIABILITIES

Section 1 DUE TO BANKS – ITEM 10

1.1 *Due to banks: breakdown by type*

(thousands of Euro)	31.12.2017	31.12.2016
1. Due to central banks	**994,690**	**800,003**
2. Due to banks	**155,969**	**285,003**
2.1 Current accounts and demand deposits	28,931	84,811
2.2 Fixed-term deposits	4,863	69,850
2.3 Loans	121,465	129,827
2.3.1 Reverse repurchase agreements	-	-
2.3.2 Other	121,465	129,827
2.4 Liabilities for commitments to repurchase own equity instruments	-	-
2.5 Other payables	710	515
Total	**1,150,659**	**1,085,006**
Fair value - Level 1		
Fair value - Level 2	**1,099,733**	**994,670**
Fair value - Level 3		
Total fair value	**1,099,733**	**994,670**

Reverse repurchase agreements in respect of assets transferred and not derecognised from the financial statements are detailed in Part E.

1.2 *Detail of item 10 "Due to banks": subordinated debt*

At the balance sheet date, as in the previous year, there is no subordinated debt due to banks.

1.3 *Detail of item 10 "Due to banks": structured debt*

At the balance sheet date, as in the previous year, there is no structured debt due to banks.

1.4 *Due to banks subject to micro-hedging*

At the balance sheet date, as in the previous year, there are no amounts due to banks subject to micro-hedging.

1.5 *Finance lease payables*

At the balance sheet date, as in the previous year, there are no finance lease payables.

Section 2 DUE TO CUSTOMERS – ITEM 20

2.1 Due to customers: breakdown by type

(thousands of Euro)		31.12.2017	31.12.2016
1.	Current accounts and demand deposits	5,410,914	5,019,249
2.	Fixed-term deposits	229,127	164,463
3.	Loans	172,757	174,002
	3.1 Reverse repurchase agreements	172,757	174,002
	3.2 Other	-	-
4.	Liabilities for commitments to repurchase own equity instruments	-	-
5.	Other payables	584,073	644,072
	Total	**6,396,871**	**6,001,786**
	Fair value - Level 1		
	Fair value - Level 2	**5,920,529**	**5,462,467**
	Fair value - Level 3		
	Total fair value	**5,920,529**	**5,462,467**

2.2 Detail of item 20 "Due to customers": subordinated debt

At the balance sheet date, as in the previous year, there is no subordinated debt due to customers.

2.3 Detail of item 20 "Due to customers": structured debt

At the balance sheet date, as in the previous year, there is no structured debt due to customers.

2.4 Due to customers subject to micro-hedging

At the balance sheet date, as in the previous year, there are no amounts due to customers subject to micro-hedging.

2.5 Finance lease payables

At the balance sheet date, as in the previous year, there are no debts payable to customers associated with financial lease transactions.

Section 3 DEBT SECURITIES ISSUED – ITEM 30

3.1 Debt securities issued: breakdown by type

(thousands of Euro)	31.12.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	934,928	-	928,155	-	1,055,493	-	1,049,047	-
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	934,928	-	928,155	-	1,055,493	-	1,049,047	-
2. Other securities	9,909	-	-	9,909	43,547	-	-	43,324
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Other	9,909	-	-	9,909	43,547	-	-	43,324
Total	**944,837**	**-**	**928,155**	**9,909**	**1,099,040**	**-**	**1,049,047**	**43,324**

3.2 Detail of item 30 "Debt securities issued": subordinated securities

The list of subordinated securities to be recorded for supervisory purposes, is available in Part F – Information on capital. The amount of the subordinated securities included under the item "Debt securities issued" amounted to Euro 106 million.

3.3 Debt securities issued subject to micro-hedging

At the balance sheet date, as in the previous year, no debt securities issued were subject to micro-hedging.

Section 4 FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 40

4.1 Financial liabilities held for trading: breakdown by type

(thousands of Euro)	31.12.2017					31.12.2016				
	NV	FV			FV (*)	NV	FV			FV (**)
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	-	531	1,544	-	-	-	294	1,976	-	-
1.1 Held for trading	X	531	1,531	-	X	X	294	1,958	-	X
1.2 Related to the fair value option	X	-	13	-	X	X	-	18	-	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**	**531**	**1,544**	**-**	**X**	**X**	**294**	**1,976**	**-**	**X**
Total (A+B)	**X**	**531**	**1,544**	**-**	**X**	**X**	**294**	**1,976**	**-**	**X**

(*) Fair value calculated excluding value adjustments due to change in issuer credit rating compared to the date of issue.

Key:
FV fair value
FV* fair value calculated excluding value adjustments due to change in issuer credit rating compared to the date of issue
NV face value or notional value
L1 Level 1
L2 Level 2
L3 Level 3

4.2 Detail of item 40 "Financial liabilities held for trading": subordinated liabilities

At the balance sheet date, as in the previous financial year, there are no subordinated financial liabilities held for trading.

4.3 Detail of item 40 "Financial liabilities held for trading": structured debt

At the balance sheet date, as in the previous financial year, there are no financial liabilities relative to structured debt held for trading.

Section 5 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 50

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

(thousands of Euro)	31.12.2017					31.12.2016				
	NV	FV			FV (*)	NV	FV			FV (*)
		L1	L2	L3			L1	L2	L3	
1. Due to banks	1,000	-	1,049	-	1,049	1,000	-	1,096	-	1,096
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	1,000	-	1,049	-	X	1,000	-	1,096	-	X
2. Due to customers	-	-	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
3. Debt securities	8,680	-	8,689	-	8,755	8,680	-	8,625	-	8,631
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	8,680	-	8,689	-	X	8,680	-	8,625	-	X
Total	**9,680**	**-**	**9,738**	**-**	**9,804**	**9,680**	**-**	**9,721**	**-**	**9,727**

Key:
FV fair value
FV* fair value calculated excluding value adjustments due to change in issuer credit rating compared to the date of issue
NV face value or notional value
L1 Level 1
L2 Level 2
L3 Level 3

Financial liabilities designated at fair value through profit or loss refer to the plain vanilla, flat-rate bond issues or bond issues indexed to inflation rates, or to interest rate structures, placed with customers and on the Euromarket and hedged via derivative instruments.
The use of the fair value option responds to the need to eliminate or significantly reduce the accounting mismatch that would occur if the bond issues were valued at amortised cost and the derivatives linked to fair value, as an alternative to the hedge accounting method.

5.2 Detail of item 50 "Financial liabilities designated at fair value through profit or loss": subordinated liabilities

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

Section 6 HEDGES – ITEM 60

6.1 Hedges: breakdown by type and hierarchy level

At the balance sheet date, as in the previous financial year, there are no hedges.

6.2 Hedges: breakdown by portfolios hedged and by hedge type

At the balance sheet date, as in the previous financial year, there are no hedges.

Section 7 VALUE ADJUSTMENTS OF MACRO-HEDGED FINANCIAL LIABILITIES – ITEM 70

7.1 Value adjustments of hedged financial liabilities

At the balance sheet date, as in the previous financial year, there are no macro-hedged financial liabilities.

7.2 Financial liabilities macro-hedged against interest rate risk: breakdown

At the balance sheet date, as in the previous financial year, there are no macro-hedged financial liabilities.

Section 8 TAX LIABILITIES – ITEM 80

For the relevant information, please refer to Section 13 of assets.

Section 9 LIABILITIES RELATED TO ASSETS HELD FOR SALE – ITEM 90

At the balance sheet date, as in the previous financial year, there are no financial liabilities related to assets held for sale.

Section 10 OTHER LIABILITIES – ITEM 100

10.1 Other liabilities: breakdown

(thousands of Euro)	31.12.2017	31.12.2016
1. Adjustments of non-liquid items related to securities portfolios	7,356	11,188
2. Unprocessed transactions with branches	66	-
3. Amounts available to third parties (banks, suppliers etc.)	36,368	35,627
4. Amounts available to customers	72,247	76,884
5. Items in progress (credit transfers etc.)	58,020	49,037
6. Other items due to various creditors	4,090	2,869
7. Provisions for risks and charges for guarantees and commitments	1,132	1,176
8. Accruals and deferrals not reported	-	-
9. Withholding tax and taxes due	10,732	10,547
Total	**190,011**	**187,328**

Section 11 EMPLOYEE TERMINATION INDEMNITIES – ITEM 110

11.1 Employee termination indemnities: annual changes

(thousands of Euro)	31.12.2017	31.12.2016
A. Opening balance	**20,524**	**21,260**
B. Increases	**361**	**1,066**
B1. Provisions during the year	361	389
B2. Other increases	-	677
B3. Business combinations	-	-
C. Decreases	**1,133**	**1,802**
C1. Amounts paid	959	1,802
C2. Other decreases	174	-
D. Closing balance	**19,752**	**20,524**

Sub-item C.1. refers to uses of the provision as at 31 December 2017.

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 supplementary pension plans or also to the Treasury fund at INPS (National Social Security Institute). In this case, the portions of the employee termination indemnities maturing from 1 January 2007 constitute a "defined contribution plan" and are recognised among staff expenses in the sub-item "Employee termination indemnities", based on the contributions due without the application of actuarial calculation methods, as the contra-entry to the recognition of the balance sheet item "Other liabilities" or cash outflows.

The actuarial valuation of the employee termination indemnities was performed based on the "accrued benefits" method according to the Projected Unit Credit criteria governed by paragraphs 70-74 and 75-98 of IAS 19; it is based on the following main types of demographic, economic, and financial assumptions:

Main demographic and actuarial assumptions for the valuation of the employee termination indemnities	
Employee survival rate	Survival table RG48 published by State General Accountancy.
Frequencies and amount of employee termination indemnity advances	They were determined based on the distinct historical experience by service seniority. A value of 1.50% was used for the current financial year.
Disability	INPS tables distinguished by age and gender
Turnover frequencies	Determined on the basis of the historical experience for the Company and for similar companies, distinguished by age and gender, equal to 2.00%.
Probability of retirement	100% upon reaching the first retirement requirement (in accordance with the provisions of the Assicurazione Generale Obbligatoria [Compulsory General Insurance Institute] (AGO).
Annual discount rate	In compliance with the provisions of par. 83 of IAS 19, the Iboxx Eurozone Corporate AA index, in line with the duration of the benefits recognised for the Company's employees, equal to 1.30% as at the measurement date.
Annual inflation rate	1.50% for the entire reference timeframe
Annual rate of increase of the employee termination indemnities	2.625% for the entire reference timeframe

Other information	31.12.2017
Annual future service cost	**0.00**
Plan duration	**10.1**

Note that the criteria underlying demographic and actuarial assumptions described above are essentially in line with those used in the past financial year.
Given the content of IAS 19 and lack of specific requirements by regulatory bodies, the identification and selection of the rate concerned is believed to represent one of the many possible evaluations and estimates required by the IFRS within the scope of preparing the financial statements. More specifically, the standard specifies that the discount rate must be calculated with reference to the year-end market yield of securities of leading companies in the country in which the entity operates (high quality corporate bond yields) or alternatively, if there is no market for said securities, with reference to the market yields of government-backed bonds.
For 2017, the annual discount rate used to calculate the current value of the obligation was taken - in compliance with paragraph 83 of IAS 19 - from the Iboxx Corporate AA index with a 10+ year duration, at the valuation date. The yield with a duration that is comparable to the duration of the 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 basket of "high quality corporate bond yield" issuers.
More specifically, the IFRS Interpretations Committee specifies that the meaning of the "high quality corporate bond yield" basket must be evaluated by including bonds issued by companies from other countries provided that they are denominated in the same currency as that in which the benefits will be paid to the employees.

Sensitivity analyses

In compliance with the provisions of IAS 19, the following additional information is provided:

- sensitivity analyses for each significant actuarial hypothesis at year end, showing the potential effects that would result from changes in the actuarial hypotheses considered reasonably possible as at that date, in absolute terms;
- indication of the contribution for the following year;
- indication of the average financial duration of the bond for the defined benefit plans.

Sensitivity analysis of the main data assessment parameters as at 31 December 2016 (values represent the change in the IAS value of the plan)	**Valuation parameters**	**DBO**
(thousands of Euro)		
Turnover rate	+1.00%	**19,651.7**
Turnover rate	-1.00%	**19,863.1**
Inflation rate	+0.25%	**20,031.5**
Inflation rate	-0.25%	**19,477.4**
Discount rate	+0.25%	**19,312.5**
Discount rate	-0.25%	**20,207.3**

Section 12 PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 Provisions for risks and charges: breakdown

(thousands of Euro)	**31.12.2017**	**31.12.2016**
1. Retirement benefits	-	-
2. Other provisions for risks and charges	16,792	17,140
2.1 legal disputes	16,792	17,140
2.2 personnel charges	-	-
2.3 Other	-	-
Total	**16,792**	**17,140**

12.2 Provisions for risks and charges: annual changes

(thousands of Euro)	*Retirement benefits*	*Other provisions*	*Total*
A. Opening balance	**-**	**17,140**	**17,140**
B. Increases	**-**	**3,006**	**3,006**
B1. Provisions during the year	-	2,784	2,784
B2. Changes due to the passing of time	-	-	-
B3. Changes due to discount rate adjustments	-	222	222
B4. Other changes	-	-	-
C. Decreases	**-**	**3,354**	**3,354**
C1. Use during the year	-	3,038	3,038
C2. Changes due to discount rate adjustments	-	-	-
C3. Other changes	-	316	316
D. Closing balance	**-**	**16,792**	**16,792**

12.3 Defined benefit retirement funds

At the balance sheet date, as in the previous financial year, there are no defined benefit retirement funds.

12.4 Other provisions for risks and charges

The item "Other provisions for risks and charges", sub-item "legal disputes", equal to Euro 16.8 million, comprises the provisions for ongoing disputes including the respective expenses.

Section 13 REDEEMABLE SHARES – ITEM 140

13.1 Redeemable shares: breakdown

At the balance sheet date, as in the previous financial year, there are no redeemable shares.

Section 14 PARENT BANK SHAREHOLDERS' EQUITY – ITEMS 130, 150, 160, 170, 180, 190, AND 200

14.1 Share capital and treasury shares: breakdown

(thousands of Euro)	31.12.2017	31.12.2016
- Number of treasury stocks and shares	49,859,929	49,859,929
of which treasury shares in portfolio	1,533,352	-

As at 31 December 2017, Volksbank holds 1,533,352 treasury shares in the portfolio, following the repurchase of the shares that were un-opted during the withdrawal phase.
As at 31 December 2017, share capital is equal to Euro 199,439,716 and comprises 49,859,929 ordinary shares. With the Board of Directors' resolution of 9 April 2016, it was decided to no longer indicate the nominal value of shares. Hence, effective from that date, share capital referable to each share may be determined by dividing the total share capital by the number of outstanding shares.
All ordinary shares outstanding are subscribed and fully paid-up. Shares do not have restrictions or privileges of any kind and each share has equal rights in terms of collection of dividends and redemption of capital. There are no categories of shares other than ordinary shares.

14.2 Share capital - Number of shares: annual changes

(thousands of Euro)		Ordinary	Other
A.	**Shares in issue at the beginning of the year**	**49,859,929**	**-**
	- fully paid-up	49,859,929	-
	- not fully paid-up	-	-
A.1	Treasury shares (-)		-
A.2	**Shares outstanding: opening balance**	**49,859,929**	**-**
B.	**Increases**	**-**	**-**
B.1	New issues	-	-
	against payment:	-	-
	- business combinations	-	-
	- 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**	**1,533,352**	**-**
C.1	Cancellation	-	-
C.2	Purchase of treasury shares	1,533,352	-
C.3	Sale of businesses	-	-
C.4	Other changes	-	-
D.	**Shares outstanding: closing balance**	**48,326,577**	**-**
D.1	Treasury shares (+)	1,533,352	-
D.2	Number of shares at the end of the year	49,859,929	-
	- fully paid-up	49,859,929	-
	- not fully paid-up	-	-

14.3 Share capital: other information

At the balance sheet date, there are no further disclosures to be reported.

14.4 Retained earnings: other information

(thousands of Euro)	31.12.2017	31.12.2016
1. Legal reserve	116,000	115,400
2. Extraordinary reserve	126,611	121,892
3. Reserve to purchase treasury shares	-	-
4. Concentration reserve (Italian Law 218 of 30.07.1990)	8,584	8,584
5. Other reserves	33,171	30,768
Total	**284,366**	**276,644**

Pursuant to art. 2427, paragraph 1, no. 7-bis of the Italian Civil Code, the summary of the shareholders' equity line items is reported according to their origin and indicating the possibility for utilisation and distribution, as well as their utilisation in the three previous accounting years.

	Type/description *(thousands of Euro)*	Amount	Utilisation options	Available portion	Summary of utilisation in the last three years	
					Loss cover	Other uses
180.	**Share capital**	**199,440**	**-**	**-**		
190.	**Treasury shares**	**(18,554)**				
170.	**Share premium reserve**	**383,159**	**A, B, C (1)**	**383,159**		
160.	**Reserves**					
	- retained earnings					
	- Legal reserve	116,000	B (2)	-		
	- Extraordinary reserve	126,611	A, B, C	126,611		
	- Unavailable reserve pursuant to art. 6, Italian Legislative Decree 38/2005	3,028	B, (*)	-		
	- other:					
	a) Retained earnings from previous years	-	A, B, C	-		
	b) Specific reserve Italian Law 218/90	8,584	A, B, C (3)	8,584		
	c) FTA reserves	30,143	A, B, C	30,143		
	d) Merger reserve	-	A, B, C	-		
130.	**Valuation reserves**					
	a) Revaluation reserves	-	A, B, C	-		
	b) IAS revaluation reserves	-	A, B	-		
	c) Negative AFS valuation reserves	(4,558)		-		
	d) Positive AFS valuation reserves	7,351	(*)	-		
	e) Negative actuarial reserve for employee termination indemnities	(2,111)		-		
	Equity instruments	**-**		**-**		
	Retained earnings	**24,277**		**-**		
	Total	**873,370**				

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

At the balance sheet date, as in the previous year, there are no bank capital instruments other than ordinary shares.

14.6 Other information

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

OTHER INFORMATION

1. *Guarantees issued and commitments*

(thousands of Euro)	31.12.2017	31.12.2016
1) Financial guarantees issued	64,614	56,843
a) Banks	15,403	16,244
b) Customers	49,211	40,599
2) Commercial guarantees issued	375,887	388,398
a) Banks	775	1,410
b) Customers	375,112	386,988
3) Irrevocable commitments to disburse funds	409,637	314,134
a) Banks	-	219
i) certain to be used	-	219
ii) not certain to be used	-	-
b) Customers	409,637	313,915
i) certain to be used	59	277
ii) not certain to be used	409,578	313,638
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets lodged to guarantee minority interest	-	-
6) Other commitments	-	-
Total	**850,138**	**759,375**

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)	31.12.2017	31.12.2016
1. Financial assets held for trading	980,838	670,995
2. Financial assets designated at fair value through profit or loss	-	-
3. Financial assets available for sale	-	-
4. Investments held to maturity	-	-
5. Due from banks	-	-
6. Loans to customers	-	-
7. Property and equipment	-	-

Assets lodged to guarantee own liabilities and commitments for reverse repurchase agreements deposits total Euro 138.0 million, whereas the securities used as deposit and guarantees for other transactions are recorded for Euro 842.8 million.
Furthermore, it is noted that at the balance sheet date, there are Euro 444.1 million in shares not presented in the table, as the relevant securities, for transactions of self-issued securitisations, are not recorded in balance sheet assets. The above-mentioned securities are afforded in full to guarantee the transactions with the Central Bank in order to support any liquidity needs.

3. *Disclosure on operating leases*

At the balance sheet date, as in the previous financial year, there are no assets or liabilities under an operating lease.

4. Management and brokerage on behalf of third parties

Type of service *(thousands of Euro)*	**-**
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	**5,900,006**
a) Third party securities held on deposit: related to depositary bank services (excluding assets under management)	1,682,676
1. securities issued by the Bank preparing the financial statements	1,013,531
2. other securities	669,145
b) Third party securities held on deposit (excluding assets under management): other	39,755
1. securities issued by the Bank preparing the financial statements	29,729
2. other securities	10,026
c) Third party securities deposited with third parties	1,703,657
d) Own securities deposited with third parties	2,473,918
4. Other transactions	**-**

5. Financial assets subject to offsetting in financial statements, or subject to offsetting master agreements or similar types of agreements

At the balance sheet date, as in the previous financial year, no financial assets have been subject to offsetting in financial statements or were subject to offsetting master agreements or other similar agreements.

6. Financial liabilities subject to offsetting in financial statements, or subject to offsetting master agreements or similar types of agreements

At the balance sheet date, as in the previous financial year, no financial liabilities have been subject to offsetting in financial statements or were subject to offsetting master agreements or other similar agreements.

7. Securities lending transactions

At the balance sheet date, as in the previous year, there were no securities lending transactions.

8. Disclosure on joint-control activities

At the balance sheet date, as in the previous year, there were no joint control activities.

PART C INFORMATION ON THE INCOME STATEMENT

Section 1 INTEREST – ITEMS 10 AND 20

1.1 *Interest and similar income: breakdown*

Items/Technical forms *(thousands of Euro)*	**Debt securities**	**Loans**	**Other transactions**	**31.12.2017**	**31.12.2016**
1. Financial assets held for trading	952	-	331	1,283	1,189
2. Financial assets available for sale	10,785	-	-	10,785	9,399
3. Investments held to maturity	10,232	-	-	10,232	4,206
4. Due from banks	-	121	-	121	430
5. Loans to customers	4,071	148,654	-	152,725	161,674
6. Financial assets designated at fair value through profit or loss	-	-	-	-	-
7. Hedges	X	X	-	-	-
8. Other assets	X	X	6,110	6,110	32
Total	**26,040**	**148,775**	**6,441**	**181,256**	**176,930**

Interest income on impaired assets totals Euro 8.6 million, compared to Euro 10.5 million as at 31 December 2016.
The amount recorded under Other assets refers to the interest expense on the TLTRO II loan.
Interest income also includes income on securities relating to repurchase agreement deposits.
Interest income on loans to customers also includes Euro 5 million for the effects of amortisation, using the effective interest rate method, of the fair value of loans identified during the Purchase Price Allocation (PPA) process for Banca Popolare di Marostica Group.
The positive margins or 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 on hedging transactions*

During the financial year, as in the previous year, there were no differentials on hedging transactions.

1.3 *Interest and similar income: other information*

1.3.1 *Interest income on financial assets in foreign currency*

(thousands of Euro)	**31.12.2017**	**31.12.2016**
a) on (foreign) currency assets	82	140

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	31.12.2017	31.12.2016
1. Due to central banks	-	X	-	-	(301)
2. Due to banks	(1,998)	X	-	(1,998)	(1,923)
3. Due to customers	(12,732)	X	-	(12,732)	(14,811)
4. Debt securities issued	X	(14,139)	-	(14,139)	(20,678)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities designated at fair value through profit or loss	(50)	(279)	-	(329)	(319)
7. Other liabilities and funds	X	X	(123)	(123)	-
8. Hedges	X	X	-	-	-
Total	**(14,780)**	**(14,418)**	**(123)**	**(29,321)**	**(38,032)**

1.5 Interest and similar expense: differentials relevant to hedging transactions

During the financial year, as in the previous year, there were no differentials on hedging transactions.

1.6 Interest and similar expense: other information

1.6.1 Interest expense on liabilities in currency

(thousands of Euro)	31.12.2017	31.12.2016
a) on liabilities in foreign currency	(1,286)	(1,103)

1.6.2 Interest expense on liabilities for finance lease transactions

During the financial year, as in the previous one, there was no interest expense on finance lease transactions.

Section 2 FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 Fee and commission income: breakdown

Type of service/Amounts (thousands of Euro)	31.12.2017	31.12.2016
a) Guarantees issued	**3,611**	**3,759**
b) Credit derivatives	**-**	**-**
c) Management, brokerage and consulting services:	**29,041**	**25,947**
1. trading of financial instruments	-	-
2. foreign currency trading	758	733
3. portfolio management	-	-
3.1 Individual	-	-
3.2 Collective	-	-
4. custody and administration of securities	362	390
5. depositary bank	-	-
6. placement of securities	15,414	13,296
7. order receipt and transmission activities	943	1,075
8. advisory services	-	180
8.1 on investments	-	-
8.2 on financial structures	-	180
9. distribution of third-party services	11,564	10,273
9.1 portfolio management	-	-
9.1.1 Individual	-	-
9.1.2 Collective	-	-
9.2 insurance products	7,476	6,317
9.3 other products	4,088	3,956
d) Collection and payment services	**8,010**	**7,216**
e) Servicing for securitisations	**-**	**-**
f) Factoring transaction services	**-**	**-**
g) Tax collection services	**-**	**-**
h) Management of multilateral trading systems	**-**	**-**
i) Current account maintenance and management	**41,799**	**40,633**
j) Other services	**15,434**	**13,066**
Total	**97,895**	**90,621**

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

Channels/Amounts (thousands of Euro)	31.12.2017	31.12.2016
a) At own branches:	**26,978**	**23,569**
1. portfolio management	-	-
2. placement of securities	15,414	13,296
3. third party services and products	11,564	10,273
b) Door-to-door sales:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-
c) Other distribution channels:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-

2.3 Fee and commission expense: breakdown

Services/Amounts *(thousands of Euro)*	31.12.2017	31.12.2016
a) Guarantees received	**(282)**	**(216)**
b) Credit derivatives	**-**	**-**
c) Management and brokerage services:	**(2,164)**	**(2,009)**
1. trading of financial instruments	(1,658)	(1,542)
2. foreign currency trading	(156)	(159)
3. portfolio management:	-	-
3.1 own	-	-
3.2 on behalf of third parties	-	-
4. custody and administration of securities	(350)	(308)
5. placement of financial instruments	-	-
6. door-to-door sales of financial instruments, products and services	-	-
d) Collection and payment services	**(560)**	**(618)**
e) Other services	**(6,683)**	**(5,684)**
1. transmission rights for bancomat (ATM card) data, POS	(3,638)	(2,997)
2. transmission rights - Bank network	(778)	(860)
3. other	(2,267)	(1,827)
Total	**(9,689)**	**(8,527)**

Section 3 DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

Items/Income *(thousands of Euro)*	31.12.2017		31.12.2016	
	Dividends	Income from UCITS units	Dividends	Income from UCITS units
A. Financial assets held for trading	-	-	-	-
B. Financial assets available for sale	192	4,284	301	6,153
C. Financial assets designated at fair value through profit or loss	-	-	-	-
D. Investments	-	X	-	X
Total	**192**	**4,284**	**301**	**6,153**

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	**19,025**	**9,257**	**(8,447)**	**(15,936)**	**3,899**
1.1 Debt securities	1	90	(42)	(4)	45
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	19,024	9,167	(8,405)	(15,932)	3,854
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	**592**	**1,695**	**(27)**	**(2,491)**	**(1,617)**
4.1 Financial derivatives:	592	1,695	(27)	(2,491)	(1,617)
- on debt securities and interest rates	592	1,571	(27)	(2,100)	36
- on equity instruments and share indices	-	124	-	(391)	(267)
- on currency and gold	X	X	X	X	(1,386)
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**19,617**	**10,952**	**(8,474)**	**(18,427)**	**2,282**

The sub-item "Financial derivatives - on debt securities and interest rates", refers to margins and differentials on IRSs held for trading, futures, and options on securities and rates.
The column "Net result" includes the profits, losses, capital gains and capital losses from currency transactions and currency and gold derivatives.

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

5.1 Profits (losses) on hedging activities

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

Section 6 PROFITS (LOSSES) ON DISPOSAL/REPURCHASE – ITEM 100

6.1 Profits (losses) on disposal/repurchase: breakdown

Items/Income components *(thousands of Euro)*	31.12.2017 Profit	Loss	Net result	31.12.2016 Profit	Loss	Net result
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Loans to customers	1,078	(3,949)	(2,871)	162	(420)	(258)
3. Financial assets available for sale	20,033	(6,755)	13,278	14,874	(1,240)	13,634
3.1 Debt securities	4,398	(1,476)	2,922	11,737	(958)	10,779
3.2 Equity securities	4,329	-	4,329	995	-	995
3.3 UCITS units	11,306	(5,279)	6,027	2,142	(282)	1,860
3.4 Loans	-	-	-	-	-	-
4. Investments held to maturity	2	-	2	-	-	-
Total assets	**21,113**	**(10,704)**	**10,409**	**15,036**	**(1,660)**	**13,376**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	421	-	421	329	(5)	324
Total liabilities	**421**	**-**	**421**	**329**	**(5)**	**324**

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	**329**	**-**	**(71)**	**-**	**258**
2.1 Debt securities	283	-	(71)	-	212
2.2 Due to banks	46	-	-	-	46
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange differences	**X**	**X**	**X**	**X**	**-**
4. Financial and credit derivatives	**-**	**-**	**(325)**	**-**	**(325)**
Total	**329**	**-**	**(396)**	**-**	**(67)**

The net result of financial liabilities for debt securities refer mainly to the plain vanilla, flat-rate bond issues or bond issues indexed to equity securities, foreign exchange rates, inflation rates, or to interest rate structures, placed with customers and on the Euromarket and hedged via derivative instruments.
During the year, there were no expenses/income attributable to a change in the Bank's creditworthiness.

Section 8 NET LOSSES/RECOVERIES ON IMPAIRMENT – ITEM 130

8.1 Net losses/recoveries on impairment of loans: breakdown

Transactions/Income components *(thousands of Euro)*	Adjustments			Recoveries				2017	2016
	Specific		Portfolio	Specific		Portfolio			
	Derecogni-tions	Other		From interest	Other recoveries	From interest	Other recoveries		
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers	**(5,761)**	**(90,885)**	**(3,372)**	**17,857**	**26,651**	**-**	**3,463**	**(52,047)**	**(89,205)**
Purchased impaired loans	-	-		-	-			-	-
- Loans	-	-	X	-	-	-	X	-	-
- Debt securities	-	-	X	-	-	-	X	-	-
Other loans	(5,761)	(90,885)	(3,372)	17,857	26,651	-	3,463	(52,047)	(89,205)
- Loans	(5,761)	(90,885)	(3,372)	17,857	26,651	-	3,463	(52,047)	(89,205)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(5,761)**	**(90,885)**	**(3,372)**	**17,857**	**26,651**	**-**	**3,463**	**(52,047)**	**(89,205)**

The item "Adjustments – Specific – Derecognitions" mainly refers to unlikely to pay items. The item "Adjustments – Specific – Other" mainly contains value adjustments to doubtful and unlikely to pay loans.
The item "Recoveries – Specific – From interest" mainly refers to write-backs as an effect of the discounting on doubtful positions and unlikely to pay items.

8.2 Net losses/recoveries on impairment of financial assets available for sale: breakdown

Transactions/Income components *(thousands of Euro)*	Adjustments		Recoveries		2017	2016
	Specific		Specific			
	Derecognitions	Other	A	B		
A. Debt securities	-	(5,064)	-	-	(5,064)	(2,260)
B. Equity securities	-	(2,339)	X	X	(2,339)	-
C. UCITS units	-	-	X	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(7,403)**	**-**	**-**	**(7,403)**	**(2,260)**

Key:
A = From interest
B = Other recoveries

For the impairment tests, refer to section 4 "Financial assets available for sale" in the balance sheet assets of these Notes to the Accounts.

8.3 Net losses/recoveries on impairment of investments held to maturity: breakdown

At the balance sheet date, there are no net losses/recoveries on impairment of investments held to maturity.

8.4 Net losses/recoveries on impairment of other financial activities: breakdown

Transactions/Income components *(thousands of Euro)*	Adjustments			Recoveries				2017	2016
	Specific		Portfolio	Specific		Portfolio			
	Derecog-nitions	Other		From interest	Other recoveries	From interest	Other recoveries		
A. Guarantees issued	(97)	(139)	-	-	184	-	-	(52)	(425)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	**(97)**	**(139)**	**-**	**-**	**184**	**-**	**-**	**(52)**	**(425)**

Section 9 ADMINISTRATIVE EXPENSES – ITEM 150

9.1 Personnel expenses: breakdown

Type of cost/Amounts *(thousands of Euro)*	31.12.2017	31.12.2016
1) Employees	(98,477)	(97,899)
a) salaries and wages	(67,909)	(64,748)
b) social security costs	(19,000)	(18,283)
c) employee termination indemnities	-	-
d) pension costs	-	-
e) provisions to employee termination indemnities	(3,130)	(5,741)
f) provisions for retirement benefits and similar commitments:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	(3,893)	(3,771)
- defined contribution plans	(3,893)	(3,771)
- defined benefit plans	-	-
h) costs resulting from share-based payment arrangements	-	-
i) other employee benefits	(4,545)	(5,356)
2) Other working staff	-	-
3) Directors and auditors	(1,294)	(1,191)
4) Laid-off personnel	-	-
5) Cost recovery for employees seconded to other companies	-	-
6) Cost reimbursement for third party staff seconded to the Company	-	-
Total	**(99,771)**	**(99,090)**

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

	31.12.2017	31.12.2016
1. Employees	**1,246**	**1,280**
a) Officers	40	38
b) Line managers	505	521
c) Remaining employees	701	721
2. Other employees	-	-
Total	**1,246**	**1,280**

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

9.3 Defined benefit retirement funds: total costs

In the financial year, as in the previous year, there are no company defined benefit retirement funds.

9.4 Other employee benefits

Other employee benefits, whose costs are reported in the previous table 9.1 in point i), mainly include Euro 1.3 million of personnel training expenses. Cafeteria contributions (Euro 1.3 million) and costs for insurance policies stipulated in favour of employees (Euro 0.3 million) are also included.

9.5 Other administrative expenses: breakdown

(thousands of Euro)	31.12.2017	31.12.2016
1. Equipment and software leasing charges	(1,508)	(2,376)
2. Vehicle circulation and travel/accommodation reimbursements	(2,036)	(2,053)
3. Fees for professional services	(7,289)	(7,613)
4. Membership fees	(718)	(872)
5. SEC (consortium data processing centre) management costs	(11,188)	(12,053)
6. Donations	(640)	(775)
7. Property rental	(4,521)	(5,517)
8. Stamp duty and tax on stock exchange contracts	(13,207)	(14,089)
9. Indirect taxes	(1,000)	(986)
10. Insurance premiums	(897)	(892)
11. Transport expenses	(999)	(1,287)
12. Security services	(1,098)	(1,253)
13. Electricity, heating, and condominium fees	(2,044)	(2,292)
14. Office supplies	(1,035)	(1,636)
15. Investigation and commercial information	(2,878)	(2,424)
16. Legal fees for debt collection	(3,546)	(3,367)
17. Property, furniture and plant maintenance	(4,630)	(4,830)
18. Advertising and entertainment	(3,013)	(2,943)
19. Office cleaning	(1,002)	(1,066)
20. Telephone, postal, data transmission and telex	(2,577)	(2,821)
21. Taxes and duties	(2,711)	(2,366)
22. Treasury consortium	(104)	(101)
23. Other expenses	(6,014)	(8,862)
Total	**(74,655)**	**(82,474)**

Section 10 NET PROVISIONS FOR RISKS AND CHARGES – ITEM 160

10.1 Net provisions for risks and charges: breakdown

(thousands of Euro)	31.12.2017	31.12.2016
a) Provision for various civil disputes, revocatory actions and other charges	(3,006)	(3,750)
b) Net provisions for sundry personnel expenses	-	-
c) Release of provisions	316	3,078
Total	**(2,690)**	**(672)**

Section 11 NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT – NET ADJUSTMENTS TO PROPERTY AND EQUIPMENT – ITEM 170

11.1 Net adjustments to/recoveries on property and equipment: breakdown

Asset/Income component *(thousands of Euro)*	**Depreciation (a)**	**Losses on impairment (b)**	**Recoveries (c)**	**Net result (a+b-c)**
A. Property and equipment				
A.1 Owned	(7,043)	-	-	(7,043)
- for business use	(7,043)	-	-	(7,043)
- for investment	-	-	-	-
A.2 Acquired under finance lease	-	-	-	-
- for business use	-	-	-	-
- for investment	-	-	-	-
Total	**(7,043)**	**-**	**-**	**(7,043)**

Section 12 NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS – ITEM 180

12.1 Net adjustments to intangible assets: breakdown

Asset/Income component *(thousands of Euro)*	**Amortisation (a)**	**Losses on impairment (b)**	**Recoveries (c)**	**Net result (a+b-c)**
A. Intangible assets				
A.1 Owned	(1,336)	-	-	(1,336)
- generated internally by the company	-	-	-	-
- Other	(1,336)	-	-	(1,336)
A.2 Acquired under finance lease	-	-	-	-
Total	**(1,336)**	**-**	**-**	**(1,336)**

The results of the audits on the recoverability of goodwill recorded in the financial statements did not determine any value adjustments in 2017.

Please refer to Part A - Accounting Policies for an in-depth analysis of the methods of determining goodwill impairment.

For a description of the methods of performing impairment tests on goodwill, please refer to "Part B – Section 12 – Intangible assets" of these Notes to the Accounts.

Section 13 OTHER OPERATING INCOME (EXPENSES) – ITEM 190

13.1 Other operating expenses: breakdown

(thousands of Euro)	31.12.2017	31.12.2016
1. Cash, material, and operating differences	(81)	(146)
2. Losses on loans from Deposit Protection Funds	-	-
3. Other expenses	(1,810)	(2,875)
Total	**(1,891)**	**(3,021)**

13.2 Other operating income: breakdown

(thousands of Euro)	31.12.2017	31.12.2016
1. Property rental	821	811
2. Recovery of management costs	6,278	7,071
3. Charges to third parties for various recoveries	13,771	14,566
4. Other income	2,021	1,524
Total	**22,891**	**23,972**

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

Section 14 PROFITS (LOSSES) ON INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL – ITEM 210

14.1 Profits (losses) on investments in associates and companies subject to joint control: breakdown

Income component/Amounts *(thousands of Euro)*	31.12.2017	31.12.2016
A. Income	90	2,580
1. Revaluations	-	-
2. Profits on disposal	-	-
3. Recoveries	90	2,580
4. Other income	-	-
B. Charges	(1,158)	(141)
1. Write-downs	-	-
2. Losses on impairment	(1,158)	(141)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	**(1,068)**	**2,439**

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 2017.
Please refer to part A - Accounting Policies for an in-depth analysis of the methods of determining impairment of goodwill.
For a description of the methods of performing impairment tests on goodwill, please refer to "Part B – Section 12 – Intangible assets" of these Notes to the Accounts.

Section 17 PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 240

17.1 Profits (losses) on disposal of investments: breakdown

Income component/Amounts ***(thousands of Euro)***	**31.12.2017**	**31.12.2016**
A. Property	249	2,474
- Profits on disposal	249	2,474
- Losses on disposal	-	-
B. Other assets	57	80
- Profits on disposal	58	80
- Losses on disposal	(1)	-
Net result	**306**	**2,554**

Section 18 TAXES ON INCOME FROM CONTINUING OPERATIONS – ITEM 260

18.1 Taxes on income from continuing operations: breakdown

Income component/Amounts *(thousands of Euro)*		**IRES**	**IRAP**	**31.12.2017**	**31.12.2016**
1.	Current taxes (-)	(944)	(498)	(1,442)	-
2.	Changes in current taxes compared to previous years (+/-)	625	32	657	3,546
3.	Reduction in current taxes for the year (+)	-	-	-	-
4.	Changes in deferred tax assets (+/-)	(7,639)	(553)	(8,192)	6,161
4.bis	Effect of business combinations	-	-	-	-
4.ter	Substitute tax paid for write-off of goodwill	-	-	-	(9,474)
4.quater	Deferred tax assets on goodwill	-	-	-	19,265
5.	Changes in deferred taxes (+/-)	318	33	351	(1,270)
5.bis	Effect of business combinations	-	-	-	-
5.ter	PPA effect - business combinations	-	-	-	-
5.quater	Substitute tax paid for write-off of Client Relationship	-	-	-	(3,417)
5.quinquies	Deferred taxes on Client Relationship	-	-	-	6,952
6.	**Taxes for the year (-)**	**(7,640)**	**(986)**	**(8,626)**	**21,763**

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	**9,049**	**27.50%**
Tax-free losses on investments	-	0.00%
Non-deductible interest expense	-	0.00%
Non-deductible costs	1,695	5.15%
Total tax effect of increases	**1,695**	**5.15%**
Dividends	(50)	-0.15%
Other decreases	(1,794)	-5.45%
Total tax effect of decreases	**(1,844)**	**-5.60%**
IRES tax charged to the income statement	**8,900**	**27.05%**

(thousands of Euro)	**IRAP**	**%**
IRAP tax with application of nominal rate	**1,681**	**5.11%**
Personnel expenses	113	0.34%
Net losses/recoveries on impairment	-	0.00%
Non-deductible interest expense	-	0.00%
Other increases	831	2.53%
Total tax effect of increases	**944**	**2.87%**
Dividends	(5)	-0.02%
Other decreases	(2,894)	-8.80%
Total tax effect of decreases	**(2,899)**	**-8.82%**
IRAP tax charged to the income statement	**(274)**	**-0.84%**

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)	31.12.2017	31.12.2016
a) Debit adjustments	**742,200**	**710,707**
1. Current accounts	169,949	156,283
2. Central portfolio	564,866	546,917
3. Cash on hand	7,310	5,943
4. Other accounts	75	1,564
b) Credit adjustments	**749,556**	**721,895**
1. Current accounts	182,173	166,519
2. Assignment of bills and documents	566,371	554,329
3. Other accounts	1,012	1,047

Section 21 EARNINGS PER SHARE

The methods for calculating basic earnings per share are envisaged in IAS 33 - Earnings Per Share. Basic earnings per share is defined as the ratio between the profit attributable to holders of ordinary equity instruments and the weighted average number of ordinary shares in circulation during the year.
Instead, diluted earnings per share considers the dilutive effects from the conversion of potential ordinary shares, defined as financial instruments that grant the holder the right to obtain ordinary shares. As a result, for the calculation, the numerator and denominator of the ratio is adjusted to account for the effects of additional shares that would be in circulation if the potential ordinary shares with dilutive effects are converted.
The dilutive effect is generated by agreements made during the merger of Banca Popolare di Marostica Group, which envisaged the assignment, free of charge, of a maximum of 797,079 newly-issued shares, in the ratio of 0.117 ordinary Volksbank shares for every Volksbank share assigned in the swap with Banca Popolare di Marostica shareholders. The latter, as a result of the merger, became Volksbank shareholders, and retain uninterrupted ownership of the Volksbank shares assigned in the swap for a period of 36 months from the effective date of the merger.

	31.12.2017	31.12.2016
Base earnings per share	0.49	0.16
Diluted earnings per share	0.49	0.15

Earnings per share (hereafter also "EPS") is a performance measure that provides an indication of the shareholders' profit share for the year and is calculated by dividing the income for the year by the weighted average of outstanding shares.

	31.12.2017	31.12.2016
Weighted average number of ordinary shares	49,259,191	49,500,257
Adjustment for dilutive effects	544,332	588,521
Weighted average number of diluted ordinary shares	49,803,523	50,088,778

21.1 Average number of diluted ordinary shares

At the balance sheet date there are no outstanding transactions having dilutive effects on the number of shares.

21.2 Other information

There is no other significant information other than that already indicated in the previous sections.

PART D COMPREHENSIVE INCOME

Analytical statement of comprehensive income

Items *(thousands of Euro)*		Gross amount	Income taxes	Net amount
10.	**Net income (loss) for the year**	**X**	**X**	**24,277**
	Other comprehensive income without reclassification to profit or loss	**108**	**(30)**	**78**
20.	Property and equipment			
30.	Intangible assets			
40.	Defined benefit plans	108	(30)	78
50.	Non-current assets held for sale			
60.	Portion of valuation reserves of equity-accounted investees			
	Other comprehensive income with reclassification to profit or loss	**9,370**	**(3,223)**	**6,147**
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:	9,370	(3,223)	6,147
	a) changes in fair value	7,674	(2,670)	5,004
	b) reclassification to profit or loss	1,696	(553)	1,143
	- losses on impairment	-	-	-
	- profits/losses on disposal	1,696	(553)	1,143
	c) other changes	-	-	-
110.	Non-current assets held for sale	-	-	-
	a) changes in fair value			
	b) reclassification to profit or loss			
	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**	**9,478**	**(3,253)**	**6,225**
140.	**Comprehensive income (10+130)**	**9,478**	**(3,253)**	**30,502**

PART E INFORMATION ON RISKS AND RELATED HEDGING POLICIES

In accordance with significant changes in regulations and with the complexity of the operating environment, Volksbank places great importance on the management and control of risk, which must protect the creation of value in a context of controlled risk, in line with current and future profitability targets as established by the competent decision-making bodies.

The Board of Directors has established that the main operating focus should be on the progressive fine-tuning of the Risk Appetite Framework and the definition of operating limits and parameters to evaluate compliance, especially with reference to the issue and management of loans.

In this context, the internal audit system of Volksbank provides for the following:

- clear identification of responsibilities in the assumption of risk;
- measurement and control systems in line with current best practices;
- organisational separation between departments in charge of risk management and specific persons in charge of auditing.

INTERNAL AUDIT

In line with supervisory provisions issued by Bank of Italy and with the joint Bank of Italy-Consob regulation in implementation of art. 6, paragraph 2-bis of the Consolidated Law on Finance of 29 October 2007, the Internal Audit Department of Volksbank (hereafter, "Department") assumes the role of Internal Audit Function.

The primary scope of this Department, based on supervisory regulations, is, on one hand, to verify, through third-level controls including on-site audits, the proper performance of operations and developments in risk, and, on the other hand, to assess the comprehensiveness, adequacy, functionality, and reliability of the organisational structure and other components of the internal control system. The Department is also responsible for bringing to the attention of corporate bodies possible improvements, with particular reference to the RAF, to the risk management process and tools for measuring and controlling risks.

The Department operates as part of the integrated business model for assessing the internal control system, according to a risk-based and process-oriented approach, which principally aims to provide integrated risk analyses and organisational and control oversight to the company control functions.

This integration is mainly based on the use of information shared amongst all the relevant structures (first and foremost, the company control functions, but also the operating functions that may be relevant at any given time), as well as the growing interaction amongst company control functions. In addition to providing for specific, reciprocal information flows, it is of particular importance the establishment of the Internal Control Committee in 2014, consisting of the managers of three company control functions, with the scope of facilitating operational coordination and the exchange of information, as well as generating synergies in performing their respective duties.

The Department operates independently and does not report to any of the managers of operating areas, rather, it reports directly to the Board of Directors, through the Risk Committee. These bodies are systematically informed of the results of audits performed, highlighting any issues that emerged from the activities.

The Department has its own budget, which allows it to make use of external consultants. It also has the right of access to all activities of the Bank performed in central offices, branches, and outsourcers.

The appointment and removal of the Manager and Deputy Manager of the Department are solely the responsibility of the Board of Directors, with the opinion of the Board of Statutory Auditors, and cannot be delegated. The Board of Directors also approves the Internal Audit rules.

The Department operates in alignment with the annual/multi-year activity plan prepared by the manager using a risk-based and process-oriented approach, approved by the Board of Directors. In this context, Internal Audit:

- assesses the comprehensiveness, adequacy, functionality, and reliability of other components of the internal control system, the risk management process, and other business processes, also in reference to the ability to identify errors and irregularities. This includes reviewing the Risk Management and Compliance/Anti-Money Laundering business functions;

- evaluates the effectiveness of the RAF definition process, the internal consistency of the overall structure, the compliance of business transactions with the RAF, as well as the compliance of these transactions with the approved strategies of the corporate bodies;
- verifies, including through audits:
  - compliance of the various business functions, including outsourced functions, and the development of risks, both in central offices of the Bank and in branches;
  - monitoring of compliance to regulations on activities at all business levels;
  - observance, in various operating sectors, of limits envisaged in delegation mechanisms, and the full and appropriate use of available information in various activities;
  - effectiveness of powers of the Risk Management Office to provide preventive opinions on the alignment of significant transactions with the RAF;
  - adequacy and proper functioning of valuation processes and methodologies of business activities, and, in particular, of financial instruments;
  - adequacy, overall reliability, and security of the information system (ICT audit);
  - correction of anomalies found in operations and in the functioning of controls (follow-up activities);
- execution of periodic tests on the functioning of operating procedures and internal controls;
- performance of audit duties, including with regard to specific discrepancies;
- periodic controls of the operational continuity plan;
- if, as part of collaboration and exchange of information with external auditors, the Department becomes aware of issues that emerged during the external accounting audit, it takes action to ensure that the competent business functions adopt the necessary oversight to correct the issues.

In order to correctly, effectively, and efficiently perform its duties, the Department:

- has access to all business documentation and information;
- may take advantage of necessary external support in relation to technical or specialised skills, or skills of any other type, based on specific, formalised agreements. Any such agreement does not constitute a delegation of the Department's responsibilities;
- if it did not directly participate, is informed of interactions with authorities and, in particular, with supervisory authorities;
- collaborates with the various organisational levels, the Board of Statutory Auditors, and other individuals charged with control activities (specifically, Risk Management, Compliance/Anti-Money Laundering, etc.).

In carrying out its mission, the Department adheres to the behavioural rules (Code of Ethics) established by the Board of Directors of the Institute of Internal Auditing (hereafter, "IIA"), with which each auditor must comply. These rules are based on four principles, which are briefly described below:

- integrity. Internal auditing activities are performed with the utmost attention, honesty, diligence, and professionalism. Employees in the Department must not knowingly be involved in any illegal activity, nor undertake actions that may discredit the profession or the organisation for which the employee operates;
- objectivity. The assessments expressed take into consideration all the relevant facts and are not influenced by other persons or particular interests. Hence, the individual who expresses the assessment maintains his/her independence of judgement, analysis, and constructive criticism. Employees in the Department must refer to all known, significant facts, whose omission may provide an altered framework to the analysed activities.
- confidentiality. Employees in the Department are required to maintain the confidentiality of all information that is obtained as part of their work and, thus, are required not to disclose this information unless authorised to do so, unless for legal or ethical reasons. Information obtained must not be used for personal advantage or in ways that are in contrast with the law or the ethical and legitimate objectives of the organisation;
- expertise. Employees in the Department must only perform those duties for which they have the necessary knowledge, skill, and experience. Furthermore, employees must continually improve their professional abilities as well as the effectiveness and quality of their services. Note that the resources in the Department follow a skills development and training programme by participating in courses and meetings on specific issues/regulations and through a continuous self-education process to update their professional abilities.

The Department has an Internal Audit Charter that includes the primary elements of professional standards and details the purpose, authority, independence, objectivity, responsibility, services and activities, as well as types and methods for performing audits, the internal control system, risk assessment, and the code of ethics.
In addition to the Charter, the Department uses an Internal Audit Manual, which describes the main methods for carrying out internal audits, such as the methodological approach for an audit, standard work schemes for the process audit, and standard work schemes with checkpoints for auditing the retail network.

REGULATORY COMPLIANCE OFFICE

The mission of the Compliance Office is to identify, mitigate, and monitor compliance risk. This is the risk of non-compliance with laws, regulations, or internal and external governance codes and any rules that protect the reputation of the Company and the quality of the services provided to customers.
The Compliance Office operates independently and autonomously within the unit, answering functionally in relation to its activities to just the Board of Directors, the natural beneficiary of the evaluations made in-house. The current mandate of the compliance office was approved by the Board of Directors in its meeting of 22 September 2017.
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 activations of mitigation measures to eliminate or, in any case, contain the risks to the utmost possible extent;
- on-going identification of the standards applicable to Banca Popolare dell'Alto Adige and measurement and assessment of their impact on business processes and procedures: if necessary, the competent organisational units are alerted, for the necessary adaptations;
- consulting, support and training in matters concerning compliance, which is provided to both top management bodies and the functional organisational units;
- periodic assessment and verification of the overall compliance status;
- submitting reports to top management and company bodies;
- management of relations with the banking and financial supervisory authorities and with the public institutions that control the management of given economic sectors.

The Compliance Office interacts on a daily basis with the business bodies and structures and therefore formalises its activities, typically through:

- annual planning of ordinary activities;
- audit reports, those that are ordinary as part of the annual plan, as well as extraordinary, if necessary;
- consulting reports;
- impact analyses for new regulations;
- training activities on the regulations governing the corporate organisational functions;
- interim periodic reports to the Board of Directors;
- annual final report, of which the most recent relating to 2017 was approved on 23 March 2018 by the Board of Directors.

The Compliance Office takes action within the sphere of the "Internal control system - Coordination, integration, information flows between the control functions" which Banca Popolare dell'Alto Adige's Board of Directors approved on 1 August 2014. Its activities are coordinated by the Internal Audit Committee, made up of the managers of the Bank's second- and third-level control functions, for the purpose of maintaining synergy and greater interaction between said functions, in order to reach the tangible objective, also desired by supervisory authorities, of increasing, based on the rules, the level of risk awareness on the part of the bodies responsible for business management.

In 2017, the Compliance Office systematically monitored new laws and regulations, informing the relevant internal departments involved. There were 1,011 laws and regulations identified and classified, of which 584 generating organisational impacts; after activating the appropriate corporate functions, it verified the carried out alignment to the laws; it issued 50 formal regulatory analysis and consulting reports and 46 ex-ante checks on the adequacy of controls to mitigate the risks of non-compliance, and ex-post checks to verify that the operating behaviour is in line with said controls. These activities concerned the following areas:

- Corporate governance, as well as business strategies and policies, including remuneration policies;
- Management of conflicts of interest;
- Related parties (Consob) and associated parties (Bank of Italy);
- Investment services;
- Market abuse;
- Credit and anti-usury process;
- New products and services;
- Transparency and Payment Service Directive (PSD);
- Privacy and data protection;
- Insurance brokerage;
- Outsourcing of cash processing activities;
- Labour law;
- Own taxes and substitute tax;
- Support for the management of the Organisational Model, ex Legislative Decree 231/2001, and of the Code of Ethics;
- Codes of conduct;
- Complaint management;
- Internal control system management.

The Compliance Office plays a key role in protecting the Bank’s image with customers and the local community. Therefore, it also deals with observance of the Code of Ethics which the Board of Directors has adopted since 2005. Efficient and effective compliance control in this area promotes training and helps develop a good reputation. The Compliance Office is an asset for both consumers, for whom it acts as a point of reference with regard to rights and complaints, and for the Company itself, based on the creation of the reputational value said control can generate.

RISK MANAGEMENT

By means of the charter of the Risk Management Office, approved in first draft on 20 December 2012 and revised in September 2017, the Board of Directors formalised the duties and tasks of the Risk Management Office, which had already been established by Volksbank in 2003, acknowledging all the latest national and international regulations concerning the role and obligations of company control functions, to which the Risk Management Office belongs, incorporated in the more general Internal Control System, and which lay down, in particular:

- independence requirements for all the company control functions;
- adequate professional requirements for the office managers and staff, excluding any role or direct involvement in any operational areas subject to their control;
- specific planning and reporting of the audit activity to submit annually to the company bodies.

The mandate therefore establishes that the Risk Management Office is hierarchically and functionally directly dependent on the Board of Directors. The head of the Risk Management Office communicates and answers to the Board of Directors regarding the work carried out and performs the duties conferred on an independent basis.
Within the Internal Control System, the Risk Management Office has the purpose of implementing the risk governance policies of Volksbank, by means of a suitable risk management process.
In 2015, the Risk Committee was established, pursuant to Bank of Italy Circular no. 285/2013, a Board committee in support of the Board of Directors regarding risks and the Internal Control System. It is composed of between three and five non-executive directors and is responsible for:

- identifying and proposing the appointment of company control functions;
- examining the programme of activities beforehand and the annual reports of the functions themselves;
- expressing judgements and formulating opinions to the Board of Directors on compliance of the principles to which the Internal Control System must be aligned and of the requirements which must be respected by the company control functions, bringing any areas of weakness to the attention of the Board and the subsequent corrective actions to be promoted;
- verifying that the company control functions correctly conform to the indications and the guidelines of the body and support the latter in drafting the coordination document;
- defining and approving the strategic guidelines and risk governance policies (RAF), performing the necessary valuation and proposal activities so that the strategic supervision body can define and approve the risk objectives and tolerance threshold;
- supporting the Board of Directors in verifying the correct implementation of the strategies, risk governance policies and the RAF;
- supporting the Board of Directors in defining valuation policies and processes for business activities, including the verification that the price and the conditions of transactions with customers are consistent with the business model and strategies governing risks.

Efforts were once again intensified in 2017, aimed at more effectively disseminating and instilling the contents of Risk Management Policy of Volksbank at all levels of management. The yearly revision of the policy was approved by the Board of Directors on 22 December 2017. This essential document includes an organic and systematic description of the policies for identifying, measuring, managing and controlling risk and the conditions for assuming such risks on an informed basis.
Firstly, the Policy contains the definition, in accordance with the regulations set forth in the afore-mentioned Bank of Italy Circular no. 285/2013, of the Risk Appetite Framework (RAF) that was established to define – in accordance with the maximum risk that can be taken on by the Bank, its business model and the strategic plan – the following fundamental limits:

- risk appetite,
- tolerance thresholds,
- risk limits,
- risk governance policies,
- reference processes needed to define them and start them up.

The goal was to define risks inherent to the individual business activities of the Bank and to describe the changes over time in the risk structure, so that accurate and prompt risk control and management can be ensured. Any adverse changes could therefore be detected in time as a result of systematic monitoring, allowing for corrective actions to be taken for the risk structure. The framework adopted includes four levels of assumption of risks depending on the ability or intention of the Bank to assume risk and also depending on the extent of Company capital available to cover risks, its income capacity and the risk the Company is willing to assume in order to attain its own economic and strategic goals:

- risk covering potential, representing the absolute risk limit that the Bank is able to sustain, even if it compromises its ability to continue as a going concern, but protecting savings and maintaining the stability and efficiency of the financial system, therefore preventing any domino effect on the system. This reflects the Bank’s ability to tackle adverse situations of critical emergency or crisis;
- maximum risk capacity, representing the maximum amount of risk that the Bank is able to sustain without compromising its ability to continue as a going concern. This reflects the Bank’s ability to tackle and endure adverse situations of critical emergency or stress;
- risk appetite, including the level of overall (or aggregate) risk, and broken down by category, that the Bank intends to take on to pursue its strategic objectives. It reflects the risk appetite of the Bank within the scope of the normal running of the business;
- risk tolerance, which represents the maximum deviation permitted by the risk appetite. This constitutes the overall deviation of risk accepted by the Bank with respect to its risk appetite within the scope of the normal running of its business, and is set so as to ensure sufficient margins to the Bank to operate, including in stress conditions, within the limits of the maximum risk that it can take on.

It is established that once a year, the body responsible for strategic supervision, that is, the Board of Directors, with the support of the Risk Management Office, checks the suitability of the RAF, its compliance with the Volksbank business model, and quantifies risk objectives and any tolerance thresholds for each year, in line with strategic objectives, as part of a document entitled Risk Appetite Statement (RAS).

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

Within the scope of the Internal Control System (ICS), the “integrated method”, i.e. common to all company control functions, defines, in a consistent and standardised framework, the objectives, roles, procedures and techniques to adopt in the design and evaluation of controls put in place by the Bank to mitigate risks. This method provides for the involvement and assignment of responsibility to process owners and the adoption of a bottom-up approach to recognise and measure risks. Once again, the objective is to spread the culture of risk, which includes the need for more involvement by the business functions that must be aware of the risks generated in their day-to-day operations and must constantly monitor the risks through adequate controls.

In direct relation to the main document, in 2017 a series of policies and internal rules were developed or refined to provide details on how to manage specific risks. In particular:

- the “Investment Policy” with the “Limits and operational powers for finance and liquidity”, which regulates risk management with respect to the market, exchange rates and interest rates;
- the “Liquidity and Funding Policy”, which is structured so as to define guidelines to manage operational and structural liquidity of the Bank while setting strategies and procedures to manage liquidity risk and monitor the Bank’s net financial position and prepare emergency plans;
- the “Credit Risk Policy”, which comprehensively regulates, in a single document, the entire credit risk management system according to the continuing developments in risk control processes set up in recent years;
- the “Operational Risk Policy”, which comprehensively regulates, in a single document, the operational risk management system in accordance with the progressive development of the risk control, monitoring and

mitigation processes set up in recent years and incorporated into the more generic and integrated Internal Control System (ICS);

- the "ALM Policy" that addresses asset liability management, i.e. the process that manages the assets and liabilities of the financial statements. The ALM is set up as a model that allows measurement - for all the financial operations of the Bank - of the interest rate risk level, given by the structure and the repricing of the interest rates and the expiries of the financial assets and liabilities, and to express the potential for profit or loss resulting from market rate fluctuations.
- the "Strategic Risk Policy", which pursues the aim of achieving strategic and planning decisions which are:
  - coherent with and informed in terms of the level of propensity to risk adopted, avoiding at all costs decisions which may place the income-earning capacity of the Bank and/or its equity endowment at risk;
  - capable of anticipating and/or dynamically governing the risks associated with the sources of "external" riskiness of the reference context;
- the "Reputational Risk Policy", which defines the guidelines for handling reputational risk within Volksbank. This risk, despite being difficult to gauge and envisage, takes on particular importance for the banking sector, whose business is fundamentally based on the maintenance of satisfactory relationships of trust with its customers and public opinion in general;
- the "Business Activity Assessment Policy" which – in relation to each balance sheet asset item – establishes rules and methods aimed at ensuring the reliability of the processes and the assessment methods, also for accounting purposes, of all 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 which trades it while ensuring the strength and the replicability of the assessment methods, taking care to use, where possible, more than one information source, and furthering the verification of the assessment methods, including under stress scenarios;
- the "Model Risk Policy", which, in accordance with instructions from the European Banking Authority, governs the guidelines for assessing and managing the risk of potentially negative consequences from decisions made based on quantitative results from unreliable models or models that are not properly used;
- the "Stress Test Policy", which defines the guidelines, operating methods, and organisation of the stress test system in Volksbank;
- the "Policy for Transactions of Greatest Significance", which defines the criteria for the identification of transactions of greatest significance and the assessment process, including the stage of obtaining an opinion in advance from Risk Management.

All transactions that satisfy the following conditions are identified as transactions of greatest significance:

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

As in previous years, Volksbank calculated "First Pillar" capital requirements to deal with credit, market, and operational risks using the standard approach in 2017.

Concerning ICAAP (Internal Capital Adequacy Assessment Process), an essential element of the "Second Pillar" under the Basel agreement, calculation and analysis methodologies were provided for all types of risk as well as the relevant stress tests, especially for liquidity risk, residual risk, and concentration risk. Furthermore, the process was adapted where necessary to ensure coherence with both the framework and risk objectives laid down by the RAF as well as the Bank's medium-term strategic planning. In this context, the forecast horizon of the audits was extended to the full planning period, that is, 5 years.

Volksbank's ICAAP process envisages, in the course of the same year, two capital adequacy checks:

- the annual audit, based upon the information in the financial statements and year-end reports leading to the yearly report to be sent to the Supervisory Authority;
- the internal six-monthly check on the half-yearly data at the end of June.

The ICAAP process has identified, during the year, the need to supplement the equity endowment of the Bank with Tier2 capital instruments, in the total amount of Euro 105 million. The issuing and placement, for an equal amount, of subordinated bonds, finalised in the 4th quarter of 2017, allows the Bank to pursue the objectives set up with the strategic planning in full compliance with the core principles of the BPAA risk appetite contained in the RAF and with the capital expectations expressed by the Supervisory Authority at the conclusion of the annual SREP (Supervisory Review and Evaluation Process), both of these stricter than the regulatory ones (Basel 3).
During 2017, the Internal Liquidity Adequacy Assessment Process (ILAAP) was carried out and reported for the second time, with reference to the processes of identifying, measuring, managing, and monitoring internal liquidity.
Also in 2017, the new Basel 3 framework was addressed on several occasions and at varying degrees of detail and implementation. With the new framework, regulatory authorities intend to strengthen rules governing the international banking system by introducing a new definition of regulatory capital with stricter requirements in terms of quality and by providing additional measures to reduce the pro-cyclicality of rules (capital buffers) and setting limits on financial leverage while promoting new rules on liquidity management.
Moreover, in 2017 the implementation of improvement proposals continued, following the results of the SREP Mirroring project carried out in 2015, which seeks to align risk controls in Volksbank with the guidelines established by the European Banking Authority within the SREP (Supervisory Review and Evaluation Process). In this context, the following activities were launched:

- integration of the risk management framework (RAF, ICAAP, and reporting) with the business lines defined in the Bank's strategic planning,
- drafting, implementing, and formalising the liquidity adequacy assessment process (ILAAP),
- defining the guidelines for the analysis and management of the model risk,
- strengthening of controls on the debt collection process,
- reinforcing controls on data governance and data quality, as part of oversight on IT risk.
- In addition, in 2017, the Recovery Plan was set up according to the specifications required by the Bank of Italy within the scope of the implementation of the Bank Recovery and Resolution Directive (BRRD) approved by the European Parliament and Council in June 2014. The Recovery Plan aims at regulating the definition, monitoring, management and outgoing communication activities of situations that are particularly critical and that could lead to the intervention by the Authorities, in order to rebalance the equity and financial position of the Bank. The document is broken down into the following essential elements: management (processing and approval of the plan, escalation procedures and decision-making process, compliance with the RAF)
- strategic analysis, in compliance with the business model (recovery plan indicators, recovery options, stress scenarios)
- communication plan (communication internal to the institution and external with the stakeholders, with the competent authorities and with the general public)
- preparatory activities (activities to be undertaken to overcome obstacles to the implementation of the recovery options in order to facilitate the implementation of the recovery plan and to increase its efficacy).

BANK RISKS

CREDIT RISK

Credit risk is the total or partial risk of insolvency of a key counterparty and constitutes Volksbank's main risk factor, in accordance with its own retail nature as a bank geared towards retail customers and small to medium enterprises.
Therefore, credit risk management in 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 2017 was based entirely on the Credit Risk Policy, which was initially approved at the end of 2011 and subject to annual review in December 2016. This document defines in full the guidelines for managing all forms of credit risk as defined in the more general risk policy (risk related to insolvency, change in degree of solvency, exchange rate exposure, loan portfolio concentration, and residual risk). More specifically, the document governs:

- the definition of the economic risk appetite relating to the credit risk of the customers;
- the scope of application, with explicit mention of the Bank's values as a credit institution, which are applied in their annual credit strategy and management policies;
- the organisation model, specifying responsibilities, roles and minimum activities assigned to each department involved;
- the description of the management and credit risk control process, which is divided into five fundamental steps, i.e., granting credit, position control and monitoring, risk measurement and quantification, stress testing, management of impaired loans;
- for each step, the essential activities are described, both in terms of execution as well as in monitoring and control, while making reference to internal documentation for details as appropriate;
- the procedures for mitigating risk, i.e., the process for receiving and managing guarantees, with the related implications as regards capital requirements;
- the system for monitoring positions, which is based on five pillars: regular monitoring through periodic review, monitoring trends using the internal rating system, behavioural monitoring of the individual exposures by the Risk Management Office as part of second-level controls, the supervisory mechanism and alert for positions at risk (early warning, CM), and monitoring of risk mitigation tools;
- the model for determining the likelihood of official default in the loan portfolio and quantifying expected and unexpected loss;
- the effects of credit risk on equity and the Bank's financial statements and therefore: determination of capital requirements for credit risk (Pillar I); regulatory and internal limits for risk concentration (Pillar II); and criteria adopted for losses on impaired loans.

From an operational point of view, the credit monitoring process is continually guaranteed by an automatic classification system for anomalous positions (CM, Credit Management). It uses an early warning system to give timely notice of any potentially deteriorating situations, starting from the performance rating and other indicators calculated and input on a daily basis. In addition, the system streamlines the internal process for classification and management of problem customers, in turn governed by specific regulations containing details on the control that needs to be undertaken, the procedure for classification of irregular positions and operational instructions for their administration and management.
In addition to the usual risk classes for impaired loans established by the supervisory authority (doubtful, unlikely to pay, past-due exposures, exposures subject to concession [forborne exposures], the system also provides two classifications for performing customers, graded based on the presence of anomaly indicators which, despite not calling for the classification under the impaired loan category, nonetheless require more careful management of the risk profile.

Specifically, a monitoring and management system exists for "pre-past due" positions, i.e. positions which have been overdue for more than 30 days, in order to prevent them turning into true "past-due" loans.
In order to improve the quality of credit and minimise risk, the following measures were introduced in 2017 as part of the processes of granting, monitoring, and periodic review involved in lending:
- creation of a department dedicated to the management of impaired positions (Workout Credit Department) separate from the Performing Loan department, dedicated to the valuation of new disbursements and the monitoring of performing positions;
- review of the policy for credit assessment with the adoption of stricter criteria for measuring impaired positions;
- alignment of overdue payment management to stricter approaches pursuant to the new IFRS 9 standards;
- strengthening of the use of direct guarantees issued by MedioCredito Centrale or as a counter-guarantee, to the underwriting syndicate;
- introduction of a control over negative events, carried out on bookkeeping data and using an external provider;
- additional extension and strengthening of the Level 2 controls by the Risk Management Office, in particular as regards the positions of impaired receivables.

In 2017, activities were undertaken for the definition of organisational and management methods and processes in preparation for the introduction, in January 2018, of the new accounting IFRS 9 standard, which will replace IAS 39 and governs the classification, measurement and impairment of the financial instruments including loans to customers.
Adoption of the Credit Risk Mitigation methods to calculate the Bank's capital requirement for credit risk 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 2017, the entire portfolio of mortgage guarantees was subject to the process of periodic revaluation, with the help of the services offered by Nomisma.
In order to guarantee the correct classification and assessment of credit exposures, the performance monitoring of individual positions by the Risk Management Office was extended and reinforced in 2017. In this context, the Risk Management Office:
- verifies that the performance monitoring of exposures, both performing and impaired, is performed methodically and systematically, in compliance with the internal organisational processes;
- checks that this monitoring is carried out using methodologies and procedures that make it possible to:
    - identify and promptly report any anomalies;
    - ensure the adequacy of adjustments and write-offs.
- assesses, with reference to credit management:
- the consistency of the classifications, i.e. the compliance of the distribution into credit classes with the provisions of internal regulations;
- the adequacy of allocations, i.e. that the coverage of impaired loans is sufficient;
- verifies the adequacy of the debt collection process and in particular:
    - the correct placement of impaired loans;
    - the reliability of the estimated collection times and the levels of non-collectability of impaired loans;
    - the treatment of guarantees, including the updating of appraisals.

Control by the Risk Management Office entails:
- sample checks, based on predefined approaches, applicable to all loan categories;
- regular controls, through the adoption of synthetic distance indicators applied to all existing exposures, at all phases of the life of the loan.

During the year, the capital requirement level was constantly monitored as part of the ICAAP process and there were no significant changes in the average level of weighting of the exposures in the individual regulatory portfolios.

The quarterly credit risk report drafted for the Board of Directors represents the tool for reporting on the trend in lending activities and related risks, and compliance with risk objectives (outlined in the RAF) and guidelines defined in the medium/long-term strategic plan. Amongst other things, it contains the risk index assessments (insolvency probability and estimated losses), the calculation methods adopted and scenario analyses to verify loan portfolio behaviour should unexpected events occur. Also in 2016, the structure and quality of information was partially revised to make it more accessible and meet the needs of management.
A condensed report is also drawn up on a monthly basis, containing the essential information on the composition and overall degree of risk of the credit portfolio.
The control of credit risk was also dealt with on a monthly basis by the Internal Credit Committee, which, among other things, also makes an in-depth detailed analysis of the aforesaid monthly and quarterly reports and the situation regarding the main impaired positions.

MARKET RISK

Market risk is defined as the risk of loss on owned financial instruments from possible fluctuations in financial market variables (rates, volatility, exchange rates, share prices), considering that each individual financial instrument may be exposed to one or more of these risks. Therefore, Volksbank measures market risk as changes in value of balances due to market fluctuations.
Volksbank adopts a system for measuring and managing market risk based on the Value-at-Risk (VaR) method, which supports a system of risk limits and maximum losses sustainable (risk capital) over various timeframes. The VaR method calculates the maximum potential loss of a portfolio during a certain timeframe and with a certain probability, under normal market conditions. VaR is a single measurement system applicable to all financial instruments, thus allowing a comparison of risk figures calculated in terms of both time and daily profitability. For the VaR calculation, the Bank uses the parametric model of variance-covariance provided by the company Prometeia, supported by hybrid, internal models used for the necessary audits.
In addition to analysing VaR and maximum sustainable losses, market risk management is based on the control of counterparty risk, country risk, sensitivity of the portfolio to market rate risk (basis point value) and credit risk (credit risk sensitivity), using specific limit systems.
To avoid and prevent exceeding authorised risk limits, a standardised daily reporting system monitors and verifies how near positions are to reaching thresholds.
Checking and managing market risk is discussed by the Internal Finance Committee on a weekly basis and by the Finance Committee on a monthly basis. At these meetings a specific monthly report is submitted by the Risk Management Office.
The Risk Management Office also has the role of validating and checking the pricing system for financial instruments in order to maintain a reliable price profile that is consistent with fair value pricing.

COUNTERPARTY RISK

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 series of valuation criteria for creditworthiness of counterparties, in accordance with their type (corporate or financial).
The general rules whereby all financial transactions must be carried out exclusively by trusted counterparties also apply.
Each counterparty's limit is decided on by the Board of Directors, and may be used by the Treasury and Investment services based on specific percentages of the limit, attributed to standard categories of financial instruments.

INTEREST RATE RISK

With regard to the banking book, which corresponds to the Bank's total commercial transactions in relation to the conversion of maturities for all assets and liabilities, treasury and hedging derivatives, changes in market rate structure can have a negative effect on the interest margin and on equity, thereby constituting a source of risk (interest rate risk).
The management and investment strategies for this banking book are in line with optimisation of the risk-yield ratio and are implemented according to expected interest rate performance. The Bank's investment policy is therefore focused on optimising interest rate margins and minimising their volatility (Asset & Liability Management).
The guidelines and procedures for managing the interest rate risk of the banking book are established by the ALM Policy, along with the related limits and operational powers for financial management and liquidity. Two indicators have been identified in the policy: the interest margin sensitivity and the sensitivity of the current asset value to unfavourable variations in the interest rate curve.
Interest rate risk is managed with the support of monthly reports from the ERMAS IT procedure by Prometeia. This model has been progressively streamlined to process all assets and liabilities in the banking book in a realistic and reliable manner.
In 2017, the banking book's risk profile was also kept within the limits set by the risk assessment with respect to interest margin sensitivity and asset value sensitivity.
Review and control of interest rate risk is discussed by the Internal Finance Committee on a weekly basis and by the Finance Committee on a monthly basis, for which a specific monthly report is submitted by the Risk Management Office (ALM report). The report includes a "fixing" analysis, which allows the amounts of the most significant financial statement items subject to rate changes to be shown on a day-by-day basis, and also to be separated out by indexation parameters. This also allows the natural hedging of the banking book to be effectively monitored, in terms of both timing and amounts, between the asset and the liability items.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank might not be able to meet its own payment commitments at the due date and/or fund increases in its assets. It is mainly in the form of:
- inability to obtain funds on the market (funding liquidity risk);
- inability to obtain funds by selling assets on the market (asset liquidity risk).

The importance of liquidity risk, exacerbated by the current and continuing crisis in financial markets, inter-bank relations, and by sovereign debt, especially in the Euro area and in Italy, formed an element of constant attention also in 2017.
In particular, in compliance with disclosure requirements, stated in the SREP guidelines from the European Banking Authority, the Internal Liquidity Adequacy Assessment Process (ILAAP) was carried out again, and its results, as at 31 December 2016, were sent to Supervisory Authorities in April as part of a specific report prepared along with the ICAAP report.

Liquidity is managed in accordance with the instructions and operational guidelines contained in the liquidity and funding policy, which is continuously updated. An essential element is the distinction between short-term operational liquidity (under 12 months) and medium/long-term structural liquidity (over 12 months). The former is to deal with unexpected critical situations due to specific shocks in the Bank or market; the latter meets the need to ensure optimal management from a strategic standpoint, transformation of maturities between funding and loans, by balancing asset and liability maturities in order to prevent any future crises in liquidity.
Measurement and control of operational liquidity and structural liquidity were defined by means of a system of indicators, limits, and reports, including daily. Moreover, the organisational structure is clearly defined for liquidity risk management and its oversight as well as emergency plans for times of crisis or so-called Contingency Funding Plan (CFP).
Liquidity risk is measured using the Liquidity at Risk method (LaR), which assesses liquidity needs at different confidence levels over specific timeframes. Interest liquidity flows in the LaR analysis are daily imbalances not caused by Bank decisions, or flows not "dependent" on the intent of the Bank and so resulting from customer activity. This approach is used to check the level of reserves and to determine, including for ICAAP purposes, any internal capital needs to handle liquidity risk.
Specific committees constantly monitor the liquidity situation on a weekly and monthly basis. The Contingency Funding Plan also provides a system of alerts monitored by the Liquidity Monitor and based on the measurement of pre-alarm indicators, divided according to whether the indicators refer to a systemic crisis or a specific crisis.
The indicators are fully weighted in order to determine five different operational situations resulting from progressive deterioration of 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 liquidity synoptic framework, which is a daily report providing a concise yet thorough description of the short/medium-term liquidity situation, thereby enabling the Bank to quickly identify critical situations and control indicators.
Starting from 2015, the calculation and launch of the monthly reports to the supervisory authority for the liquidity indicators envisaged by Basel 3 regulations, was finally applied. This involves a short-term indicator, known as LCR, Liquidity Coverage Ratio, and a long-term one, known as NSFR, Net Stable Funding Ratio.
Excessive financial leverage is the risk of a particularly high level of debt with respect to equity resources rendering the Bank vulnerable, in which case it would be necessary to adopt corrective actions in relation to the business plan, including the sale of assets with the recognition of losses that may also involve adjustments to the remaining assets. For this purpose, once a year, the Board of Directors defines the Bank's risk propensity in terms of financial leverage as part of the RAF, establishing a minimum leverage ratio level (ratio between Tier 1 and total assets, as per the Basel 3 definition).
In 2017, the Bank did not experience any short-term or long-term situations in liquidity that would cause concern, even though, as resulting from an analysis of systematic indicators, it operated within a context of low confidence demonstrated by the operators, especially in consideration of the country risk associated with several countries in the Eurozone, including Italy.
The policy of the Bank favoured maintaining substantial funds in liquidity reserves so that they would always be sufficient to deal with any stress conditions; all available instruments were used for that purpose including the most recent provisions by the European Central Bank and the Italian government. The portfolio of securities owned by the Bank is set up to ensure an ample reserve over time for managing liquidity, establishing appropriate investment rules in terms of duration, sector, issuer risk, eligibility, etc.
In 2016, the ABACO refinancing channel was used extensively, a tool through which it is possible to collateralise with the ECB certain loans that satisfy specific conditions.

OPERATIONAL RISKS

Unlike credit and market risks, which the Bank inevitably assumes while being remunerated for such risk, operational risk may generate losses without any compensation being received by the Bank. Operational risks are naturally intrinsic to processes, the characteristics of products and services provided, and the likelihood of being exposed to fraudulent or accidental events.
For these reasons the Bank studies causes that may result in operating losses and systematically detects and measures the events to limit and reduce the risks in question.
In line with Basel Committee definitions, Volksbank defines operational risk as "the risk of loss resulting from errors or inadequacies in internal processes, human resources and systems or from external events". This category includes legal risks, but not strategic, reputational and systemic risks.
Therefore, the definition of operational risk includes opportunity risks (deal fall-through), damage to image and risks involving the entire banking system.
Since 2003, Volksbank has used a system for identifying 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 operating losses), ABI is attempting to inform banks on how to implement these procedures and create a national databank that would allow banks to obtain more extensive and meaningful statistical data.
The process of collecting data on operating losses is based on an internal reporting process that identifies and alerts a central collection point located in the Risk Management Office, of all recorded events deriving from legal actions, complaints by the customers, litigations with personnel, etc. The systematic collection and analysis of this information during the year has provided valuable input and suggestions for the valuation and optimisation of the processes and activities of the bank.
The valuation of operational risks is also incorporated in the assessments of company control functions with the introduction of new products, services or other sales initiatives and with the introduction of new operating processes.
The management of operational risks is the responsibility of the Risk Management Office and is also taken into consideration within the scope of the Internal Control System and the Internal Control Committee, which meets on a monthly basis to coordinate all company control functions (Internal Audit, Compliance and Risk Management), sharing the intervention limits and the results of audits, directing corrective actions to operating structures, as well as developing and spreading the risk and control culture within the operating structures.
A report on the Bank's operational risk situation is drafted on a quarterly basis by the Risk Management Office, discussed in the Internal Control Committee, and presented to the Board of Directors.
Starting from 2012, the capital requirements necessary to deal with operational risks were calculated in accordance with standardised Basel 2 methods which require the execution of initiatives to improve the general level of monitoring of operational risks. These include:

- implementation of an overall self-evaluation process on the operational risk management system, aimed at evaluating the general quality of the system in accordance with the organisational structure of the Bank, evaluating the exposure to operational risks on a comprehensive level, evaluating the compliance of the system with prevailing law, and evaluating the effectiveness of the system in relation to the objectives and programmes of the Strategic Plan in effect and developments in reference markets;
- implementation of rules to ensure the correct allocation of operating losses among the different business lines of the Bank;
- annual review of the operational risk management system by the Internal Audit Department.

In the final quarter of 2015, "conduct risk" was also integrated in the operational risk management system, as defined in the SREP guidelines of the European Central Bank. This is the risk of incurring losses owing to inadequate supply of financial services, including cases of fraud or negligence and derives from unethical behaviour on the part of bank's officers and employees, also in violation of correctly defined controls and processes, the expression of an unethical business culture. In particular, this risk encapsulates:
- the fraudulent sale of products in retail and wholesale markets;
- pushed cross-selling of products to private customers, e.g. packaged bank accounts or add-on products which customers don't need;
- conflicts of interest in the execution of transactions;
- manipulation of reference interest rates, exchange rates or of other financial instruments or indexes to increase entities' profits;
- barriers preventing a change from one financial product during its life cycle and/or switch to other providers of financial services.

The risk evaluation is incorporated in the assessments of the company control functions when new products, services or other sales initiatives are introduced.
In 2017, the internal method for the assessment of the so called model risk, for all those banking activities that, for the decision making process and measurement of certain market variables, make use of "models", that is, quantitative methods, systems, and approaches that use theories, techniques, and assumptions of a statistical, mathematical, economic, and financial nature to process input data for quantitative results/estimates.
Increasing attention has been given to the processes of analysing, measuring and managing IT risk, in close collaboration with the SEC service centre in Padua.

CONCENTRATION RISK

Concentration is defined as the risk deriving from credit exposure with regard to counterparties, groups of related counterparties, counterparties in the same economic sector or which exercise the same company activities.
Concentration risk is measured in compliance with the provisions of Bank of Italy Circular no. 285 (Title III – Chapter 1 – Annex B) by the Granularity Adjustment (GA) method.
Specific procedures were defined under the ICAAP process in compliance with applicable regulatory provisions in order to calculate geo-sector concentration risk, i.e., risk deriving from counterparties operating in the same sector or geographical area.
A defined system of limits that controls and steers the guidelines to limit exposure to concentration risk in the Bank's loan portfolio was activated.
The various forms of concentration risk are also monitored in the quarterly credit report, and discussed at the quarterly meetings of the Internal Credit Committee.

OTHER RISKS

The Risk Management Policy identifies and defines the following additional risk classes, which are periodically subject to analysis and assessment:
- strategic risk which covers, with respect to its timing in terms of occurrence, the following sub-types:
- short-term risk (business or commercial risk), or rather the risk of losses following unexpected changes in sales volumes (lower revenues) and/or expected margins (greater costs due to technological innovation, higher taxes, and changes in the legislative context, etc.);
- strategic risk in the strict sense or positioning risk, or rather the risk of losses, current or forecast, or decreases in profits or capital deriving from changes in the operating context or from erroneous business decisions, inadequate implementation of decisions, or slow reactions to changes in the competitive scenario;
- risks deriving from securitisation transactions;

- investment risk, or risk that the book value of an investment may suffer a decrease due to the drop in the stock price, for listed companies, or equity default of the investee company which makes it necessary/advisable to review the book value, for unlisted companies;
- reputational risk, or rather the risk - current or forecast - of a decrease in the profits or the capital deriving from a negative perception of the Bank's image by stakeholders or any party with which the Bank enters into dealings.

ANTI-MONEY LAUNDERING OFFICE

Money laundering and terrorist financing are activities that, also due to their international nature, pose a serious threat to the economy and can have destabilising effects, especially on the banking and financial system.
The wide-ranging legal basis on which the entire system involved in the international and internal fight against money-laundering and terrorism are aimed at protecting the system from the risk of being used, also inadvertently, to perform unlawful acts. They call on operators to "collaborate actively", i.e. by reporting any transactions that raise suspicions regarding the unlawful origin of the funds being transferred. In order to make anti-money laundering laws fully effective, it was necessary to undertake a significant process to standardise international laws to prevent movement of money from criminal activity in an increasingly open and competitive market, taking advantage of gaps in protection networks put in place by various countries.
Moreover, there are geographical areas and territories where regulations are not in line with international best practices and where more severe anti-money laundering inspections should be applied due to their higher risk. The regulation, including both primary laws and secondary rules is vast and is constantly extended by the various supervisory authorities in charge. Basically, the obligation system that must be adhered to by the intermediaries, and which Volksbank constantly implements, is focused on the following three basic principles:

- adequate verification of new customers or persons with whom transactions are made (customer due diligence);
- registration of relations and transactions and conservation of the related supporting documentation;
- notifying authorities of any suspicious transactions.

The most recent national legislation and regulations on this matter regarded the following:

- Communication from the Ministry of Foreign Affairs and International Cooperation of 16 January 2017 concerning the entry into effect of the Agreement between the Italian Government and the Socialist Republic of Vietnam for a cooperation in the fight against crimes, executed in Rome on 9 July 2014;
- Law no. 12, dated 25 January 2017, with the ratification and execution of the Memorandum of Understanding on the fight against crimes between the Italian Government and the Qatar Government, executed in Rome on 16 April 2012;
- Provision set forth by the Italian Inland Revenue Agency of 3 February 2017 with the approval of the technical specifications for the electronic transmission of data related to the model used for requesting access to the voluntary collaboration procedure;
- Joint opinion of the European Supervisory Authorities (ESAs) of 20 February 2017 on the risks of money laundering and terrorist financing affecting the European Union's financial sector;
- Communication from the Ministry of Foreign Affairs and International Cooperation of 4 March 2017 concerning the entry into effect of the Agreement between the Italian Government and the Principality of Monaco for an exchange of information on taxation;
- Guidelines for trading activities with Iran issued by the Ministry of the Economy and Finance, Committee for Financial Security, 8 March 2017;
- Directive (EU) 2017/541 of the European Parliament and of the Council of 15 March 2017 on combating terrorism;
- Official translation of joint guidelines on risk-based supervision issued by the European Supervisory Authority (ESA) on 7 April 2017;
- Legislative Decree no. 90 of 25 May 2017 implementing Directive (EU) 2015/849 on the prevention of use of the financial system for the purpose of money laundering or terrorist financing, with amendments to Directive 2005/60/EC and Directive 2006/70/EC and implementation of the Regulations (EU) no. 2015/847 on information accompanying transfers of funds and repealing Regulation (EC) no. 1781/2006;
- Circular issued by the Italian Inland Revenue Agency no. 19/E of 12 June 2017 with the reopening of the terms of the voluntary collaboration procedure and associated regulations;

- Guidelines issued by the European Supervisory Authority (ESAs) on 26 June 2017 concerning articles 17 (simplified customer due diligence measures) and 18 (enhanced customer due diligence measures) of the Directive (EU) 2015/849 as regards the elements that the financial institutions must take into consideration in assessing the money laundering and terrorist financing risks related to individual business relationships and occasional transactions;
- UIF publication of July 2017 from Quaderno dell'antiriciclaggio [Money Laundering Notebook] no. 8 containing the study on money laundering from a criminal and administrative perspective, as well as a definition of money laundering;
- UIF communication of 04 July 2017 with the list of provisions to be considered effective following the entry into force of Legislative Decree 90/2017 implementing Directive (EU) 2015/849;
- Circular from the Ministry of the Economy and Finance, Treasury Department, of 6 July 2017 with operating instructions concerning the sanction proceedings under article 65 of Legislative Decree 231/2007;
- Circular issued by the Italian Inland Revenue Agency no. 21/E of 20 July 2017, with interpretation provisions on taxes – Voluntary Disclosure;
- Communication from MEF-Treasury Department of 4 October 2017 containing answers to the FAQ on the changes in the money laundering provisions introduced by Legislative Decree 90/2017, which has updated Legislative Decree 231/2007;
- UIF Communication of 13 October 2017 on preventing the international financing of terrorism;

In 2017, 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:

- Alignment of the internal regulations and processes with the changes introduced by Directive (EU) 2015/849 (so called Anti-money Laundering IV Directive);
- Follow up of the self-assessment on the adequacy of the anti-money laundering controls, carried out in 2016;
- Activities for the recovery of the questionnaires used for an accurate assessment of each on-going business relationship and introduction of an update process thereof;
- Recovery of the identification of the actual owners when customers are not physical persons;
- Improvement of the process for the updating of master data;
- Evaluation of the accuracy of the enhanced assessments carried out by the network and application of a new cycle of enhanced assessments to subjects exposed to risks;
- Review of the process and of the subjects to which some simplified measures, for accurate assessments, may be applied;
- Assessment and parametrisation activities for the entry of information into the Single Computer Database, including the recognition of on-going business relationships at point c);
- Assessment and optimisation activities regarding the evidence of abnormal operations to be evaluated for the purpose of reporting them as suspect activities;
- Planning and development of a system for channelling requests sent to the anti-money laundering office, as well as reporting to other company control functions;
- Qualitative/quantitative increase in internal and external training activities.

COMPLAINT MANAGEMENT

Volksbank firmly believes that long-lasting growth and development is possible only if the customer is placed at the centre of a mechanism to create value. This focus on the customer, which is based on the Company's Code of Ethics, emerges already during the planning stage for products and services, constantly oriented towards the search for high quality, but especially customer relationship management, so that customers are always provided with the most suitable product or service to meet their needs.

Despite the profound commitment of all employees and considering the great quantity of transactions handled by the Company daily, it is highly unlikely that customer expectations will always be met to the fullest, which means there will be a certain degree of dissatisfaction. On these occasions, collaboration with customers is essential to enable the Company to identify and remove the cause of any poor service and also to improve procedures.

The Company has had for some time a special department to manage complaints and, in compliance with the law, refers to special bodies for the out-of-court settlement of disputes that may arise between the Bank and customers. With a view to constantly improving the services offered to customers, the creation of a department for the management of complaints, whose staff is organisationally and hierarchically independent from the business units responsible for the marketing of products and services, ensures the objectivity of analyses and opinions when assessing complaints.
If the solutions do not satisfy customers, either partly or entirely, they can turn to the out-of-court system to settle their dispute. As they operate differently from ordinary judicial authorities, the dispute is handled more quickly and at a lower cost. On this point, customers can obtain an information kit from the retail network or from the website, which contains, inter alia, the complaints regulation and the Company’s systems for settling disputes.
Moreover, statistics on complaints received by 31 December 2017 were also published. During the year, 412 written complaints were received and processed, including 248 regarding banking services and 164 regarding investment services.
Out of 412 complaints as at 31 December 2017, 241 were settled, 38 were closed pending settlement, while 133 are still under assessment. A complaint is considered to have been settled when the reason behind the complaint made by the customer has been resolved, whereby the Company has provided a complete and exhaustive response within the timeframe provided and the customer has not made any further complaints in the following thirty days, with respect to the same product or service. The complaint is also considered to have been settled in the case where a settlement or an amicable solution to the matter is reached with the customer.
With respect to complaints made in 2017 regarding banking services, the Company repaid customers a total gross amount of Euro 11,372.15. For loss forecasts relating to complaints which have not yet been settled, a total loss of Euro 3,692.50 was envisaged and this amount was allocated to the appropriate provision.
As regards the complaints received in 2017 concerning brokerage in financial instruments, the Company has repaid its customers for a total gross amount of Euro 569.21; no amount was allocated to the related provision.
In 2017, repayments were made for Euro 25,065.62 concerning complaints filed in the previous years.
A detailed investigation of the complaints made in 2017 did not reveal any particular procedural, organisational or behavioural shortfalls.
The number of complaints regarding activities carried out by Banca Popolare dell’Alto Adige were: 154

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 Volksbank explicitly sets forth: it constitutes an internal business control to guarantee propriety in day-to-day business operations, meaning, in the strict sense, compliance with the regulatory provisions and, in a broad sense, ensuring the best operational practices of elevated value drivers. It is a key tool for stakeholders’ valuations, who can approach the Company with more trust, confidence and greater sense of cooperation. The Code of Ethics is an internal Bank regulation, and the Bank fully believes that the integrity, honesty, propriety and good faith of all interested parties are essential conditions for long-lasting success. The Code of Ethics also supplements the Organisational Model of Volksbank, in combating the commission of predicate offences set out in Italian Legislative Decree 231/2001. The rules of conduct that the Code of Ethics sets out stem from the following principles (the “values”) supported and actively experienced by individuals working at the Bank:

- Appreciation: we treat one another with esteem and respect, we conduct ourselves in the proper manner with customers, shareholders, colleagues and persons in charge;
- Trust: as a result of our reliability with customers, shareholders and employees, we lay the foundations for mutual trust;
- Enthusiasm: our work is a source of pleasure; our spirit of initiative and commitment convey our enthusiasm to customers and shareholders, contributing to the Bank’s success;

- Courage: everything we do, we do with courage; our positions our clear and even in difficult situations we stay true to our values and principles;
- Authority: we are aware of our strengths as individuals and employees; we further develop our skills and believe whole-heartedly in the value of our Bank;
- Attention: we are fully aware of and attentive to our surroundings; we pay attention to our customers, shareholders and colleagues, listening to them and respecting each one;
- Excellence: we obtain excellent results due to constant improvements; we are looking for fresh challenges and pursue our objectives with a competitive spirit.

In 2017, compliance of business activities with the Code of Ethics was verified extensively by the Compliance Office and Internal Audit Department and, for certain aspects, by the Supervisory Board pursuant to Italian Legislative Decree 231/2001, which report the results to the Board of Directors.

STATEMENT PURSUANT TO ART. 154-BIS OF THE CONSOLIDATED LAW ON FINANCE (TUF)

Italian Legislative Decree no. 195 of 6 November 2007, transposing EC Directive 2004/109/EC on the harmonisation of transparency requirements ("Transparency Directive"), partially extended the regulations in Italian Law no. 262 of 28 December 2005, which incorporated "Provisions for safeguarding savings and governing financial markets", thereby amending Italian Legislative Decree 58/1998 (Consolidated Law on Finance), to companies issuing securities admitted for trading in regulated markets.

The rules give specific responsibilities to the Manager responsible for the preparation of corporate accounting documents in order to ensure a true and correct view of the issuer's equity, economic and financial position.

For that purpose, the Manager responsible for the preparation of corporate accounting documents 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 responsible for the preparation of corporate accounting documents ensures the internal control system for financial reporting is adequate and effective:

- through a brief analysis, at company level, aimed at ensuring that the Bank is organised in such a way as to reduce the risk of error or improper conduct in financial disclosure and reporting;
- by checking business operations for generating and developing financial reporting, including by using results provided by other audit and control offices; for that purpose, the scope is determined in order to identify the significant processes that need checking.

Volksbank therefore undertook a process aimed at defining a model that is in line with national standards in order to improve the reliability of its financial reporting, which includes processes for gathering, processing and disclosing economic-financial information.

Section 1 CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

The Bank's credit activities offer support in the growth and consolidation of small and medium enterprises and assistance in families' financing needs, with the dual aim of providing economic support in developing local economies in areas covered by the Bank and of becoming a well-known, competent, and reliable contact for customers.

The credit policy that has always been adopted by Volksbank is geared towards meeting the financing needs of private individuals and companies, always with a special focus on the risk-return ratio and the presence of adequate hedging with guarantees, including via mortgages, particularly in relation to medium/long-term exposures.

With regard to private customers, the activity concentrated on mortgages and personal loans, for which the Bank has a complete, wide-ranging product mix, selecting customers based on criteria regarding the reliability and the merit of the specific needs and financial goals.

For small enterprises, on the other hand, demand concentrated mainly on short-term commitments, characterised by a high degree of risk spreading, whilst for medium and large enterprises the Bank increased its medium-term lending, particularly with regard to loans backed by real guarantees.

Pool loans were provided to better distribute major loan risks.

Special focus was targeted on the selection of economic sectors, preferring those considered less risky. In addition, support was provided to companies by means of special finance transactions, such as project financing, managed and monitored in terms of progress and release by means of a specific IT procedure.

In general, the credit portfolio is monitored with a view to a broad diversification of economic segments and geographical areas (provinces of Bolzano, Trento, Belluno, Vicenza, Padua, Treviso, Pordenone and Venice), so as to mitigate the effect of any crisis situation. Strict and timely controls were also applied to significant exposures, taking into account all legal and economic ties between the counterparties in order to keep these within limits that do not jeopardise the Bank's equity and economic position in any manner.

In any event, the credit policy is guided by a prudential approach and geared towards establishing key customer relationships of mutual trust and transparency in order to guarantee long-term, customised relations.

2. Credit risk management policies

2.1 Organisational aspects

Credit risk is the risk of incurring losses due to default by the counterparty or the risk that a debtor or counterparty fails to meet assumed financial obligations (specifically with regard to failure to repay loans). This is one of the Bank's main risk factors, affecting all financial activities, in particular loans, securities, and all committed facilities in relation to guarantees issued or as funding for distribution commitments. Its analysis mainly involves the quality and reliability of debtors and risk concentration. In particular, credit risk may be manifest in the following types of risk:

- credit default risk is the risk that a debtor is unable to fulfil commitments assumed, generating a loss represented by the unrecovered portion of the loan;
- residual risk is the risk that the techniques acknowledged for risk mitigation utilised by the Bank turn out to be less effective than expected. The residual risk is manifest, therefore, in relation to Credit Risk Mitigation (CRM) techniques utilised to determine the absorption of the capital required to handle credit risk. Residual risk may emerge as:

- risk of impairment of the guarantees, related to a possible significant deterioration in the market value of a guarantee;
- risk of non-enforceability of guarantees, if the guarantee cannot be enforced due to market illiquidity or for reasons linked to the administrative management process of the guarantees at the moment it is needed;
- risk of concentration of guarantees, resulting from indirect exposure with respect to individual providers of guarantees when they are covering a significant portion of the exposures;
- risk of contagion of the guarantors, which may occur in the enforceability of personal guarantees and resulting from the possible impairment of the creditworthiness suffered by the guarantor when paying the agreed amounts;
- risk of forbearance, related to the classification (and consequent management) of a debtor in a better class of risk than its actual situation requires. The consequence may be a delay in the recognition of doubtful loans (and impaired loans in general) and the necessary write-downs, with negative consequences on financial stability and the allocation of resources;
- counterparty credit risk, i.e. the risk that a counterparty to a transaction does not fulfil its obligations under the terms and timing envisaged in the contract;
- credit spread risk, i.e. the risk that an unexpected change of the credit rating of a counterparty generates a corresponding unexpected change of the market value of the exposure; this event immediately leads to an economic loss for the Bank;
- settlement risk, i.e. the risk of incurring losses if, in settling a transaction, the counterparty is no longer able to fulfil its commitments. Settlement risk originates mainly from swap transactions and contracts, when the counterparty is unable to fulfil its obligations (handover securities or sums of money) during settlement, after the Bank has already honoured its commitments;
- risk of change in solvency, associated with the deterioration of the borrower's and counterparty's credit rating, i.e. the counterparty must be classified in a lower rating class (known as downgrading), without there necessarily being an immediate economic loss for the Bank;
- concentration risk, which in turn can be broken down into:
- single name concentration risk, or the risk incurred if there is exposure (investments or granting of loans) to one individual or a group of interconnected individuals;
- sector concentration risk, or the risk incurred if there is exposure (investments or granting of loans) to individuals operating in the same business sector or geographical area;
- currency exposure risk is the risk of a possible insolvency of the borrower in the event of a deterioration in foreign exchange rates and the consequential increase of debt;
- sovereign risk is the risk of cross-border payments transfers, which involves a potential unwillingness to pay (political risk) or also the insolvency (economic risk) of a country. In other words, the risk is associated with the possibility of losses subsequent to the insolvency of a foreign country, of a measure by foreign country that blocks international settlements, or defaults on the part of non-Italian debtors for causes depending on macroeconomic variables of the country in which it operates. The EU countries that fulfil the convergence criteria, as well as Switzerland, Norway, Sweden, Denmark, and Great Britain, are not in this sense considered as countries at material risk.

From an organisational point of view, the process for managing and monitoring credit risk is conducted by special departments, appropriately defined and regulated to ensure performance of the various supervisory controls, as specified in the Regulatory Instructions (Title IV, Chapter 11, Section II). A well-structured internal framework, which is constantly checked to ensure efficiency and making reference to the Credit Risk Policy, is in place to clearly, and at the highest levels, define activities, roles and responsibilities during all phases of the loan process and to ensure the necessary separation between operational and control functions.

On a quarterly basis, the Internal Credit Committee analyses and guides all policies for credit risk management based on the outcome of testing and monitoring with the support of detailed reports provided by the Risk Management Office. Specifically, the Committee:

- checks compliance with limits set in the annual Credit Strategy;
- verifies trends in overall quality of the loan portfolio;
- checks the risk profile and main risk parameters of the loan portfolio;
- reviews and analyses the main risk situations;
- defines what measures to undertake for monitoring and oversight;
- analyses internal capital pertaining to credit risk, current and future capital absorption, also under adverse conditions;
- determines any corrections to be made to policies on assessment, management and mitigation of credit risk on the basis of reports submitted by each competent office;
- makes any proposals needed to revise/update limits and thresholds for credit and concentration risks.

The credit risk monitoring processes comprise:

- line controls (first-level controls), initially carried out by the managers of the organisational unit of the retail network, especially through verifying overdrafts and unpaid instalments by means of special procedures and analyses of periodic progress reports. As a second step, controls are carried out by departments that report to the Credit Department (second-level controls); in this respect, tests carried out by offices responsible for credit assessment and the Anomalous Loans Analysis Service are particularly relevant. The offices responsible for credit assessment perform control activities for proper management of credit positions attributable to the branches and corporate centres, such as:
- implementation of decisions made by the relevant bodies;
- timely renewal/reimbursement of credit lines at maturity;
- meeting the deadlines set to review positions;
- timely extension of guarantees at maturity (e.g., bank guarantees in our favour, guarantees from guarantee consortia);
- breach of the rules on the powers assigned to grant/manage lines of credit;
- absence or incomplete formation of economic groups;
- use of loans for reasons other than those envisaged;
- forms of credit managed in a technically incorrect manner (e.g., multiple lines of credit backed by different guarantees on a single account, multiple projects managed on a single account).

Secondly, the Anomalous Loans Analysis Service is instead responsible for credit control and managing/monitoring classified positions, by interfacing with the branch and area offices in charge of the customer relationship; this ensures the systematic control of risks associated with loans to customers through overseeing and ensuring typical first-level and second-level controls, and risk limitation:

- special monitoring: carried out by the independent, second-level control departments, i.e. Risk Management and Compliance. The Risk Management Office is in charge of carefully monitoring credit risk. The controls carried out by the Risk Management Office aim to define the risk measurement methods, verify compliance with the limits assigned, and control the consistency of operations in the individual production areas with the assigned risk-return targets. The Compliance Office is responsible for ensuring that internal procedures are consistent with the goal of preventing infractions of external regulations (laws and regulations) or self-regulation (codes of conduct, codes of ethics) applicable to the Bank on credit matters. Compliance audits are carried out through a system of controls aimed at identifying any misalignment caused by any missing/incorrect adoption of regulatory provisions;
- audits performed by the Internal Audit Department as part of their on-site and remote auditing duties, for the purpose of verifying credit quality, the accuracy of procedures, and conscious decision-making by the relevant departments responsible for allocating and managing credit.

Each type of task is supported by appropriate IT procedures. The control and monitoring of impaired financial assets is handled by the following specific company functions:

- the Anomalous Loans Analysis Service, which reports to the Workout Department and is composed of staff based at the Central Office, is tasked with identifying loan positions that show signs of anomaly, placing them on the watch-list if necessary, and proposing their classification as impaired loans;
- the Doubtful Loans Service, which reports hierarchically and functionally to the Workout Department, is composed of in-house legal advisers and administrative-accounting staff and is in charge of performing all the activities related to management of doubtful positions (legal action and out-of-court credit collection).

2.2 Management, measurement and control systems

The first and most important stage in credit risk measurement and management is performed at the time the credit line is granted and during its annual review, particularly during the preliminary process to assess the credit rating of the borrower.

In Volksbank, the two preliminary stages of the loan granting process are as follows:

- collection of assessment elements and all documentation necessary to analyse the potential credit line, also with reference to information from external databases;
- analyses of material collected to reach a final credit rating.

The verifications/analyses performed on the applicant are likewise performed on any guarantors and, in the event of joint signatory, on other signatories.

For private and small business customers, all branches have a disbursement rating system, i.e. an IT tool to verify credit ratings during the allocation stage of new credit lines, making use of internal and external IT sources integrated with the electronic loan application procedure.

A structured and prudent system of powers approved by the Board of Directors defines the limits for granting credit lines starting from the sales network, where authorisation limits are not excessively high. For large amounts and/or disbursements with low ratings, the decision lies with the central offices (Credit Department, General Management, Internal Credit Committee, Central Credit Committee, and Board of Directors).

The decision to allocate credit to companies/institutional customers instead falls to credit managers, always within a set limit, or to the central offices mentioned previously if the amounts involved are higher. Credit line proposals for such customers must be accompanied by the Credit Department's technical opinion, formulated by internal employees that have specific skills and qualifications in providing preliminary investigations, analyses, assessments, and the administrative management of loan applications to the network, including special lending and credit, and guaranteeing the observance of both internal and external regulations.

The positions are all subject to periodic review to verify that customer and guarantor are still solvent compared to situations existing at approval stage, the validity and degree of guarantee cover, and the profitability of economic terms applied compared with the risk profile.

The periodic review can also be carried out automatically whenever a series of requirements are met, such as an adequate performance rating.

Among the credit risk monitoring and management tasks, use of the internal rating system is particularly important in allowing credit managers to verify developments in customer credit ratings and quickly identify positions under their control that show a drop in the rating.

The system is based on the calculation of a performance rating for each customer. All customers, both private and corporate, are analysed on a monthly basis using performance monitoring methodologies that take into account internal and system data. Each customer is assigned a rating on a scale of 12 levels of increasing risk (AAA, AA, A, BBB, BB, B, CCC, CC, C, DDD, DD and D+). Business customers are divided into the Small Business segment (sole proprietorships, general partnerships, and capital companies with turnover under Euro 1.5 million) and Corporate segment (non-financial partnerships and capital companies with turnover over Euro 1.5 million).

The data managed by the internal rating system is subject to constant analysis and verification by the Risk Management Office, particularly to measure and verify the system's predictive capacity for all customer types by means of appropriate statistical approaches.
The performance rating is used also when granting credit and revising credit lines and it is one of the essential factors in the framework of authorisation powers. The performance rating is disclosed during the yearly meeting only for high-end corporate customers; this is done to make the consultancy services more systematic, unequivocal, and structured, and to help determine critical aspects regarding the customer and its potential.
The internal rating system is also used for PD calculation (probability of default) of individual rating classifications, i.e. the likelihood that a position with a given rating becomes insolvent (doubtful, unlikely to pay, past-due and/or impaired, forborne exposures) within one year. This rating depends only on counterparty characteristics and conduct, and not on the nature or quality of the guarantees granted.
The loan portfolio is also subject to stress testing to assess the potential effects of exceptional changes in one or more risk factors. The simulations consider the effects deriving from negative changes in individual risk factors (sensitivity analysis) or negative changes simultaneously in more than one risk factor (scenario or crash-test analysis).
With regard to exposure and concentration limits, it should be emphasised that the absolute credit limit that can be agreed per business group, individual non-banking counterparty, or member of the banking group is established as 10% of own funds. This limit can however be raised at the complete discretion of the Board of Directors. Nonetheless, obligations imposed by current supervisory regulations of the Bank of Italy on maximum individual and group credit limits obviously remain binding.
All loan portfolio risk analyses and data are produced in a detailed quarterly report issued by the Risk Management Office, submitted for discussion and resolution by the Internal Credit Committee, and thus the Board of Directors. The quarterly credit risk report plays an important role as a tool to monitor performance of the Bank's credit business and related risks, and to monitor adherence to objectives and compliance with guidelines defined in the Bank's medium/long-term strategic plan. Amongst other things, it contains the risk index assessments (insolvency probability and estimated losses), the calculation methods adopted and scenario analyses to verify loan portfolio behaviour should unexpected events occur.
The quantitative and qualitative assessments of the breakdown and level of risk of the loan portfolio are therefore used as the Bank's main credit policy guidelines, in the adoption of appropriate operational and control measures for the central and branch offices.
The process to monitor credit is guaranteed over the long-term by an automatic classification system for irregular positions (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 regulatory provisions, verification of the correct performance of monitoring of the individual exposures, in particular, impaired loans, and the assessment of the consistency of the classifications and of the allocations, and of the adequacy of the recovery process, is carried out at central level by the Risk Management Office. This office verifies, inter alia, the work of the operating and debt collection units, ensuring the proper classification of impaired loans and the adequacy of the associated degree of non-recoverability.
The controls concern, inter alia: the presence of updated appraisal values of the guarantees, the registration in automatic procedures of all the information needed to evaluate the loans, the traceability of the collection process, the estimated recovery times, and discount rates used. The monitoring activities are carried out both during the classification phase (downgrade or upgrade) and during the period in which an exposure remains in a risk class. The transfer from an initial risk class to a lower risk class may occur automatically, when objective indicators of impairment of the exposure are verified, or through a genuine resolution process.

In the first case, the controls performed by the Risk Management Office essentially consist of:
- assessing and validating the automatic procedures that perform the classification in terms of consistency of the parameters used and the promptness of the classification itself;
- statistical performance monitoring of the inflows by origin and quantities whose outcomes are periodically (at least monthly) transmitted to the competent bodies.

In the second case, the Risk Management Office verifies the decisions taken by the deliberating bodies in observance of its competencies, in particular by participating in the Internal Credit Committee in an advisory capacity.

In addition to the classification, the Risk Management Office verifies the consistency of the specific (analytical) allocations proposed by the competent bodies with internal regulations, on a statistical or single position basis.

The Risk Management 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 and personal guarantees. The main collateral acquired consists of:
- mortgages on property;
- pledges in cash or a variety of securities (treasury securities, bonds, investment funds, assets under management, insurance policies, certificates of deposit, securities in foreign currency, etc.).

With regard to management methods, the above-mentioned guarantees are acquired by means of a standard pledge agreement and by notary deed (for mortgages), and included in the electronic "Credit and Guarantees" procedure to allow their computerised management, control and monitoring.

Personal guarantees are mainly issued by:
- individuals in favour of companies in which they are 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 shows no particular degree of concentration of the various hedging/ guarantee formats as the guarantees obtained, except in special cases, are essentially considered as "specific" to each individual position. Furthermore, in general, there are no contractual restrictions that could undermine their legal validity.

To conclude, as verification of the legal and operational effectiveness of the guarantees, an IT/organisational/legal system is used (electronic loan application procedure) providing online texts and help on the various guarantees in accordance with Italian Bankers' Association (ABI) regulations, including:
- operating procedures governed by national law, pronouncing and establishing regulations on values attributable to guarantees obtained (appraisals, confirmation/verification/monitoring of events with mass land registry searches, real-time online assessment of listed securities, etc.)
- verification of signature authenticity on the various guarantees (from company documents, "signed in the presence of" Bank officers, confirmation by notary deed, etc.).

Adoption of Credit Risk Mitigation methods to calculate the Bank's capital requirements led to the accurate definition of forecasting, valuation and periodic revaluation processes for properties used as mortgage guarantees in order to fully observe the eligibility and admissibility criteria of such guarantees.

2.4 Impaired financial assets

All borrowers for whom particularly serious signals or events occur are defined as impaired, and in turn allocated to one of the following categories according to level of impairment:

- doubtful loans, inclusion of positions under this category regards bankrupt entities, even if not yet legally confirmed, or in an essentially equivalent position, as a result of which legal or other action is taken to settle or recover the exposure;
- unlikely to pay, i.e. positions:
  - continuously marked by ongoing irregularities in performance, system-related/Bank of Italy Central Credit Bureau, information on collection procedures and foreclosures (injunction decrees, seizures, judicial mortgages, etc.), drastic deterioration in the equity/profit or balance sheet position (lack of repayment capacity), from which it could be presumed that the borrower is in objective difficulty, also with the risk of insolvency, that could, however, in the Bank's opinion, be resolved in a reasonable period of time. The decision to classify a position as 'unlikely to pay' must be taken by disregarding any guarantees (collateral securities or personal guarantees) pledged to cover the loans and receivables;
  - that, regardless of the trend in relations, imply a situation of risk of borrower default (e.g. from being in a sector in crisis);
  - for which the Bank deems it appropriate to make an allocation to the provision for risks (forecast loss);
- exposures subject to forbearance measures (forborne exposures) or positions, according to supervisory provisions, to which the Bank has agreed facilitated terms (e.g. restructuring of debt, lengthening of term of the loan, suspension of instalments/principal portions, reduction in rates or commissions) in the event of borrower difficulty. The category applies across the board to the categories of performing loans (performing exposures with forbearance measures) and impaired loans (non-performing exposures with forbearance measures). The following classifications of positions subject to forbearance measures are distinguished:
  - forborne performing exposure;
  - unlikely to pay with forborne non-performing exposure;
  - doubtful with forborne non-performing exposure;
- impaired past-due and/or overdue exposures, according to supervisory provisions:
  - constantly overdue for more than 90 days (past due and/or overdue loans/mortgage instalments in arrears);
  - where the amount of the overdue loan exceeds the relevant threshold of 5% of the total exposure in the observation period;
  - not classified as 'unlikely to pay'.

As already described in the section on organisational aspects, in addition to the sales network, impaired credit not classed as a doubtful loan is also monitored by the Anomalous Loans Analysis Service, whose mission is essentially insolvency prevention.

Specifically, the steps to be taken for positions classed as unlikely to pay include:

- immediate review of the position and any related positions (guarantor, affiliated, partner, associate companies), updating the relevant documentation and any estimates on guarantees granted;
- review of the terms applied in order to take into account the borrower's deteriorated risk profile;
- verification of the quality and total of guarantees issued;
- development of a restructuring plan with the aim of turning around the position and improving guarantees through the definition of a detailed recovery plan submitted to the appropriate internal body for decision.

The Bank's management of doubtful loans and debt collection is handled by the Doubtful Loans Service, a department that makes use of specialised internal staff and a specific IT procedure for accounting.

Debt collection activity is proactive and aims to optimise legal proceedings and maximise the financial result. In particular, with regard to assessment of the initiatives to be implemented, in-house legal advisors also make use of out-of-court debt collection, with recourse to settlement agreements, which have a positive impact on collection

times and the level of costs sustained. External legal advisors are also employed to start legal actions that always represent a valid and fundamental coercive method for putting pressure on borrowers and an instrument for resolving disputes.
The correct implementation of doubtful loans management and assessment activity is also ensured by periodic audits performed internally, by the Internal Audit Department, and externally by the Board of Statutory Auditors and Independent Auditors.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information on credit quality, the term "credit exposures" excludes equity securities 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	-	-	-	-	1,028,241	1,028,241
2. Investments held to maturity	-	-	-	-	822,972	822,972
3. Due from banks	-	-	-	-	109,746	109,746
4. Loans to customers	284,676	248,513	9,294	248,000	6,171,229	6,961,712
5. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-
Total as at 31.12.2017	**284,676**	**248,513**	**9,294**	**248,000**	**8,132,188**	**8,922,671**
Total as at 31.12.2016	**342,060**	**314,070**	**12,795**	**185,238**	**7,470,486**	**8,324,649**

Impaired loans subject to concession amount to Euro 139.7 million: doubtful loans (Euro 35.4 million) and unlikely to pay (Euro 104.3 million). Non-impaired loans subject to concession amount to Euro 94.6 million.

	Loans under renegotiation				**Other transactions**			
Portfolio/Quality (thousands of Euro)	**Assets past due by under 3 months**	**Assets past due between 3 months and 1 year**	**Assets past due between 6 months and 1 year**	**Assets past due by over 1 year**	**Assets past due by under 3 months**	**Assets past due between 3 and 6 months**	**Assets past due between 6 months and 1 year**	**Assets past due by over 1 year**
1. Financial assets available for sale	-	-	-	-	-	-	-	-
2. Investments held to maturity	-	-	-	-	-	-	-	-
3. Due from banks	-	-	-	-	-	-	-	-
4. Loans to customers	-	-	-	-	225,334	18,022	3,248	1,396
5. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-	-
Total as at 31.12.2017	**-**	**-**	**-**	**-**	**225,334**	**18,022**	**3,248**	**1,396**
Total as at 31.12.2016	**-**	**-**	**-**	**-**	**147,831**	**22,523**	**10,636**	**4,248**

A.1.2 Loan exposure distribution by relevant portfolio and by credit quality (gross and net values)

Portfolio/Quality *(thousands of Euro)*	**Impaired assets**			**Non-impaired assets**			**Total (net exposure)**
	Gross exposure	**Specific adjustments**	**Net exposure**	**Gross exposure**	**Portfolio adjustments**	**Net exposure**	
1. Financial assets available for sale	-	-	-	1,028,241	-	1,028,241	1,028,241
2. Investments held to maturity	-	-	-	822,972	-	822,972	822,972
3. Due from banks	-	-	-	109,746	-	109,746	109,746
4. Loans to customers	959,517	(417,034)	542,483	6,467,786	(48,557)	6,419,229	6,961,712
5. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
Total as at 31.12.2017	**959,517**	**(417,034)**	**542,483**	**8,428,745**	**(48,557)**	**8,380,188**	**8,922,671**
Total as at 31.12.2016	**1,163,436**	**(494,511)**	**668,925**	**7,702,781**	**(47,057)**	**7,655,724**	**8,324,649**

Portfolio/Quality *(thousands of Euro)*	**Assets with clearly poor credit quality**		**Other assets**
	Accumulated capital losses	**Net exposure**	**Net exposure**
1. Financial assets held for trading	-	-	11,496
2. Hedges	-	-	-
Total as at 31.12.2017	**-**	**-**	**11,496**
Total as at 31.12.2016	**-**	**-**	**14,359**

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**					**Specific adjust-ments**	**Portfolio adjustments**	**Net expo-sure**
	Impaired assets				**Non-impaired assets**			
	Under 3 months	**From 3 to 6 months**	**From 6 months to 1 year**	**Over 1 year**				
A. CASH EXPOSURES								
a) Doubtful loans	-	-	-	-	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	350,601	X	-	350,601
- of which: loans subject to concession	X	X	X	X	-	X	-	-
TOTAL A	**-**	**-**	**-**	**-**	**350,601**	**-**	**-**	**350,601**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	-	-	-	-	X	-	X	-
b) Non-impaired	X	X	X	X	19,247	X	-	19,247
TOTAL B	**-**	**-**	**-**	**-**	**19,247**	**-**	**-**	**19,247**
TOTAL A+B	**-**	**-**	**-**	**-**	**369,848**	**-**	**-**	**369,848**

Cash exposures comprise all financial assets on a cash basis owed by banks, regardless of their allocation in the accounting portfolio (trading, held for sale, held to maturity, loans, assets designated at fair value, financial assets held for sale).
The "off-balance sheet" exposures include all financial transactions other than those on a cash basis (guarantees issued, commitments, derivatives, etc.) which involve the assumption of credit risk, regardless of the purposes of said transactions (trading, hedging, etc.).

A.1.4 Cash exposures from loans to banks: changes in gross impaired exposures

At the balance sheet date, as for the previous financial year, there are no impaired loans to banks.

A.1.5 Cash exposures from loans to banks: changes in overall adjustments

At the balance sheet date, as for previous year, there are no adjustments referring to cash exposures from loans to banks.

A.1.6 Cash and off-balance sheet exposure from loans to customers: gross and net values

Exposure type/Values *(thousands of Euro)*	**Gross exposure**							
	Impaired assets				**Non-impaired assets**	**Specific adjustments**	**Portfolio adjustments**	**Net exposure**
	Under 3 months	**From 3 to 6 months**	**From 6 months to 1 year**	**Over 1 year**				
A. CASH EXPOSURES								
a) Doubtful loans	-	3,760	26,225	584,908	X	(330,217)	X	284,676
- of which: loans subject to concession	-	1,931	8,128	55,853	X	(30,561)	X	35,351
b) Unlikely to pay	158,114	20,956	35,369	120,068	X	(85,994)	X	248,513
- of which: loans subject to concession	74,579	9,939	15,881	35,642	X	(31,697)	X	104,344
c) Impaired past-due exposures	1,134	2,860	3,985	2,138	X	(823)	X	9,294
- of which: loans subject to concession	-	-	-	-	X	-	X	-
d) Non-impaired past-due exposures	X	X	X	X	250,084	X	(2,084)	248,000
- of which: loans subject to concession	X	X	X	X	14,149	X	(223)	13,926
e) Other non-impaired exposures	X	X	X	X	7,836,344	X	(46,474)	7,789,870
- of which: loans subject to concession	X	X	X	X	81,949	X	(1,271)	80,678
TOTAL A	**159,248**	**27,576**	**65,579**	**707,114**	**8,086,428**	**(417,034)**	**(48,558)**	**8,580,353**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired	10,368	-	-	-	X	(1,131)	X	9,237
b) Non-impaired	X	X	X	X	825,336	X	-	825,336
TOTAL B	**10,368**	**-**	**-**	**-**	**825,336**	**(1,131)**	**-**	**834,573**
TOTAL A+B	**169,616**	**27,576**	**65,579**	**707,114**	**8,911,764**	**(418,165)**	**(48,558)**	**9,414,926**

Cash exposures include all the financial assets on a cash basis owed by customers, regardless of their allocation in the accounting portfolio (trading, held for sale, held to maturity, receivables, assets designated at fair value, financial assets held for sale).
The "off-balance sheet" exposures include all financial transactions other than those on a cash basis (guarantees issued, commitments, derivatives, etc.) which involve the assumption of credit risk, regardless of the purposes of said transactions (trading, hedging, etc.).

A.1.7 Cash loan exposures to customers: trend in gross impaired exposures

Reasons/Categories *(thousands of Euro)*	**Doubtful loans**	**Unlikely to pay**	**Impaired past-due exposures**
A. Gross exposure at the beginning of the year	**695,935**	**409,391**	**14,058**
of which: exposures sold and not derecognised	8,447	18,651	1,408
B. Increases	**64,672**	**92,618**	**25,998**
B.1 Income from performing loans	4,130	69,918	20,929
B.2 Transfers from other categories of impaired exposures	55,999	12,095	4,133
B.3 Other increases	4,543	10,605	936
C. Decreases	**145,714**	**167,502**	**29,939**
C.1 Transfers to performing loans	-	62,938	9,326
C.2 Derecognitions	93,447	17,430	1,496
C.3 Collections	38,686	23,628	4,524
C.4 Sale proceeds	13,505	3,137	-
C.5 Losses on disposal	-	2,811	-
C.6 Transfers to other categories of impaired exposures	76	57,558	14,593
C.7 Other decreases	-	-	-
D. Gross exposure at the end of the year	**614,893**	**334,507**	**10,117**
of which: exposures sold and not derecognised	11,463	16,695	1,886

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**	**225,664**	**104,281**
	of which: exposures sold and not derecognised	-	-
B.	**Increases**	**51,207**	**62,123**
	B.1 Income from performing loans not subject to concessions	8,988	23,051
	B.2 Income from performing loans subject to concessions	19,710	X
	B.3 Income from impaired loans subject to concessions	X	28,676
	B.4 Other increases	22,509	10,396
C.	**Decreases**	**74,918**	**69,930**
	C.1 Transfers to performing loans not subject to concessions	-	-
	C.2 Transfers to performing loans subject to concessions	28,839	X
	C.3 Transfers to impaired loans subject to concession	X	19,710
	C.4 Derecognitions	-	-
	C.5 Collections	40,098	50,220
	C.6 Sale proceeds	-	-
	C.7 Losses on disposal	-	-
	C.8 Other decreases	5,981	-
D.	**Gross exposure at the end of the year**	**201,953**	**96,474**
	of which: exposures sold and not derecognised	-	(15,350)

A.1.8 Cash exposures from loans to customers: changes in overall adjustments

Reasons/Categories *(thousands of Euro)*		**Doubtful loans**		**Unlikely to pay**		**Impaired past-due exposures**	
		Total	**Of which: loans subject to concession**	**Total**	**Of which: loans subject to concession**	**Total**	**Of which: loans subject to concession**
A.	**Overall adjustments at the beginning of the year**	**397,926**	**24,099**	**95,321**	**43,492**	**1,263**	**-**
	of which: exposures sold and not derecognised	1,528	68	1,602	1,188	118	-
B.	**Increases**	**72,400**	**16,513**	**37,898**	**13,254**	**1,859**	**2**
	B.1 Adjustments	55,795	9,528	36,823	13,252	1,856	-
	B.2 Losses on disposal		-	-	-	-	-
	B.3 Transfers from other categories of impaired exposures	16,605	6,985	1,075	2	3	2
	B.4 Other increases	-	-			-	-
C.	**Decreases**	**140,109**	**10,051**	**47,225**	**25,049**	**2,299**	**2**
	C.1 Recoveries on valuation	-		-	-	-	-
	C.2 Recoveries on collection	30,152	2,331	20,426	18,061	220	1
	C.3 Profits on disposal	-	-	-	-	-	-
	C.4 Derecognitions	109,950	7,720	2	-	-	-
	C.5 Transfers to other categories of impaired exposures	7	-	16,381	6,988	1,295	1
	C.6 Other decreases	-	-	10,416	-	784	-
D.	**Overall adjustments at the end of the year**	**330,217**	**30,561**	**85,994**	**31,697**	**823**	**-**
	of which: exposures sold and not derecognised	2,379	210	3,002	336	-	-

Conversion of loans to equity instruments

During the year, there were no conversions of loans to equity instruments as part of the agreements for the restructuring of impaired positions.

A.2 Exposure classification based on internal and external ratings

A.2.1 Distribution of cash and "off-balance sheet" credit exposures by external rating class

The Bank adopts the credit ratings issued by the following external credit assessment institutions (ECAI): Standard & Poor's Ratings Services.
In addition, reference is also made to the ratings of Moody's Investors Service and Fitch Ratings for the regulatory portfolio's exposures to central administrations and central banks only.
In compliance with the provisions of the legislation, where two assessments of the same customer are present, the more prudential one is adopted; in the event of three assessments, the middle one.
Taking into account the composition of the loan portfolio, composed predominantly of loans to small and medium-size companies, family business and craftsmen, professionals, and consumer families, the distribution of the cash and "off-balance sheet" exposures by rating class appears insignificant.

A.3 Distribution of guaranteed loans by guarantee type

A.3.1 Guaranteed loans to banks

At the balance sheet date, as in the previous year, there are no guaranteed loans to banks.

A.3.2 Guaranteed loans to customers

(thousands of Euro)	Net exposure value	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Credit commitments				
						CLN	Other derivatives								
		Mortgaged property	Property under finance lease	Securities	Other collateral		Governments and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities	
1. Guaranteed cash loan exposures:	**5,489,744**	**4,134,086**	**-**	**24,944**	**29,308**	**-**	**-**	**-**	**-**	**-**	**84,513**	**9,550**	**2,745**	**940,853**	**5,225,999**
1.1 fully guaranteed	4,957,760	4,028,692	-	20,115	18,779	-	-	-	-	-	42,286	9,550	745	837,595	4,957,762
- of which impaired	438,802	382,510	-	337	725	-	-	-	-	-	347	-	-	54,884	438,803
1.2 partly guaranteed	531,984	105,394	-	4,829	10,529	-	-	-	-	-	42,227	-	2,000	103,258	268,237
- of which impaired	64,000	41,580	-	745	1,404	-	-	-	-	-	294	-	-	8,743	52,766
2. Off-balance sheet guaranteed loan exposures:	**172,685**	**4,954**	**-**	**3,868**	**9,344**	**-**	**-**	**-**	**-**	**-**	**60**	**-**	**170**	**150,419**	**168,815**
2.1 fully guaranteed	148,435	1,947	-	2,668	8,428	-	-	-	-	-	-	-	170	135,222	148,435
- of which impaired	2,905	251	-	-	149	-	-	-	-	-	-	-	-	2,504	2,904
2.2 partly guaranteed	24,250	3,007	-	1,200	916	-	-	-	-	-	60	-	-	15,197	20,380
- of which impaired	3,659	-	-	-	6	-	-	-	-	-	-	-	-	3,652	3,658

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	2,739	(2,772)	X	-	-	X	226,749	(289,330)	X	55,188	(38,115)	X
of which: loans subject to concession	-	-	X	-	-	X	309	(2,456)	X	-	-	X	29,618	(25,392)	X	5,424	(2,713)	X
A.2 Unlikely to pay	-	-	X	-	-	X	618	(3,049)	X	-	-	X	196,572	(77,290)	X	51,323	(5,655)	X
of which: loans subject to concession	-	-	X	-	-	X	441	(3,041)	X	-	-	X	72,839	(25,763)	X	31,064	(2,893)	X
A.3 Impaired past-due exposures	-	-	X	-	-	X	-	-	X	-	-	X	4,143	(373)	X	5,151	(450)	X
of which: loans subject to concession	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X	-	-	X
A.4 Non-impaired exposures	1,488,448	X	-	34,558	X	(258)	180,840	X	(865)	168,890	X	(1)	3,817,121	X	(29,275)	2,348,013	X	(18,159)
of which: loans subject to concession	-	X	-	-	X	-	175	X	(3)	-	X	-	64,452	X	(1,019)	29,977	X	(472)
Total A	**1,488,448**	**-**	**-**	**34,558**	**-**	**(258)**	**184,197**	**(5,821)**	**(865)**	**168,890**	**-**	**(1)**	**4,244,585**	**(366,993)**	**(29,275)**	**2,459,675**	**(44,220)**	**(18,159)**
B. Off-balance sheet exposures																		
B.1 Doubtful loans	-	-	X	-	-	X	10	-	X	-	-	X	820	(977)	X	50	(82)	X
B.2 Unlikely to pay	-	-	X	-	-	X	-	-	X	-	-	X	6,753	(72)	X	590	-	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	999	-	X	15	-	X
B.4 Non-impaired exposures	-	X	-	1,088	X	-	10,531	X	-	-	X	-	671,502	X	-	142,215	X	-
Total B	**-**	**-**	**-**	**1,088**	**-**	**-**	**10,541**	**-**	**-**	**-**	**-**	**-**	**680,074**	**(1,049)**	**-**	**142,870**	**(82)**	**-**
Total as at 31.12.2017	**1,488,448**	**-**	**-**	**35,646**	**-**	**(258)**	**194,738**	**(5,821)**	**(865)**	**168,890**	**-**	**(1)**	**4,924,659**	**(368,042)**	**(29,275)**	**2,602,545**	**(44,302)**	**(18,159)**
Total as at 31.12.2016	**1,113,143**	**-**	**-**	**26,277**	**-**	**(194)**	**160,094**	**(5,214)**	**(637)**	**164,832**	**-**	**(1)**	**4,742,324**	**(433,491)**	**(28,560)**	**2,493,983**	**(56,981)**	**(17,666)**

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

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
(thousands of Euro)	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	284,216	(329,612)	460	(605)	-	-	-	-	-	-
A.2 Unlikely to pay	247,974	(85,941)	332	(43)	207	(10)	-	-	-	-
A.3 Impaired past-due exposures	9,293	(823)	1	-	-	-	-	-	-	-
A.4 Non-impaired exposures	7,973,105	(48,176)	55,620	(366)	4,531	(5)	4,357	(9)	258	(2)
Total A:	**8,514,588**	**(464,552)**	**56,413**	**(1,014)**	**4,738**	**(15)**	**4,357**	**(9)**	**258**	**(2)**
B. Off-balance sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	880	(1,060)	-	-	-	-	-	-	-	-
B.3 Impaired past-due exposures	7,343	(72)	-	-	-	-	-	-	-	-
B.4 Non-impaired exposures	1,014	-	-	-	-	-	-	-	-	-
Total B:	**9,237**	**(1,132)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total as at 31.12.2017	**8,523,825**	**(465,684)**	**56,413**	**(1,014)**	**4,738**	**(15)**	**4,357**	**(9)**	**258**	**(2)**
Total as at 31.12.2016	**8,620,440**	**(541,534)**	**73,177**	**(1,196)**	**5,544**	**(6)**	**1,231**	**(9)**	**261**	**-**

Exposures/Geographic areas	NORTH-WEST ITALY		NORTH-EAST ITALY		CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS		TOTAL	
(thousands of Euro)	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	13,240	(8,097)	266,597	(315,142)	3,315	(5,306)	1,064	(1,066)	284,216	(329,611)
A.2 Unlikely to pay	5,439	(5,945)	241,474	(79,298)	1,060	(698)	1	-	247,974	(85,941)
A.3 Impaired past-due exposures	11	(1)	9,165	(813)	117	(10)	1	-	9,294	(824)
A.4 Non-impaired exposures	207,477	(1,123)	6,082,425	(46,306)	1,672,499	(666)	10,703	(81)	7,973,104	(48,176)
Total A:	**226,167**	**(15,166)**	**6,599,661**	**(441,559)**	**1,676,991**	**(6,680)**	**11,769**	**(1,147)**	**8,514,588**	**(464,552)**
B. Off-balance sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	10	(107)	861	(953)	-	-	8	-	879	(1,060)
B.3 Impaired past-due exposures	-	-	7,344	(72)	-	-	-	-	7,344	(72)
B.4 Non-impaired exposures	-	-	1,014	-	-	-	-	-	1,014	-
Total B:	**10**	**(107)**	**9,219**	**(1,025)**	**-**	**-**	**8**	**-**	**9,237**	**(1,132)**
Total as at 31.12.2017	**226,177**	**(15,273)**	**6,608,880**	**(442,584)**	**1,676,991**	**(6,680)**	**11,777**	**(1,147)**	**8,523,825**	**(465,684)**
Total as at 31.12.2016	**221,122**	**(14,059)**	**7,075,804**	**(520,186)**	**1,307,572**	**(6,058)**	**15,942**	**(1,231)**	**8,620,440**	**(541,534)**

B.3 Geographic distribution of cash and off-balance sheet credit exposure from loans to banks (book value)

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
(thousands of Euro)	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	275,805	-	67,730	-	6,721	-	341	-	5	-
Total A:	**275,805**	**-**	**67,730**	**-**	**6,721**	**-**	**341**	**-**	**5**	**-**
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	15,513	-	3,734	-	-	-	-	-	-	-
Total B:	**15,513**	**-**	**3,734**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total as at 31.12.2017	**291,318**	**-**	**71,464**	**-**	**6,721**	**-**	**341**	**-**	**5**	**-**
Total as at 31.12.2016	**339,109**	**-**	**60,670**	**-**	**12**	**-**	**289**	**-**	**-**	**-**

Exposures/Geographic areas	NORTH-WEST ITALY		NORTH-EAST ITALY		CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS		TOTAL	
(thousands of Euro)	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. Cash exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	90,304	-	226	-	185,275	-	-	-	275,805	-
Total A:	**90,304**	**-**	**226**	**-**	**185,275**	**-**	**-**	**-**	**275,805**	**-**
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	49	-	59	-	15,405	-	-	-	15,513	-
Total B:	**49**	**-**	**59**	**-**	**15,405**	**-**	**-**	**-**	**15,513**	**-**
Total as at 31.12.2017	**90,353**	**-**	**285**	**-**	**200,680**	**-**	**-**	**-**	**291,318**	**-**
Total as at 31.12.2016	**132,179**	**-**	**35,156**	**-**	**140,733**	**-**	**31,041**	**-**	**339,109**	**-**

B.4 Significant exposures

With the 6th update of Circular no. 263 "New Regulations for the Prudential Supervision of Banks" of 27 December 2010, supervisory regulations in matters of risk concentration were revised to align with Directive 2009/111/EC. The new regulation that came into effect on 31 December 2010 defines "significant exposures" as exposures to a legally or economically related customer or customer group if exceeding or equal to 10% of the admissible capital for the purposes of significant risks.

The values relative to the significant exposures recognised at the balance sheet date are reported below:

	Number of significant exposures	Credit exposure (Euro)	Weighted amount for purposes of significant exposures (Euro)
31.12.2017	5	2,091,347	282,446
31.12.2016	6	1,852,759	351,609

The number of significant exposures stated in the table is determined by making reference to unweighted "exposures" that exceed 10% of admissible capital, as defined by EU Regulation no. 575/2013 (CRR), where "exposures" means the sum of cash risk assets and off-balance sheet transactions (excluding those deducted from capital) vis-a-vis a customer, or a group of related customers, without the application of weighting factors.

The financial statements table relating to significant exposures also includes entities that - despite a weighting of 0% - present an unweighted exposure exceeding 10% of admissible capital for the purposes of significant risks.

C. SECURITISATIONS

QUALITATIVE INFORMATION

Securitisation of residential mortgages – S.P.V. VOBA n. 3 S.r.l. (September 2011)

Issue characteristics

In September 2011, Volksbank completed a securitisation via the transfer of performing mortgage loans, for about Euro 400 million, to the special purpose vehicle Voba n. 3 S.r.l. that financed the acquisition by issuing bonds. The transaction was finalised on 1 September 2011 with agreement of non-recourse transfer contracts for the loan portfolio and subsequently with issue of the bonds. Volksbank acts as the servicer of the portfolio in the securitisation.
The portfolio subject to disposal had the following characteristics:

SPV:	VOBA n. 3 S.r.l.
- Company interest in the SPV	0%
- Loan disposal date	01.09.2011
- Type of loans transferred	Mortgage loans
- Status of loans transferred	Performing
- Guarantees on loans transferred	Mortgage loan I. Legal grade
- Geographic area of loans transferred	Northern Italy
- Business of debtors transferred	Private individuals and businesses
- Number of loans transferred	3,188
- Price of loans transferred	Euro 387,269,164.82
- Nominal value of loans transferred	Euro 387,269,164.82

The characteristics of the securities issued are as follows:

Tranche	Fitch/Moody's rating	Percentage	Amount (in Euro)
Class A1	AAA/Aaa	25.73%	102,500,000
Class A2	AA-/Aa2	59.28%	236,100,000
Class C	-	14.99%	59,700,000
Total		**100.00%**	**398,300,000**

The Class C securities were fully subscribed by the Company. A total of Euro 164.3 million in securities remain, Euro 104.6 million of which are Class A2 and Euro 59.7 million are Class C. Of these, Euro 59.7 million of the Class C are held by the Company.

Securitisation of residential mortgages – S.P.V. VOBA n. 4 S.r.l. (July 2012)

Issue characteristics

In July 2012, Volksbank completed a securitisation via the transfer of performing mortgage loans and unsecured loans, for about Euro 600 million, to the special purpose vehicle VOBA n. 4 S.r.l., who financed the acquisition by issuing bonds. The transaction was finalised on 1 July 2012 with agreement of non-recourse transfer contracts for the loan portfolio and subsequently with issue of the bonds. Volksbank acts as the servicer of the portfolio in the securitisation.
The portfolio subject to disposal had the following characteristics:

SPV:	**VOBA N. 4 S.r.l.**
- Company interest in the SPV	0%
- Loan disposal date	01.07.2012
- Type of loans transferred	Mortgage loans and unsecured loans
- Status of loans transferred	Performing
- Guarantees on loans transferred	in part mortgage
- Geographic area of loans transferred	Northern Italy
- Business of debtors transferred	Small and medium sized enterprises
- Number of loans transferred	3,714
- Price of loans transferred	Euro 601,313,690.21
- Nominal value of loans transferred	Euro 601,313,690.21

The characteristics of the securities issued are as follows:

Tranche	**S&P/Moody's rating**	**Percentage**	**Amount (in Euro)**
Class A1	A/Aa2	72.22%	443,000,000
Junior class	NR	27.78%	170,400,000
Total		**100.00%**	**613,400,000**

The Junior securities were fully subscribed by the Company. As at 31 December 2017, there were Euro 170.4 million in Junior class securities fully held by the Company.

Securitisation of residential mortgages – S.P.V. VOBA n. 5 S.r.l. (February 2014)

Issue characteristics

On 24 February 2014, the Board of Directors authorised the realisation of a securitisation for a loan portfolio consisting of mortgage loans and performing unsecured loans to small to medium enterprises (SMEs) under the name VOBA n. 5 S.r.l.
The transaction involved the transfer of 4,164 loans for a total value of Euro 479,791,803.44.
Like the previous VOBA Finance S.r.l., VOBA n. 3 S.r.l. and VOBA n. 4 S.r.l securitisations, this was established to obtain instruments eligible for the refinancing transactions at the ECB to support liquidity requirements.

SPV	VOBA N. 5 S.r.l.
- Company interest in the SPV	0%
- Loan disposal date	01.02.2014
- Type of loans transferred	Residential mortgage loans
- Status of loans transferred	Performing
- Guarantees on loans transferred	Mortgage loans
- Geographic area of loans transferred	Northern Italy
- Business of debtors transferred	SAE (sector of economic activity) 600, 614, 615
- Number of loans transferred	4,164
- Price of loans transferred	Euro 479,791,803.44
- Nominal value of loans transferred including accruals	Euro 479,791,803.44

The characteristics of the securities issued are as follows:

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

The Junior securities were fully subscribed by the Company. As at 31 December 2017, there was a total of Euro 259.0 million in securities, Euro 169.6 million of which were Class A2 and Euro 89.5 million were Junior class. Of these, as at 31 December 2017, Euro 89.5 million of the Junior class are held by the Company.

Securitisation of residential mortgages – S.P.V. VOBA n. 6 S.r.l. (September 2016)

On 24 February 2014, the Board of Directors authorised the realisation of a securitisation for a loan portfolio consisting of mortgage loans and performing unsecured loans to small to medium enterprises (SMEs) under the name VOBA n. 5 S.r.l.
The transaction involved the transfer of 4,014 loans for a total value of Euro 529.5 million.
Like the previous securitisations, this was established to obtain instruments eligible for the refinancing transactions at the ECB to support liquidity requirements.

SPV:	VOBA N. 6 S.r.l.
- Bank interest in the SPV	0%
- Loan disposal date	01/09/2016
- Type of loans transferred	SME mortgages
- Status of loans transferred	Performing
- Guarantees on loans transferred	Mortgage loans and unsecured loans
- Geographic area of loans transferred	Northern Italy
- Business of debtors transferred	Individuals
- Number of loans transferred	4,014
- Price of loans transferred	Euro 529,495,061.41
- Nominal value of loans transferred	Euro 528,611,984.61

The characteristics of the securities issued and listed on the Dublin stock exchange are as follows:

Tranche	DBRS/Moody's rating	Percentage	Amount (in Euro)
Class A1	AAA/Aa2	18.47%	100,000,000
Class A2	AAh/Aa2	47.53%	257,400,000
Class B	A/A1	11.01%	59,600,000
Junior class	NR	23.00%	124,545,000
Total		**100.00%**	**541,545,000**

The Junior securities were fully subscribed by the Company. A total of Euro 375.2 million in securities remain, Euro 191.1 million of which were Class A2, Euro 59.6 million Class B, and Euro 124.5 million Junior Class. The Company holds Euro 124.5 million securities of Junior class.

QUANTITATIVE INFORMATION

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	-	-	-	-	**444,095**	-	-	-	-	-	-	-	-	-	-	-	-	-
C.1 Voba Finance S.r.l.																		
- Mortgage loans	-	-	-	-	444,095	-	-	-	-	-	-	-	-	-	-	-	-	-

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 -Spanish residential mortgages	619	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 SPVs for the securitisation

Securitisation name / SPV name	Registered office	Consolidation	Assets			Liabilities		
			Loans and receivables	Debt securities	Other	Senior	Mezzanine	Junior
Voba N. 3 S.r.l.	Conegliano (TV)	NO	169,124	-	12,593	104,595	-	59,700
Voba N. 4 S.r.l.	Conegliano (TV)	NO	188,641	-	11,167	-	-	170,400
Voba N. 5 S.r.l.	Conegliano (TV)	NO	276,643	-	8,101	169,591	-	89,450
VOBA N. 6 S.r.l.	Conegliano (TV)	NO	363,312	-	27,745	191,087	59,600	124,545

C.4 Non-consolidated SPVS for the securitisation

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

C.5 Servicer assets - own securitisations: securitised credit collections and repayment of SPV-issued securities for the securitisation

SPV *(thousands of Euro)*	Securitised assets (year-end figure)		Loan collections made the year		Percentage of securities redeemed (year-end figure)					
					Senior		Mezzanine		Junior	
	Impaired	Performing	Impaired	Performing	Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
Voba 3 S.r.l.	4,130	164,993	711	26,934	-	69.11%	-	-	-	-
Voba 4 S.r.l.	15,339	173,457	566	44,866	-	100.00%	-	-	-	-
Voba 5 S.r.l.	2,999	273,648	204	44,309	-	57.64%	-	-	-	-
Voba 6 S.r.l.	7,577	355,665	304	109,214	-	46.53%	-	-	-	-

D. INFORMATION ON STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES (OTHER THAN SECURITISATION SPVS)

QUALITATIVE INFORMATION

The Company did not hold any structured entities not consolidated in the accounts at the balance sheet date, as in the previous year.

QUANTITATIVE INFORMATION

The Company did not hold any structured entities not consolidated in the accounts at the balance sheet date, as in the previous year.

E. DISPOSAL TRANSACTIONS

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

A. Financial assets sold but not fully derecognised

QUALITATIVE INFORMATION

The transactions mainly refer to the use of debt securities in the portfolio for short- and medium-term repurchase agreements and loans to customers sold as part of the Voba n. 3 S.r.l., Voba n. 4 S.r.l., Voba n. 5 S.r.l. and Voba n. 6 S.r.l. securitisations. Please refer to the Notes to the Accounts – Part B for more information on the debt security transactions against medium- and long-term repurchase agreements.

QUANTITATIVE INFORMATION

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

Categories/Portfolio (thousands of Euro)	Financial assets held for trading			Financial assets designated at fair value through profit or loss			Financial assets available for sale			Investments held to maturity			Due from banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31.12.2017	31.12.2016
A. Cash assets	-	-	-	-	-	-	**100,743**	-	-	**69,511**	-	-	-	-	-	**984,877**	-	-	**1,155,131**	**1,383,626**
1. Debt securities	-	-	-	-	-	-	100,743	-	-	69,511	-	-	-	-	-	-	-	-	170,254	170,617
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	984,877	-	-	984,877	1,213,009
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total as at 31.12.2017	-	-	-	-	-	-	**100,743**	-	-	**69,511**	-	-	-	-	-	**984,877**	-	-	**1,155,131**	**X**
of which impaired																24,525			24,525	X
Total as at 31.12.2016	-	-	-	-	-	-	**94,399**	-	-	**76,218**	-	-	-	-	-	**1,213,009**	-	-	**X**	**1,383,626**
of which impaired																25,257			X	25,257

A = financial assets sold and fully recognised (book value)

B = financial assets sold and partly recognised (book value)

C = financial assets sold and partly recognised (book value)

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	-	-	**100,989**	**71,768**	-	**476,398**	**649,155**
a) in relation to assets recognised in full	-	-	100,989	71,768	-	476,398	649,155
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 31.12.2017	-	-	**100,989**	**71,768**	-	**476,398**	**649,155**
Total as at 31.12.2016	-	-	**94,618**	**79,384**	-	**539,335**	**713,337**

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 N. 3 S.r.l., VOBA N. 4 S.r.l., VOBA N. 5 S.r.l. and VOBA N. 6 S.r.l. securitisations for Volksbank.

Where the assets sold belong to two or more accounting portfolios, the associated liabilities are, as is standard, indicated in proportion to the weight that the assets sold (valued at fair value) - in a given accounting portfolio - has on the overall assets being sold. There were no cases of this type as at 31 December 2017.

Categories/Portfolio	Financial assets held for trading		Financial assets designated at fair value through profit or loss		Financial assets available for sale		Investments held to maturity (fair value)		Due from banks (fair value)		Loans to customers (fair value)		(*) Total	
	A	B	A	B	A	B	A	B	A	B	A	B	31.12.2016	31.12.2015
A. Cash assets														
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	1,054,400	-	1,054,400	1,308,975
B. Derivatives	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,054,400**	**-**	**1,054,400**	**1,308,975**
C. Associated liabilities														
1. Due to customers	-	-	-	-	-	-	-	-	-	-	476,398	-	X	X
2. Due to banks	-	-	-	-	-	-	-	-	-	-	-	-	X	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**476,398**	**-**	**476,398**	**539,335**
Net value as at 31.12.2017	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**578,002**	**-**	**578,002**	**X**
Net value as at 31.12.2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**539,335**	**-**	**X**	**539,335**

Key:

A = financial assets sold and fully recognised

B = financial assets sold and partly recognised

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

At the balance sheet date, as in the previous year, there are no financial assets sold and fully derecognised with recognition of continuing involvement

E.4 Covered bond transactions

At the balance sheet date, as in the previous year, there are no covered bond transactions.

F. CREDIT RISK MEASUREMENT MODELS

In measuring the credit risk portfolio, the Risk Management Office uses an econometric model fed by a vast set of data and risk variables for management purposes.
The model, through the use of Credit VaR, permits the probability distribution of the loan portfolio loss for resident ordinary and financial customers to be defined, with particular reference to collectively and comprehensively valued exposures. This distribution is used to measure the maximum potential loss during a year at a specific confidence level.
In particular, to derive this distribution, the model calculation engine uses a "Monte Carlo" simulation approach, through which a number of scenarios large enough to provide a good empirical approximation of the theoretical distribution of the loan portfolio losses is simulated. The model used is a structural, one-factor asymptotic type that simulates the behaviour of the portfolio according to changes in two classes of variables, one representing the market environment, which is common to all counterparties, and the other representing the specific features of individual counterparties.
It is used for calculating expected and unexpected losses in the loan portfolio and for the performance of stress testing for the purpose of assessing the effects of extraordinary but plausible events on the portfolio.
An unexpected loss (credit risk) is defined as the difference between the maximum potential loss, given a certain confidence interval, and the expected loss, based on a twelve-month time horizon.
Finally, the portfolio model periodically undergoes stress testing to evaluate the sensitivity of the portfolio's credit risk to changes, both moderate and extreme (provided that they are plausible), of one (sensitivity analyses) or more (scenario analyses) economic-financial factors.

Section 2 MARKET RISK

2.1 INTEREST RATE RISK AND PRICE RISK – REGULATORY TRADING PORTFOLIO

QUALITATIVE INFORMATION

A. General aspects

In Volksbank, the regulatory trading portfolio comprises a relatively modest portion of the owned portfolio, since most financial instruments are held and recognised under the available-for-sale (AFS) category and therefore belong to the banking book.
However, analytical tools used to measure market risk (interest rate risk and price risk) are the same for all owned portfolios.
Interest rate risk represents the risk relating to the possibility that the Bank suffers losses on financial assets held for trading as a result of adverse market rate performance.
Price risk represents the risk connected with changes in value of positions classed as financial assets held for trading, arising from market price fluctuations. It can be broken down as follows:
- generic risk: price change in an equity security following fluctuations in the reference stock market;
- specific risk: market price change in a specific equity security as a result of a change in market expectations regarding the financial solidity or prospects of the issuer.

The trading portfolio is managed in a prudent manner geared towards limiting market risk and in compliance with the strategic indications and the operating limits set out in the "Investment Policy", the "Limits and Operational Powers for Finance and Liquidity" and the annual "Operating Plan".
The main source of interest rate risk is formed by the bond securities held; trading is intended to produce absolute returns to maximise yields on the portfolio in compliance with the Value at Risk (VaR) and Stop-Loss as defined in the internal policies noted above. The bond segment of the portfolio comprises floating-rate and fixed-rate securities with limited duration. Most bonds held refer to securities issued by the Republic of Italy or Italian banks with national standing. Interest rate risk is assumed by the Investment Department, which also uses derivative instruments (futures, IRS) as hedges.
On the other hand, the main source of price risk is from the UCITS units held and, to a lesser extent, derivatives connected to stock indices. In this case too, the strategy pursued is oriented towards the prudent management of assets, and thus towards the conscious assumption of risks. Value at Risk and Stop-Loss price ceilings also apply to price risk.
The financial instruments present in trading portfolio are almost all denominated in Euro, making the exchange rate risk totally marginal.
Assets in the owned portfolio did not undergo any significant changes from the previous year, except for the average level, which rose in accordance with the strategic planning guidelines.

B. Interest rate risk and price risk management processes and measurement methods

The internal market risk control and management processes (interest rate and price) are contained in the "Investment Policy" and the "Limits and Operating Powers for Finance and Liquidity" documents, both subject to periodic review and consideration by the Board of Directors.
The policy formalises the performance of risk management activities concerning market risks, it defines the tasks and the responsibilities assigned to the various organisational units having expertise on the matter and specifies, among other things, the main operating processes, the methods of measurement, the exposure limits, the information flows, and any corrective measures.
The investments and trading activity is therefore performed in conformity with the internal policy and is carried out within a structured internal regulatory system of delegations of management powers which provides for operational limitations defined in terms of negotiable financial instruments, amounts, duration, investment markets, issue and issuer types, sector, and rating.
Risk monitoring is carried out by the Risk Management Office, which produces a daily and monthly report subject to scrutiny by the Internal Finance Committee (weekly) and by the Finance Committee (monthly). The latter sets the risk management policy in the context of the strategy contained in the annual Operating Plan.
With regard to the processes and methods of market risk monitoring and management, the indicators monitored and their related limits are provided below, together with first- and second-level internal control processes on overall owned portfolio transactions. In general, the limits are classified according to the various types of market risk (interest rate and price), but are in any event managed within a single framework based on similar logic.
The authorisation structure for finance operations is based on four levels:

- operating limits;
- position limits: credit risk and concentration;
- Stop-Loss limits;
- Value-at-Risk (VaR) limits.

The operating limits structure uses the following risk indicators:

- rate risk: sensitivity (changes in profit or loss as a result of a change of one percentage point in the reference curve, with parallel shift);
- equity risk: delta equivalent (market value of share funds and cash equivalent position for equity derivatives);
- maximum amount invested: equivalent value of shares/funds at the initial price to guarantee compliance with the average equity assigned.

Position limits are structured on:

- credit risk assumption limits: overall limits are established on rating class exposures, particularly below the investment grade range;
- sector limits;
- credit sensitivity limits (changes in profit or loss as a result of a change of one percentage point in the credit spread);
- expiry category limits;
- restrictions related to eligibility criteria for the Eurosystem;
- country limits: limits are provided on the maximum exposure allowed per individual country according to the rating of the latter.

Stop-Loss limits are monitored for cumulative results achieved and not achieved over the last business day, accumulated over the most recent 5 business days (weekly stop-loss) and over the last 30 calendar days (monthly stop-loss), backed by cumulative monitoring at the start of the year, via a reporting process to the relevant decision-making bodies. Limits are based on the maximum level of loss deemed acceptable in the reference period in accordance with Bank strategies (Risk Capital within the scope of the Risk Appetite Framework, RAF) and established in the annual Operating Plan. Risk Capital is in turn broken down across the various asset classes that make up the portfolio.

With regard to VaR limits, they are defined as the limit, over which there should be no losses with reference to a certain level of confidence and a specific time horizon. VaR is a single measurement indicator applicable to all types of market trading and all financial instruments, thus allowing a comparison of risk figures calculated from both a time and daily profitability viewpoint. For the VaR calculation, the Bank uses the parametric model of variance-covariance provided by the company Prometeia, supported by hybrid, internal models used for the necessary audits.

The responsibility for daily checks on operating limits, on positions, on Stop-Loss and VaR is entrusted to the Risk Management Office which, in order to avoid and prevent any possible exceeding of authorised risk limits, controls and verifies approximations on reaching thresholds, through a standardised daily reporting system.

VaR models are intended for management purposes and are not used to calculate the capital requirements on credit risk for which, instead, the standard approach for supervisory reporting to the Bank of Italy is adopted.

QUANTITATIVE INFORMATION

1. *Regulatory trading portfolio: breakdown of cash financial assets and liabilities and financial derivatives by residual maturity (re-pricing date)*

Currency: Euro

Type/Residual life (thousands of Euro)		On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified life
1.	***Cash assets***	**-**	**90**	**-**	**-**	**608**	**7,589**	**-**	**-**
1.1	Debt securities	-	90	-	-	608	7,589	-	-
	- With option of early redemption	-	-	-	-	-	-	-	-
	- Other	-	90	-	-	608	7,589	-	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	**-**	**11,988**	**(1,741)**	**(40)**	**(3,556)**	**(4,203)**	**(2,442)**	**-**
3.1	With underlying security	-	15,526	(105)	(309)	(112)	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	15,526	(105)	(309)	(112)	-	-	-
	+ Long positions	-	15,729	-	20	28	-	-	-
	- Short positions	-	(203)	(105)	(329)	(140)	-	-	-
3.2	Without underlying security	-	(3,538)	(1,636)	269	(3,444)	(4,203)	(2,442)	-
	- Options	-	-	-	-	6,645	(4,203)	(2,442)	-
	+ Long positions	-	1	-	1	75,028	42,271	9,811	-
	- Short positions	-	(1)	-	(1)	(68,383)	(46,474)	(12,253)	-
	- Other derivatives	-	(3,538)	(1,636)	269	(10,089)	-	-	-
	+ Long positions	-	18,924	1,164	26,200	25,706	-	-	-
	- Short positions	-	(22,462)	(2,800)	(25,931)	(35,795)	-	-	-

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	**-**	**13,268**	**1,588**	**(273)**	**92**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	13,268	1,588	(273)	92	-	-	-
Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	13,268	1,588	(273)	92	-	-	-
+ Long positions	-	30,967	2,712	870	796	-	-	-
+ Short positions	-	(17,699)	(1,124)	(1,143)	(704)	-	-	-

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

The Company did not hold any equity securities or share indices classified in the regulatory trading portfolio at the balance sheet date, as in the previous year.

3. *Regulatory trading portfolio: internal models and other methods of sensitivity analysis*

The trends in VaR for 2017 are shown below (confidence 95%, 1-day confidence interval) with respect to the entire proprietary portfolio of 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 2017 (daily 99.9% VaR) amounted to Euro 4.7 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 hedging derivatives. Changes in market rate structures can have adverse effects on the banking book (interest margin and share capital) and are therefore a source of risk. Changes in interest rates affect income in that they modify the net interest received, as well as the level of other operating expenses and revenues sensitive to interest rates, but also the underlying value of assets, liabilities, and off-balance sheet postings, since the present value of the future cash flow varies with changes in interest rates.
The interest rate risk on the banking book may have different origins:

- basis risk, i.e. the risk resulting from an imperfect correlation in the adjustment of the receivable and payable interest rates on various instruments but with otherwise similar price revision features; as interest rates vary, these differences can cause unforeseen changes in cash flow and in the yield differential between assets, liabilities and off-balance sheet positions having analogous maturities or rate-repricing frequency;
- repricing risk, the risk deriving from time lags in maturity (for fixed-rate positions) and in the interest rate adjustment date (for floating-rate positions); these can expose the Bank’s income and the economic worth to unforeseen fluctuations as interest rates vary;
- yield curve risk, i.e. the risk that materialises when unexpected changes in the yield curve have adverse effects on the Bank’s income and underlying economic value. In fact, asymmetries in interest rate repricing times can also expose the Bank to changes in the steepness and shape of the yield curve;
- option risk, i.e. the risk deriving from option rights intrinsic to some of the bank’s assets, liabilities and off-balance sheet instruments, such as for example various types of bonds or loans with call or put clauses, that grant the option holder the right to modify the characteristics of the rate applied and/or the duration of contract over time.

The Bank’s 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), calculating the effect of an instantaneous parallel shift in the interest rate curve equal to one percentage point, which is assumed to occur instantaneously and in parallel on all maturity dates on the day after the reference date;
- in relation to the present value of capital, the complete repricing (full valuation) of the receivable and payable items subsequent to a parallel shift of two percentage points, and recalculating of the difference (“delta”) with respect to previous state. The risk indicator represents the ratio between the change of overall value and own funds.

For realistic treatment of core deposits (current accounts in Euro and in foreign currency and savings accounts), the analysis uses an econometric model with parameters based on their historical trends.
Ermas, by the Prometeia company, is the IT procedure used for the actual calculation of the impacts of the interest rate shifts, and hence for the interest rate risk calculation.
The Risk Management Office, every month, calculates the sensitivity of the Bank's interest margins and share capital to predetermined variations in the rate curve on the transactions underlay at the date in question (end of month).
The results of the analysis, together with the rate-change forecasts performed by the Investment and Treasury Departments, are contained in a monthly report and help define the interest rate risk hedging policy established by the Finance Committee. They are discussed by the Finance Committee on a monthly basis. The Investment and Treasury Departments are thus entrusted with the practical application of the decisions made.
With a view to strengthening safeguards against interest rate risk, two main indicators were identified; these regard the sensitivity of the interest margin to interest rate risk, and the sensitivity of the present value of share capital to interest rate risk; specific limits were set for these indicators:

- Indicator ΔMI %: Interest Margin difference (shock +100 bps/-25 bps) / Expected Interest Margin
- Indicator ΔMI %: Economic Value difference (shock +200 bps/-50 bps) / own funds

A limit of 6% is set for the first indicator whereas a limit of 16% is set for the second. The Risk Management Office is responsible for verifying the limitations presented in the preceding paragraph, at least once every month.
As at 31 December 2017, the following sensitivities were determined on the interest margin:

- for a sudden shock of -25 bps on the interest rate curve, a negative impact of -2.1% on the margin, quantifiable in a loss of Euro 3.1 million;
- for a sudden shock of +100 bps on the interest rate curve, a positive impact of 9.2%, quantifiable in a gain of Euro 13.8 million.

By contrast, as regards the effects on the economic value of the total financial items, the analyses performed show that the profile has become "liability sensitive":

- in the case of a parallel decrease in rates of 50 bps, this value would decrease by Euro 5.1 million, 0.6% of own funds;
- for an increase of 200 bps, a gain of Euro 37.8 million was estimated, i.e. 4.6% of own funds.

The banking book price risk only refers to the variations in market price of the assets classed as available for sale. As regards these assets, the methods for measuring and controlling price risk utilise the calculation model previously described, i.e. the daily calculation of Value at Risk (VaR) with a confidence of 99% in a time horizon of 21 days.
The price risk is also calculated as specified by the prudent supervisory regulations for banks issued by the Bank of Italy and currently in force.

B. Fair value hedging

At the balance sheet date, there is no fair value hedging, just as for the previous year.
As regards hedge accounting of the fixed-rate or structured-rate issues, the Bank uses the "fair value option" (FVO) accounting method. The underlying hedging strategy is intended to reduce the term of the liability that is intended to produce certainty in the cost of structured issues.
During 2017, the liabilities defined above were hedged by means of (unlisted) OTC Interest Rate Swap derivative contracts.

C. Cash flow hedging

At the balance sheet date, there is no cash flow hedging, just as for the previous year.

D. Foreign investment hedges

For a thorough analysis, refer to that indicated in section relative to exchange rate risk.

QUANTITATIVE INFORMATION

1. *Banking book: breakdown by residual life (re-pricing date) of financial assets and liabilities*

Currency: Euro

Type/Residual life *(thousands of Euro)*	**On demand**	**Under 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**From 5 to 10 years**	**Over 10 years**	**Unspecified life**
1. Cash assets	**2,079,083**	**4,143,572**	**509,429**	**141,497**	**893,744**	**941,306**	**171,848**	**-**
1.1 Debt securities	168,760	178,058	460,536	56,726	412,276	743,616	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	168,760	178,058	460,536	56,726	412,276	743,616	-	-
1.2 Loans to banks	2,940	104,016	-	-	130	-	-	-
1.3 Loans to customers	1,907,383	3,861,498	48,893	84,771	481,338	197,690	171,848	-
- Current accounts	1,242,118	27,075	4,313	20,483	64,998	111	-	-
- Other loans	665,265	3,834,423	44,580	64,288	416,340	197,579	171,848	-
- with option of early redemption	162,625	3,677,315	28,891	44,298	275,212	196,846	171,782	-
- other	502,640	157,108	15,689	19,990	141,128	733	66	-
2. Cash liabilities	**5,588,892**	**988,811**	**106,716**	**227,674**	**1,520,907**	**2,000**	**5,066**	**-**
2.1 Due to customers	5,447,754	697,177	29,722	14,769	153,081	-	-	-
- Current accounts	5,083,452	-	-	-	-	-	-	-
- other payables	364,302	697,177	29,722	14,769	153,081	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	364,302	697,177	29,722	14,769	153,081	-	-	-
2.2 Due to banks	140,797	1,050	-	1,000	999,190	2,000	-	-
- Current accounts	28,930	-	-	-	-	-	-	-
- other payables	111,867	1,050	-	1,000	999,190	2,000	-	-
2.3 Debt securities	341	290,584	76,994	211,905	368,636	-	5,066	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	341	290,584	76,994	211,905	368,636	-	5,066	-
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	**(404,013)**	**40**	**189**	**2,531**	**44,728**	**70,134**	**286,390**	**-**
+ long positions	-	40	189	2,531	44,728	70,134	286,390	-
+ short positions	(404,013)	-	-	-	-	-	-	-

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	**3,441**	**15,171**	**3,814**	**876**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	2,659	-	-	-	-	-	-	-
1.3 Loans to customers	782	15,171	3,814	876	-	-	-	-
- current accounts	13	-	-	-	-	-	-	-
- other loans	769	15,171	3,814	876	-	-	-	-
- with option of early redemption	769	15,171	3,814	876	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**33,818**	**5,208**	**1,094**	**660**	**-**	**-**	**-**	**-**
2.1 Due to customers	33,108	-	-	-	-	-	-	-
- current accounts	32,346	-	-	-	-	-	-	-
- other payables	762	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	762	-	-	-	-	-	-	-
2.2 Due to banks	710	5,208	1,094	660	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	710	5,208	1,094	660	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	
- other	-	-	-	-	-	-	-	
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

2. Banking book: internal models and other methods of sensitivity analysis

Interest rate risk exposure is measured through an internal model that provides for a full-valuation approach for all the positions comprising the performing assets and burdensome liabilities. In detail, the model provides for the following stages:

- calculating the net present value (NPV) of the individual receivable and payable positions and the off-balance sheet postings and determining the economic value (given by the difference between the NPV of the receivable positions and the NPV of the payable positions);
- defining a scenario relative to a change in the interest rate curve (parallel displacement i.e. steepening or flattening of the curve with reference to the maturity dates deemed most significant);
- recalculating the NPV of the balance sheet and off-balance sheet instruments based on the new interest rate curve and determining the new economic value;
- determining the change of the economic value as the difference between the value before and after the interest rate shock.

At the end of year, the modified duration calculated for the receivables and payable postings of the entire financial statements and the duration gap were moderate.

2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General considerations, exchange rate risk management processes and measurement methods

Exchange rate risk represents the risk connected with a change in value of positions in foreign currency as a result of unexpected changes in currency cross rates.
Support for business activities in foreign currency and foreign securities trading are the Bank's main source generating exchange rate 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 inter-bank market.
The integrated Treasury IT system (Murex) then permits efficient flow management of spots, futures and options within a pre-established framework of operating limits, defined in the "Investment Policy" and the annual "Operating Plan".
All positions in currency are revalued on a daily basis to the reference exchange rates of the European Central Bank and constitute the economic contribution from exchange activities to general Bank profitability.

B. Exchange rate risk hedging

Exposure to foreign exchange rate risk is limited by the Company's extremely prudent approach, which manifests itself in a highly circumscribed currency trading activity.
The exchange rate risk generated by the loans and funding in foreign currency is systematically hedged in real time, with the hedge transaction and/or investment in the same currency.

QUANTITATIVE INFORMATION

1. Currency distribution of assets, liabilities, and derivatives

Items *(thousands of Euro)*	Currency US dollar	Swiss franc	Yen	GB pound	Canadian dollar	Other currencies
A. Financial assets	**7,505**	**14,087**	**1,383**	**205**	**14**	**108**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	-	-	-	-	-	-
A.3 Loans to banks	1,750	308	344	135	14	108
A.4 Loans to customers	5,755	13,779	1,039	70	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**744**	**1,342**	**70**	**325**	**99**	**304**
C. Financial liabilities	**32,414**	**7,216**	**6**	**632**	**313**	**198**
C.1 Due to banks	3,389	4,281	-	1	-	-
C.2 Due to customers	29,025	2,935	6	631	313	198
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**24,152**	**(8,265)**	**(1,454)**	**99**	**213**	**(69)**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	24,152	(8,265)	(1,454)	99	213	(69)
+ long positions	33,318	70	1,531	159	213	54
+ short positions	(9,166)	(8,335)	(2,985)	(60)	-	(123)
Total assets	**41,567**	**15,499**	**2,984**	**689**	**326**	**466**
Total liabilities	**41,580**	**15,551**	**2,991**	**692**	**313**	**321**
Difference (+/-)	**(13)**	**(52)**	**(7)**	**(3)**	**13**	**145**

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)*	**31.12.2017**		**31.12.2016**	
	Over the counter	**Central counterparties**	**Over the counter**	**Central counterparties**
1. Debt securities and interest rates	91,203	-	27,332	-
a) Options	14,424	-	15,541	-
b) Swaps	11,000	-	11,000	-
c) Forwards	779	-	791	-
d) Futures	65,000	-	-	-
e) Other	-	-	-	-
2. Equity securities and share indexes	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	46,133	-	120,626	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	46,133	-	120,626	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	**137,336**	**-**	**147,958**	**-**

A.2 Banking book: year-end notional values

A.2.1 Hedges

At the balance sheet date, as in previous financial year, there are no hedges.

A.2.2 Other derivatives

Underlying assets / Derivative types	**31.12.2017**		**31.12.2016**	
(thousands of Euro)	**Over the counter**	**Central counterparties**	**Over the counter**	**Central counterparties**
1. Debt securities and interest rates	5,848	-	5,848	-
a) Options	-	-	-	-
b) Swaps	5,848	-	5,848	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and share indexes	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
Total	**5,848**	**-**	**5,848**	**-**

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

Underlying assets / Derivative types *(thousands of Euro)*	***Positive fair value***			
	31.12.2017		**31.12.2016**	
	Over the counter	**Central counterparties**	**Over the counter**	**Central counterparties**
A. Regulatory trading portfolio	**346**	**-**	**1,542**	**-**
a) Options	58	-	57	-
b) Interest rate swaps	49	-	95	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	239	-	1,390	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking book – hedging	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book – other derivatives	**2,863**	**-**	**2,870**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	2,863	-	2,870	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**3,209**	**-**	**4,412**	**-**

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

Underlying assets / Derivative types *(thousands of Euro)*	*Negative fair value*			
	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading portfolio	**2,062**	**-**	**2,252**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	1,486	-	1,916	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	576	-	336	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking book – hedging	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book – other derivatives	**12**	**-**	**17**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	12	-	17	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**2,074**	**-**	**2,269**	**-**

A.5 *OTC financial derivatives: regulatory trading portfolio – notional values, gross positive and negative fair values for counterparties – contracts that do not come under offsetting agreements*

Contracts that do not come under offsetting agreements *(thousands of Euro)*	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates	**-**	**-**	**92,342**	**-**	**-**	**-**	**786**
- notional value	-	-	90,424	-	-	-	779
- positive fair value	-	-	107	-	-	-	4
- negative fair value	-	-	1,486	-	-	-	3
- future exposure	-	-	325	-	-	-	-
2) Equity securities and share indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currency and gold	**-**	**-**	**40,765**	**-**	**-**	**6,302**	**196**
- notional value	-	-	39,926	-	-	6,013	195
- positive fair value	-	-	40	-	-	195	1
- negative fair value	-	-	557	-	-	16	-
- future exposure	-	-	242	-	-	78	-
4) Other securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives: regulatory trading portfolio – notional values, gross positive and negative fair values for counterparties – contracts that come under offsetting agreements

At the balance sheet date, as in the previous financial year, there are no financial derivatives that come under offsetting agreements.

A.7 OTC financial derivatives: banking book – notional values, gross positive and negative fair values for counterparties – contracts that do not come under offsetting agreements

Contracts that do not come under offsetting agreements ***(thousands of Euro)***	**Governments and central banks**	**Other public entities**	**Banks**	**Financial companies**	**Insurance companies**	**Non-financial companies**	**Other entities**
1) Debt securities and interest rates	**-**	**-**	**8,742**	**-**	**-**	**-**	**-**
- notional value	-	-	5,848	-	-	-	-
- positive fair value	-	-	2,863	-	-	-	-
- negative fair value	-	-	12	-	-	-	-
- future exposure	-	-	19	-	-	-	-
2) Equity securities and share indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currency and gold	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4) Other securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives: banking book – notional values, gross positive and negative fair values for counterparties – contracts that come under offsetting agreements

At the balance sheet date, as in the previous financial year, there are no financial derivatives that come under offsetting agreements.

A.9 Residual life of OTC financial derivatives: notional values

Underlying / Residual life ***(thousands of Euro)***	**Under 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
A. Regulatory trading portfolio	**87,585**	**41,385**	**8,366**	**137,336**
A.1 Financial derivatives on debt securities and interest rates	42,952	39,885	8,366	91,203
A.2 Financial derivatives on equity securities and share indexes	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	44,633	1,500	-	46,133
A.4 Financial derivatives on other assets	-	-	-	-
B. Banking book	**2,000**	**3,848**	**-**	**5,848**
B.1 Financial derivatives on debt securities and interest rates	2,000	3,848	-	5,848
B.2 Financial derivatives on equity securities and share indexes	-	-	-	-
B.3 Financial derivatives on exchange rates and gold	-	-	-	-
B.4 Financial derivatives on other assets	-	-	-	-
Total 31.12.2017	**89,585**	**45,233**	**8,366**	**143,184**
Total 31.12.2016	**124,533**	**19,701**	**9,571**	**153,805**

A.10 OTC financial derivatives: counterparty risk/financial risk – Internal models

The Company does not use internal EPE-type models validated by the regulatory authorities for the purpose of calculating the capital requirements for counterparty risk.
For operational purposes and for the assessment of capital adequacy (Internal Capital Allocation Assessment process, ICAAP), it uses a risk estimation model relative to the component represented by the OTC derivative transactions.
This model entails the use of in-house market risk estimation methods to determine the potential short-term evolution of the positions' fair value, incorporating the benefits of market correlations and including the impacts of the guarantee agreements.

B. CREDIT DERIVATIVES

B.1 Credit derivatives: year-end and interim notional values

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.2 OTC credit derivatives: positive gross fair value – breakdown by product

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.3 OTC credit derivatives: negative gross fair value – breakdown by product

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.4 OTC credit derivatives – Gross fair values for counterparties (positive and negative) – Contracts that do not come under offsetting agreements

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.5 OTC credit derivatives – Gross fair values for counterparties (positive and negative) – Contracts that come under offsetting agreements

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.6 Residual maturity of the credit derivatives: notional values

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.7 Credit derivatives: counterparty risk / financial risk - Internal models

At the balance sheet date, as in the previous financial year, there are no credit derivatives.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: net fair values and future exposure for counterparties

At the balance sheet date, as in the previous financial year, there are no financial and credit derivatives.

Section 3 LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, management processes and methods of measuring liquidity risk

Liquidity risk is the risk that the Bank might not be able to meet its own payment commitments at the due date, which would compromise day-to-day operations or the financial situation of the Bank itself. Within this risk, there are the following definitions for each component of liquidity risk:

- refinancing risk can, in turn, be broken down into:
    - funding liquidity risk, i.e., the risk that the Bank is unable to fulfil its payment commitments when they come due because of the incapacity or impossibility of procuring the necessary funds;
    - liquidity contingency risk, i.e., the risk that future contingencies may require an amount of liquidity in excess of that expected, such as the non-repayment of loans, the need to fund new activities, withdrawal risk, i.e., an unexpected, greater than anticipated withdrawal of deposits by customers, credit line utilisation risk, that is, an unexpected, greater than anticipated utilisation of the credit facilities by the customers.
- rollover risk, i.e., the potential risk of rising loan costs due, for example, to changes in the Bank's rating (internal factor) or widening of credit spreads (market factor);
- market liquidity risk, which is the risk that the Bank is not able to dispose of assets, thereby generating losses due to market conditions; these risks are managed by the departments in charge of the various trading portfolios and, as a result, are measured and monitored according to econometrics for market risk management;
- liquidity concentration risk, which can, in turn, be broken down into:
    - flow concentration risk, i.e. the concentration risk of inflows and outflows of expected cash - and the resulting imbalances or surpluses - over predefined expiry bands; in this case, there is inadequate discontinuity in the expiry dates with potential negative impacts on the exposure to liquidity risk;
    - funding contingency risk, i.e. the risk of dependence on a single market or an excessively limited number of markets/counterparties or concentration on certain technical forms, to the extent that the withdrawal of funds by a limited number of counterparties, or the loss of a funding channel could lead to a substantial review of the controls necessary to deal with liquidity risk;
- liquidity mismatch risk, i.e., the risk of inconsistency between the amounts and/or timeframes between incoming and outgoing cash flow;
- margin calls liquidity risk, which refers to a situation where the Bank is required by contract to supplement warranties and/or margins for certain financial instruments;
- operational liquidity risk, i.e., the risk of not fulfilling payment obligations due to errors, violations, interruptions or damages caused by internal processes, personnel, systems or external events, despite the Bank remaining solvent.

Liquidity risk management is described in the document "Liquidity and Funding Policy", reviewed, and approved annually by the Board of Directors. In detail, it defines:
- the organisational model, that assigns roles and responsibilities to the offices involved in the liquidity management and control process;
- policies for managing operational and structural liquidity, indicating the models and metrics used to assess, monitor and control liquidity risk and for performing stress tests;
- Contingency Funding Plan (CFP), which provides the organisational processes and interventions undertaken to restore standard conditions in liquidity management in addition to providing a description of indicators to determine any critical situations.

In particular, the policy concerns the provisions regarding the governance and management of liquidity risk contained in Bank of Italy Circular no. 298 of 17 December 2013 and subsequent updates. These rules and regulations are based on the principle that an adequate liquidity risk governance and management system, integrated with the overall risk management system, is fundamental for maintaining the stability of individual banks and the market. This entails rules regarding matters of organisation and internal controls, as well as the adoption of precise management instruments and public disclosure obligations, which although proportional to the operational size, to the organisational complexity, and to the type of the activities performed by the individual banks, require a significant commitment on the part of the latter.

The management of liquidity risk is allocated to the Treasury Service, which operates under the direct management of the Finance Department. However, the definition and control of compliance with operational limits lies with the Risk Management Office. General Management is responsible for governance over liquidity, both as regards compliance with the limits defined and as regards tactical and structural funding strategies. In the event of liquidity emergencies, General Management is also responsible for activation, management, and coordination of the Bank's Contingency Funding Plan.

An essential element is the distinction between short-term operational liquidity (under 12 months) and medium/long-term structural liquidity (over 12 months). The former is to deal with unexpected critical situations due to specific shocks in the Bank or market; the latter meets the need to ensure optimal management from a strategic standpoint, transformation of maturities between funding and loans, by balancing asset and liability maturities in order to prevent any future crises in liquidity.

The containment of exposure to liquidity risk is pursued primarily through a structured set of guidelines, operational decisions, and organisational control, the most relevant of which are:
- ensure the capacity to meet foreseen and unforeseen cash payment commitments by maintaining a sustainable ratio between incoming and outgoing cash flow;
- maintain an adequate ratio between overall liabilities and medium/long-term assets aimed at avoiding pressure on current and prospective sources in the short term;
- centralise liquidity management;
- diversify the sources of funding in terms of funding instruments, counterparties, in geographic terms, and currency;
- keep a sufficient stock of assets on hand that can be easily liquidated and used to guarantee loan transactions or that are directly disposable in crisis situations; specifically, it is expected that the trading portfolio will be invested mainly in listed financial instruments with a strong rating, based on precise, pre-established limits in terms of quantity and quality. The listing and strong rating help to rapidly unfreeze the financial instruments;
- manage 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 maturity ladder was prepared, which is a surveillance system for the net financial position that reports the balances and therefore the imbalances between expected inflows and outflows over predefined time bands and, through the formation of cumulative imbalances, calculates the net financial requirement (or surplus) in the time horizon considered.
To measure the Bank's liquidity risk, the Liquidity at Risk (LaR) model is used; this is based on observing the "independent" negative net flows of liquidity – taking into consideration the historical series of the last 5 years – applying the Extreme Value Theory, which allows accuracy to be improved for high confidence levels. More specifically, the following daily balances are used: mandatory reserve at the Bank of Italy, inter-bank deposits, bond issues, securitisations, movement of securities owned, and extraordinary flows. The data is processed to determine the daily cash flow linked solely to decisions not under the direct control of the Bank (Treasury Service) and so resulting from customer conduct. The 3 confidence levels in question should represent the Bank's liquidity needs under normal conditions (up to the LaR value at 99% confidence), stress (up to 99.9%) and critical (up to 99.99%) at 1 day, 1 week (5 business days), 2 weeks (10 business days) and at one month (20 business days).
Other fundamental liquidity risk management functions regard conducting a stress test program aimed at evaluating the Bank's vulnerability to exceptional but plausible events. In particular, stress testing is performed in terms of scenario analyses, consistent with the definition of liquidity risk adopted and attempting to simulate the behaviour of the Bank's cash flow under unfavourable conditions, making subjective assumptions based on the Bank's experience and/or instructions provided by supervisory regulations and guidelines. The risk factors involved in the test include, for example:

- increasing demand withdrawals
- revocation/non-renewal or reduction of credit lines received
- increase in haircut of securities that can be readily liquidated
- non-/limited rollover of maturing loans and renewing lines of credit/credit openings
- reduction in rollover of inter-bank funding
- revocation/non-renewal or reduction of credit lines received
- increase in utilisation of credit lines granted
- increase in haircut of securities that can be readily liquidated
- increase in haircut on cash loans

Moreover, the organisational layout of the structures and functions responsible for managing liquidity and the relative controls and contingency plans to be implemented in times of stress or crisis (CFP, Contingency Funding Plan) are clearly defined in the policy; a contingency is declared when there is problematic progression in a predefined series of external and internal factors.
As indicated by the relevant legislation mentioned above, a "Policy on the Internal Transfer Price System" (TIT) of funds was also defined starting from 2011. The system sets the following objectives:

- transfer of interest rate and liquidity risks from the sales network to the Treasury unit, so as to guarantee the centralised valuation and management of the Bank's exposure to these types of risk;
- transfer of fees resulting from the transformation of maturities from the sales network to the Treasury unit;
- possibility of precisely assessing the actual fee at the level of each individual sales unit and each individual customer relationship.

The internal transfer rates on which the system is based, in addition to being differentiated by maturity (multiple TIT), and being based on market rates effectively tradable by the Treasury, guarantee revenue margins for the operating units consistent with the Bank's overall profitability, and are all composed of several components with different purposes:

- the "interest rate" (risk-free TIT) component that transfers the interest rate risk from the sales unit to the treasury unit;
- the "liquidity" component (liquidity TIT), which takes into account the refinancing cost that the Bank must face in the inter-bank market and its capacity to assume the risk set out in the "Risk Policy" and in the "Liquidity Policy";
- the "bonus-malus" component, as an instrument to manage any commercial incentives.

Finally, during 2017, the analysis of the Bank's liquidity situation did not indicate any situations of short- or long-term stress, as is also shown by the weekly reports sent to the Bank of Italy.

QUANTITATIVE INFORMATION

1. *Time distribution by residual contract duration of financial assets and liabilities*

Currency: Euro

Items / Timescales (*thousands of Euro*)	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Unspecified life
Cash assets	**1,121,617**	**8,838**	**37,162**	**202,722**	**318,583**	**324,198**	**607,840**	**3,097,701**	**3,017,693**	**104,016**
A.1 Government securities	-	-	-	-	27,885	35,948	100,211	491,050	649,796	-
A.2 Other debt securities	8	-	74	28,759	5,079	12,281	35,228	346,878	107,001	-
A.3 UCITS units	43,636	-	-	-	-	-	-	-	-	-
A.4 Loans	1,077,973	8,838	37,088	173,963	285,619	275,969	472,401	2,259,773	2,260,896	104,016
- Banks	2,304	-	-	639	-	-	-	130	-	104,016
- Customers	1,075,669	8,838	37,088	173,324	285,619	275,969	472,401	2,259,643	2,260,896	-
Cash liabilities	**5,475,930**	**176,445**	**2,343**	**37,534**	**30,625**	**69,835**	**239,715**	**2,196,588**	**218,696**	**-**
B.1 Deposits and current accounts	5,405,718	1,356	1,638	8,089	24,928	28,941	14,018	149,510	-	-
- Banks	28,931	-	-	-	-	-	-	-	-	-
- Customers	5,376,787	1,356	1,638	8,089	24,928	28,941	14,018	149,510	-	-
B.2 Debt securities	341	2,277	705	29,445	4,697	38,266	222,074	554,818	105,000	-
B.3 Other liabilities	69,871	172,812	-	-	1,000	2,628	3,623	1,492,260	113,696	-
Off-balance sheet transactions	**(405,392)**	**1,846**	**(14,559)**	**165**	**(290)**	**(1,549)**	**2,480**	**44,403**	**356,524**	**-**
C.1 Financial derivatives with exchange of principal amount	-	1,846	(14,559)	165	(329)	(1,741)	(50)	(325)	-	-
- Long positions	-	7,419	86	284	855	1,164	1,220	745	-	-
- Short positions	-	(5,573)	(14,645)	(119)	(1,184)	(2,905)	(1,270)	(1,070)	-	-
C.2 Financial derivatives without exchange of principal amount	(1,379)	-	-	-	(1)	3	(1)	-	-	-
- Long positions	107	-	-	-	-	7	7	-	-	-
- Short positions	(1,486)	-	-	-	(1)	(4)	(8)	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	(404,013)	-	-	-	40	189	2,531	44,728	356,524	-
- Long positions	-	-	-	-	40	189	2,531	44,728	356,524	-
- Short positions	(404,013)	-	-	-	-	-	-	-	-	-
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		**2,926**	**690**	**594**	**845**	**11,778**	**3,112**	**660**	**259**	**2,563**	**-**
A.1	Government securities	-	-	-	-	-	-	-	-	-	-
A.2	Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3	UCITS units	-	-	-	-	-	-	-	-	-	-
A.4	Loans	2,926	690	594	845	11,778	3,112	660	259	2,563	-
	- Banks	2,659	-	-	-	-	-	-	-	-	-
	- Customers	267	690	594	845	11,778	3,112	660	259	2,563	-
Cash liabilities		**33,818**	**-**	**4,273**	**520**	**415**	**1,088**	**660**	**-**	**-**	**-**
B.1	Deposits and current accounts	33,108	-	4,273	-	-	584	-	-	-	-
	- Banks	-	-	4,273	-	-	584	-	-	-	-
	- Customers	33,108	-	-	-	-	-	-	-	-	-
B.2	Debt securities	-	-	-	-	-	-	-	-	-	-
B.3	Other liabilities	710	-	-	520	415	504	660	-	-	-
Off-balance sheet transactions		**-**	**(1,239)**	**14,374**	**(168)**	**300**	**1,588**	**(273)**	**92**	**-**	**-**
C.1	Financial derivatives with exchange of principal amount	-	(1,239)	14,374	(168)	300	1,588	(273)	92	-	-
	- Long positions	-	10,521	17,431	1,899	1,115	2,712	870	796	-	-
	- Short positions	-	(11,760)	(3,057)	(2,067)	(815)	(1,124)	(1,143)	(704)	-	-
C.2	Financial derivatives without exchange of principal amount	-	-	-	-	-	-	-	-	-	-
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.3	Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.4	Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.5	Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6	Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7	Credit derivatives with exchange of principal amount	-	-	-	-	-	-	-	-	-	-
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.8	Credit derivatives without exchange of principal amount	-	-	-	-	-	-	-	-	-	-
	- Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The hedge fund portfolio amounted to Euro 2.8 million as at 31 December 2016.
Capital losses of Euro 0.4 million were recorded, distributed over 2 positions.

Section 4 OPERATIONAL RISKS

QUALITATIVE INFORMATION

A. General considerations, operational risk management processes and measurement methods

In line with the supervisory provisions, operational risk is defined as the risk of incurring losses due to errors, violations, interruptions, exogenous events or damages deriving from malfunctions in the internal processes or the unsuitability of people and/or systems. Operational risks include, among other things, the ensuing losses from theft and fraud, human errors, interruptions of operations, the unavailability of systems, executions of transactions, breaches of contract, data processing, damage to real property, and natural catastrophes.
These risks will be monitored, within the scope of the Internal Control System, by all company control functions (Internal Audit, Compliance and Risk Management) in accordance with the following guidelines:

- prevent the occurrence or reduce the probability of events occurring that could potentially generate operating losses, through the appropriate legal, organisational, procedural and training activities;
- mitigate the expected effects of these events;
- enhance overall operational efficiency;
- protect the Bank's reputation and image.

Certain types of operational risks, due to their significance or singularity, are considered as separate types of risk and their coverage is also ensured by dedicated control functions:

- legal, judicial and non-compliance risks;
- risk of money laundering and/or terrorist financing;
- risks of erroneous financial disclosure;
- risks of conditioning by influential parties;
- outsourcing risks;
- IT risk;
- model risk;
- conduct risk.

Monitoring and measuring of operating losses

The most advanced method for measuring the operational risk profile involves the combined use of information regarding historical internal and external operating losses, with qualitative factors deriving from scenario analysis and from assessments relative to the control systems and to the business environment.
With regard to operational risk monitoring, since it was founded in 2002, the Bank has been a member of the ABI's DIPO (Italian database of operating losses) inter-bank consortium, and is therefore regularly involved in operating loss data collection activities.
The internal operating loss database records all events involving an operating loss of over Euro 500. These reports originating from the network and the internal organisation units are integrated with losses deriving from legal action and customer complaints; both types of events are systematically recorded and monitored as they evolve on special internal databases under management of the Legal Department and the Compliance Office respectively.
Whenever, subsequent to a legal and accounting analysis, facts emerge that imply probable future disbursements of economic resources, appropriate precautionary allocations of funds are made to the provisions for risks and charges, in addition to implementing settlement 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 Control Committee. The main sources of operational risk manifestation are identified in those meetings, also involving the operational units ("process owners") concerned from time to time, together with potential critical situations, the suitability of the existing operating processes with regard to the potential sources of loss, the action and measures to be taken with a view to preventing and mitigating these sources, and the quality of insurance hedges. As already indicated, where deemed expedient, certain categories of operational risks are mitigated through the stipulation of ad hoc insurance contracts. The Bank also has a sophisticated business continuity plan, operationally reviewed and audited annually; it establishes principles, objectives, and procedures aimed at reducing the damage resulting from accidents and catastrophes to a level deemed acceptable.

The Risk Management Office also carries out analyses and digital processing activities, based entirely on the data on the internal database of operating losses, with the aim of calculating the VaR values of the operating losses (Operational VaR, i.e. potential loss). The model involves a Monte Carlo simulation based on 60,000 scenarios. The operating losses in one year are simulated in each scenario, numerically and by amount, acting on 2 independent distributions that model the following fundamental variables:

- distribution of the frequency of the loss events (number of events in 1 year); a Poisson distribution is used;
- distribution of the severity (amount) of the loss events ("severity loss distribution"); the general Pareto distribution is used in accordance with the Extreme-Value-Theory method (EVT).

The database comprises loss events that have been recorded by Volksbank since 2003, filtering events that involve amounts of more than Euro 500 only. As at December 2017, the model estimated the potential operational losses in 1 year as Euro 6.9 million with a confidence interval of 99% (1 year for every 100).

For the purpose of calculating the capital requirements with reference to operational risk, the Company adopted the Traditional Standardised Approach, starting from 31 December 2012, in compliance with the regulatory provisions of EU Regulation no. 575/2013 dated 26 June 2013, which acknowledges the provisions of Basel 3. This envisages that the overall capital requirement calculation equals the average of the so-called TSA contribution, which refers to the most recent three observations made at the end of the financial year (31 December) on an annual basis. The TSA contribution is obtained from the sum of contributions from the individual regulatory business lines (BLs) each year; these sums are calculated by applying the regulatory coefficients (known as "β" or risk factors) as weighting factors to the relevant indicator. These coefficients were estimated by the Supervisory Authority on the basis of the relationship between historically recorded losses by the banking industry in that particular BL and the related economic indicator. As significant indicator, the legislation establishes a whole series of elements, appropriately dealt with, taken from the accounting items of the income statement.

Identification and assessment of operational risks

A key element in the identification, assessment and implementation of actions to reduce operational risks in business operations is the business process system which is subject to constant updates and revisions by the respective process owners and which also comply with the three basic criteria of:

- customer focus / streamlining operations;
- efficiency;
- risk monitoring

and the aim is to guide and support the departments involved in pursuing the strategic goals.

The assessment of intrinsic and residual operational risks is carried out through a self-assessment risk process whereby Volksbank analyses all the processes underlying its business activities with respect to the risk factors, considering their potential impact. Each type of risk (intrinsic and residual) is therefore given an overall assessment of its "significance" using a two-dimensional breakdown of the analysis as guidelines:

- impact of the risk on normal business operations;
- probability (or frequency) that the risk will occur in a certain time frame.

The assessment of the residual risk starts with the intrinsic risk, with this being reduced in accordance with the degree of mitigation that is considered to be provided by the controls; if the controls are more stringent, there is a reduction of residual risk, which, by definition, cannot be higher than the associated intrinsic risk. The following instruments are used by Volksbank to ensure that the risks are properly assessed:

- mapping the processes to identify the main risk factors, the interdependence of the various risks, control areas and any shortcomings in the control;
- results of the checks performed by the control departments;
- other information regarding the probability of a new risk and the possible financial consequences that may result;
- risks where there has not been enough information regarding the event probability and potential damage may be subject to qualitative analyses.

Control management processes

Within the Internal Control System, the monitoring of operational risks is guaranteed by adoption of an integrated control model, which, along with the supervisory provisions, is organised into three levels, with each level governing the specific aspects pursuant to its role, the business functions in charge of line control (or first-level control) and the company control functions 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 functions, and which - among other things - is in charge of establishing the priority initiatives and coordinating the control activities.

In addition, monitoring of the operational risks uses the results from the monitoring and analyses of operating losses contained in the periodic report drawn up by the Risk Management Office and related discussions by the same Internal Control Committee.

First-level controls

The first-level controls, or line controls, are aimed at ensuring the correct and lawful performance of the transactions underlying all business processes, and are carried out by the network production units or as part of middle and back-office operations preferably through the use of computer procedures/systems.

They are the first line of defence in the operational risk monitoring system.

The individual process owners are responsible for the line controls; they are in charge of evaluating the plans and efficiency of the measures adopted to reduce risk in the operational processes.

Second-level controls

The second-level controls are carried out by different structures that have no connection with the production units; the aim is to:

- agree on the definition of the risk measurement methods, checking compliance with the limits assigned, including in terms of consistency of the work with the pre-defined risk-reward targets (RAF);
- agree on the definition of the risk compliance measurement/evaluation methods, identifying suitable procedures to prevent the risks found and requesting their adoption,
- confirm/declare the company accounting information in accordance with the provisions of the law.

These controls are mainly focused on risk monitoring, auditing compliance with risk limits and the external and internal regulatory provisions, checking the consistency of various transactions with the strategic risk-reward goals, and providing alerts on behaviour or events that depart from usual operations.
The Risk Management Office (as the department that manages risk) and the Compliance Office (which incorporates the regulatory compliance department and anti-money laundering department) carry out a portion of their work within the scope of the second-level controls. In order to ensure the effectiveness of the performance of their duties, the departments that carry out second-level controls are equipped with the necessary independence, authority and professional competence.

Third-level controls

The third-level controls are carried out by different structures to the production units, and are aimed at identifying anomalous trends, breaches of procedures/regulations and evaluating the function of the entire Internal Control System.
Third-level controls are carried out by the Internal Audit Department.
The audits aim to identify anomalous performance, violation of procedures and regulations, and assessment of the overall performance of the internal control system. This activity was performed continuously during the year, either periodically or exceptionally, and by means of both onsite and remote audit tools, in accordance with regulatory instructions.

QUANTITATIVE INFORMATION

Internal reporting activities in 2017 recorded 115 new reports with a gross loss of Euro 1,191,021.54, of which 10.4% of cases were due to internal or external fraud (amounting to 20.6% of the value), 70.4% from processing errors (75.9% of the value), 19.1% due to other factors, forged banknotes, system errors, and legal disputes etc. (3.5% of the value).
By way of comparison, 151 events occurred in 2016, corresponding to gross losses equal to Euro 2,580,908.

PART F INFORMATION ON CAPITAL

Section 1 COMPANY CAPITAL

A. QUALITATIVE INFORMATION

Capital adequacy is governed by the strategic planning activity and risk management, within which the optimum amount of regulatory assets are defined in conformity with applicable provisions.
Volksbank assigns overriding importance to capital adequacy, with particular reference to the governance of operations and risk control. The growth strategy and objectives are defined in relation to the capacity to create value within a context of sufficient profitability, capital strength, and liquidity.
Continuous compliance with capital requirements is monitored regularly and is assumed as a constraint during planning, representing an inviolable condition for banking activity.
The governance of current and prospective capital strength therefore takes into account both the regulatory and operational constraints.
Capital adequacy over time therefore reflects the capital requirements correlated with the multiyear objectives set in the strategic plan. In the process of defining the objectives for the annual budget, a compatibility test is performed with the level of capitalisation, as a function of the expected dynamics of the balance sheet and income statement aggregates.
Capital adequacy is the result of several managerial decisions, such as the dividend policy, the definition of extraordinary financial transactions (share capital increases, issuing of convertible loans, optimisation of assets, etc.) as well as the loan policy in relation to the riskiness of the lending counterparties.
Compliance with the capital base levels is monitored on a quarterly basis, each time identifying the main deviations in order to arrange for necessary guidance and control activities on the aggregate balance sheet items.

B. QUANTITATIVE INFORMATION

B.1 Company capital: breakdown

Items/Amounts *(thousands of Euro)*	**31.12.2017**	**31.12.2016**
1. Share capital	**199,440**	**199,440**
2. Share premium reserve	**383,159**	**383,159**
3. Reserves	**284,366**	**276,644**
- retained earnings:	254,223	246,501
a) legal	116,000	115,400
b) extraordinary	126,611	121,892
c) treasury shares	-	-
d) other	11,612	9,209
- other	30,143	30,143
4. Equity instruments	**-**	**-**
5. (Treasury shares)	**(18,554)**	**-**
6. Valuation reserves	**682**	**(5,543)**
- Financial assets available for sale	2,793	(3,354)
- Property and equipment	-	-
- Intangible assets	-	-
- Foreign investment hedges	-	-
- Cash flow hedges	-	-
- Exchange differences	-	-
- Non-current assets held for sale	-	-
- Actuarial gains (losses) on defined benefit plans	(2,111)	(2,189)
- Portion of valuation reserves relating to equity-accounted investees	-	-
- Special revaluation laws	-	-
7. Net income (loss) for the year	**24,277**	**7,722**
Total	**873,370**	**861,422**

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

Asset/Value	**31.12.2017**		**31.12.2016**	
(thousands of Euro)	**Positive reserve**	**Negative reserve**	**Positive reserve**	**Negative reserve**
1. Debt securities	5,633	(3,412)	3,117	(5,521)
2. Equity securities	1,308	(615)	1,218	(19)
3. UCITS units	410	(531)	1,867	(4,016)
4. Loans	-	-	-	-
Total	**7,351**	**(4,558)**	**6,202**	**(9,556)**

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	**(2,404)**	**1,199**	**(2,150)**	**-**
2. Positive changes	**6,193**	**105**	**4,519**	**-**
2.1 Increases in fair value	5,609	105	493	-
2.2 Reclassification to profit or loss of negative reserves	584	-	4,026	-
- from impairment	-	-	-	-
- from disposal	584	-	4,026	-
2.3 Other changes	-	-	-	-
3. Negative changes	**1,568**	**611**	**2,490**	**-**
3.1 Decrease in fair value	406	611	706	-
3.2 Losses on impairment	-	-	-	-
3.3 Reclassification to profit or loss from positive reserves: from disposal	1,162	-	1,784	-
3.4 Other changes	-	-	-	-
4. Closing balance	**2,221**	**693**	**(121)**	**-**

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

(thousands of Euro)	31.12.2017		31.12.2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
Defined benefit plans	-	(2,111)	-	(2,189)
Total	**-**	**(2,111)**	**-**	**(2,189)**

(thousands of Euro)	
1. Opening balance	**(2,189)**
2. Positive changes	**108**
2.1 Profits from changes to discount rates	108
2.3 Other changes	
3. Negative changes	**(30)**
3.1 Decrease in fair value	
3.3 Other changes	(30)
4. Closing balance	**(2,111)**

Section 2 OWN FUNDS AND ADEQUACY RATIOS

As from 1 January 2014, the harmonised provisions for banks and investment companies are applicable, contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) dated 26 June 2013, which were followed by the provisions issued by the Bank of Italy under Circular no. 286 dated 17 December 2013 – 6th update of 7 August 2015, by means of which the harmonised provision for banks and insurance companies was reviewed and under Circular no. 285 dated 17 December 2013 – 14th update of 24 November 2015, by means of which the instructions for the compilation of prudent reporting were indicated.

2.1 Own funds

A. QUALITATIVE INFORMATION

Own funds represent the first safeguard against the risks associated with all the banking activities and represent the main reference parameter for the assessments in terms of banking solidity. They comprise:
- Class 1 capital, in turn broken down into:
- Common Equity Tier 1 - CET1;
- Additional Tier 1 - AT1;
- Tier 2 - T2.

The equity instruments issued, in order to be included in Common Equity, must guarantee the absorption of the on-going concern losses, by means of observance of the following characteristics:
- maximum level of subordination;
- possibility of suspension of the recognition of dividends/coupons at the complete discretion of the issuing body and in a non-cumulative manner;
- irredeemability;
- absence of incentives to reimburse.

1. Common Equity Tier 1 Capital (CET 1)

The Common Equity Tier 1 capital (CET1) is made up of the following positive and negative elements:
- Share capital and associated share premium reserve;
- Retained earnings;
- Former OCI positive and negative valuation reserves;
- Other reserves;
- Prior CET1 instruments subject to transitory provisions (grandfathering);
- Prudential filters;
- Deductions.

The prudential filters comprise regulatory adjustments of the carrying amount 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.

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). Volksbank does not have instruments included in AT1.

3. Tier 2 capital (T2)

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

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

In 2017, Volksbank issued instruments to be included in T2 for a nominal value of Euro 105 million.

	Issue 17.08.2017	Issue 06.10.2017
Degree of Subordination	Eligible Tier 2 subordinated liabilities	Eligible Tier 2 subordinated liabilities
Amount	5,000,000	100,000,000
Issue Date	17.08.2017	06.10.2017
Maturity date	17.08.2029	06.10.2027
Currency	EUR	EUR
Rate	5.625%	5.625% per annum, payable on a deferred basis until 06.10.2022 (equal to 5yr MS + 536.8 bps), then rate reset at mid-swap fixing + margin of 536.8 bps
Price	99.25	99.56
Listing	No	Luxembourg Stock Exchange

Following the Supervisory Review and Evaluation Process (SREP), the Bank of Italy provides on an annual basis the final decision about the capital requirements with which Volksbank must comply. In particular, due to the communication received on 13 June 2017, Volksbank is required to observe, pursuant to art. 53-bis, paragraph 1, letter d) of Italian Legislative Decree no. 385/93 (TUB), the following capital ratios at an individual level:

- CET 1 capital ratio equals 6.30% and is composed of a binding 5.05% (of which 4.50% due to the mandatory minimum requirements and 0.55% due to the additional requirements determined by the SREP outcome) and for the remaining part by the capital conservation buffer component;
- Tier 1 ratio equals 8% and is composed of a binding 6.75% (of which 6% due to the mandatory minimum requirements and 0.75% due to the additional requirements determined by the SREP outcome) and for the remaining part by the capital conservation buffer component;
- Total Capital Ratio equals 10.25% and is composed of a binding 9% (of which 8% due to the mandatory minimum requirements and 1% due to the additional requirements determined by the SREP outcome) and for the remaining part by the capital conservation buffer component.

The above requirements correspond to the Overall Capital Requirements (OCR) ratio as defined by the Guidelines EBA/GL/2014/13 and are the sum of the binding measures – corresponding to the Total SREP Capital Requirements (TSCR) ratio, as defined in the aforementioned EBA Guidelines – and of the capital conservation buffer.

Taking also into consideration the Capital Guidance, in order to ensure that the binding measures are complied with, also in the case of a deterioration of the economic and financial context, the Bank of Italy has set out the following capital levels:

- CET 1 ratio equals 6.7% and is composed of OCR CET1 ratio of 6.30% and a capital guidance, due to a greater exposure to risk under stress conditions, equal to 0.40%;
- Tier 1 ratio equals 8.55% and is composed of an OCR T1 ratio of 8% and a capital guidance, due to a greater exposure to risk under stress conditions, equal to 0.55%;
- Total Capital ratio equals 11% and is composed of an OCR TC ratio of 10.25% and a capital guidance, due to a greater exposure to risk under stress conditions, equal to 0.75%.

B. QUANTITATIVE INFORMATION

	31.12.2017	31.12.2016
A. Common Equity Tier 1 capital (CET1) before application of prudential filters	**863,289**	**861,421**
of which CET1 instruments subject to transitory provisions	-	-
B. CET1 prudential filters (+/–)	**66**	**5**
C. CET1 gross of deductible elements and effects of the transitory regime (A +/– B)	**863,355**	**861,426**
Items deductible from CET1	**(145,198)**	**(140,333)**
E. Transitory regime - Impact on CET1 (+/–)	**(2,793)**	**2,975**
F. Total Common Equity Tier 1 capital (CET1) (C – D +/-E)	**715,365**	**724,068**
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. Items 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	**105,000**	**-**
of which T2 instruments subject to transitory provisions	-	-
N. Items deductible from T2	**-**	**-**
O. Transitory regime - Impact on T2 (+/–)	**1,149**	**-**
P. Total Tier 2 capital (T2) (M - N +/- O)	**106,149**	**-**
Q. Total own funds (F + L + P)	**821,514**	**724,068**

Since the conditions envisaged by art. 26, paragraph 2 of EU Regulation no. 575 dated 26 June 2013 (CRR) were met for its inclusion in Common Equity Tier 1 capital, profit for the year was included in the calculation.
With reference to the choices made related to the prudential filters, it should be noted that, in calculating the CET1, the amount of the exposure to third party securitisations – which, as at 31 December 2017, totalled Euro 0.6 million – was deducted, as was the amount related to the shares of the Bank – for which the shareholders have expressed their accrued withdrawal right following the transformation into a joint stock company – that have not yet been redeemed due to a dispute about the liquidation value.

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

Counter-cyclical capital buffer

With its letter of 22 December 2017, Bank of Italy decided to maintain the counter-cyclical capital buffer at 0% for the first quarter of 2018, having analysed the reference indicators.

Capital conservation buffer

Bank of Italy communicated on 18 January 2017 its decisions regarding the application of the capital conservation buffer. In October, the supervisory authority decided to adopt the transitory regime envisaged in Directive EU/2013/36 (Capital Requirements Directive, CRD 4) for application of the capital conservation buffer (CCoB), which allows a gradual introduction of the requirement. The decision modified the choice made in 2013, in implementation of CRD 4, to bring forward the application of the full amount of the reserve (equivalent to 2.5% of risk-weighted assets) to banking groups at the consolidated level and banks not belonging to groups.
The decision reflects the need to align domestic regulations with those of the majority of EU Member States. As such, this ensures the equality of treatment between intermediaries of different countries, while reducing the differences between national regulations, in line with the activity launched by the Single Supervisory Mechanism (SSM) to minimise the differences in prudential regulation applicable to banks.
Following the regulatory intervention, the Bank is obliged to apply the minimum coefficient for the capital conservation buffer, both at the separate and consolidated levels, which is equal to:
- 1.250% from 1 January 2017 to 31 December 2017;
- 1.875% from 1 January 2018 to 31 December 2018;
- 2.500% from 1 January 2019.

B. QUANTITATIVE INFORMATION

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

Category/Values		Unweighted amounts		Weighted/required amounts	
		31.12.2017	31.12.2016	31.12.2017	31.12.2016
A.	**RISK ASSETS**				
A.1	**Credit risk and counterparty risk**	**9,930,640**	**9,591,923**	**5,597,724**	**5,748,208**
	1. Standard method	9,930,640	9,591,923	5,597,724	5,748,208
	2. Internal rating-based method	-	-	-	-
	2.1 Basic	-	-	-	-
	2.2 Advanced	-	-	-	-
	3. Securitisations	-	-	-	-
B.	**REGULATORY CAPITAL REQUIREMENTS**				
B.1	**Credit risk and counterparty risk**	**-**	**-**	**447,818**	**459,857**
B.2	**Credit valuation adjustment risk**	**-**	**-**	**–**	**–**
B.3	**Regulation risk**	**-**	**-**	**–**	**–**
B.4	**Market risk**			**914**	**1,174**
	1. Standard method			914	1,174
	2. Internal models			-	-
	3. Concentration Risk			-	-
B.5	**Operational risk**			**33,906**	**33,077**
	1. Basic method			-	-
	2. Standard method			33,906	33,077
	3. Advanced method			-	-
B.6	**Other calculation items**			**-**	**-**
B.7	**Total prudential requirements**			**482,638**	**494,108**
C.	**RISK ASSETS AND ADEQUACY RATIOS**				
C.1	Risk-weighted assets (RWA)			6,032,971	6,176,347
C.2	Common Equity Tier 1 capital/Risk-weighted assets (CET1 capital ratio)			11.86%	11.72%
C.3	Tier 1 capital/Risk-weighted assets (T1 capital ratio)			13.62%	11.72%
C.4	Total own funds/Risk-weighted assets (Total capital ratio)			13.62%	11.72%

PART G BUSINESS COMBINATIONS CONCERNING COMPANIES OR BUSINESS BRANCHES

Section 1 BUSINESS COMBINATIONS CARRIED OUT DURING THE YEAR

No business combinations were carried out during the financial year

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

No business combinations were carried out after the end of the financial year

Section 3 RETROSPECTIVE ADJUSTMENTS

No retrospective adjustments were made during the financial year.

PART H TRANSACTIONS WITH RELATED PARTIES

1. Information on the remuneration of Directors, Statutory Auditors, and key personnel

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

(thousands of Euro)	**31.12.2017**
Directors	993
Key personnel	3,823
Statutory Auditors	301
Total	**5,117**

Remuneration of key personnel ***(thousands of Euro)***	**31.12.2017**
of which	
– short-term benefits	3,227
– post-retirement benefits	327
– long-term benefits	269
– employment termination benefits	-
– share-based payments	-
Total	**3,823**

The amount refers to the total cost incurred by the Company. The amounts paid to the Directors and Statutory Auditors also include any VAT due.

2. Disclosure on transactions with related parties

Based on the specifications of IAS 24, applied to the Bank's organisational and governance structure, the following individuals and legal entities are considered related parties:

- subsidiaries, companies over which the Bank directly or indirectly exercises control, as defined by IAS 27;
- associates, companies in which the Bank directly or indirectly exercises significant influence, as defined by IAS 28;
- joint ventures, companies over which the Bank directly or indirectly exercises joint control, as defined by IAS 31;
- the key management personnel and the supervisory body, i.e. the Directors, Statutory Auditors, General Manager, and Deputy General Manager;
- the other related parties, which include:
    - 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
31.12.2017	3,308	-	785	-	91	-
Impact	0.05%	0.00%	0.01%	0.00%	0.02%	0.00%

	Interest received on loans granted	Interest received on subscribed bonds	Interest paid on loans obtained	Interest paid on bonds issued	Fees and commissions and other revenues	Fees and commissions and other costs
						0.00%
31.12.2017	51	0	0	0	7	0
Impact	0.03%	0.00%	0.00%	0.00%	0.01%	0.00%

Transactions with associated companies

(thousands of Euro)	Loans granted	Subscribed bonds	Loans obtained	Bonds issued	Guarantees	Commitments
31.12.2017	5,503	0	595	0	22	0
Impact	0.08%	0.00%	0.01%	0.00%	0.01%	0.00%

	Interest received on loans granted	Interest received on subscribed bonds	Interest paid on loans obtained	Interest paid on bonds issued	Fees and commissions and other revenues	Fees and commissions and other costs
						0.00%
31.12.2017	54	0	1	0	0	0
Impact	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%

Transactions with Directors, Statutory Auditors and members of General Management

The main balance sheet and income statement transactions in place with Directors, Statutory Auditors and members of General Management are reported hereunder.

(thousands of Euro)		Directors		Statutory Auditors		Key management personnel		Total
		Direct	Indirect	Direct	Indirect	Direct	Indirect	
Agreed credit limit		3,221	63,638	6,155	28,230	57	82	101,383
Commitments		3,387	55,483	5,818	83,798	41	76	148,603
	Impact	0.05%	0.80%	0.08%	1.20%	0.00%	0.00%	2.13%
Credit commitments		-	4,445	-	6,704	-	-	11,149
	Impact	0.00%	1.05%	0.00%	1.58%	0.00%	0.00%	2.63%
Direct funding		1,498	42,020	157	6,699	83	232	50,689
	Impact	0.02%	0.57%	0.00%	0.09%	0.00%	0.00%	0.69%
Indirect funding		532	10,367	38	64	1	165	11,167
	Impact	0.02%	0.30%	0.00%	0.00%	0.00%	0.00%	0.33%
Interest income		49	1,526	83	1,480	-	1	3,139
	Impact	0.03%	0.84%	0.05%	0.82%	0.00%	0.00%	1.73%
Interest expense		3	200	-	3	-	1	207
	Impact	-0.01%	-0.68%	0.00%	-0.01%	0.00%	0.00%	-0.71%
Fee and commission income and other income		8	160	10	119	-	1	298
	impact	0.01%	0.16%	0.01%	0.12%	0.00%	0.00%	0.30%

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 with respect to associated parties".
The Bank adopted - by means of a Board resolution, with the prior favourable opinion of the Independent Directors Committee and the Board of Statutory Auditors - the internal regulation entitled "Risk assets and conflicts of interest with respect to associated parties and the associated policies governing controls" authorised by the Board of Directors on 23 October 2015, published on the websites 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 2017.
In 2017, no significant non-recurring transactions subject to the regulations governing associated parties/related parties were entered into. Furthermore, during the same period of time, there were no positions or transitions, i.e. those that do not form part of the normal day to day operations of the Company, and which, due to their significance and/or relevance, nature of the counterparties, methods for calculating the transfer price or timing of the event, could give rise to doubts regarding the completeness of the information in the financial statements and safeguarding of the Company's assets and protection of shareholders.

PART I SHARE-BASED PAYMENT ARRANGEMENTS

A. QUALITATIVE INFORMATION

The Board of Directors of Volksbank approved a new incentive plan that includes the valuation of a portion of the variable component of compensation for “key personnel” through assignment of ordinary shares of Volksbank, provided that certain specific objectives are achieved during the year.
The plan, approved by the Remuneration Committee on 18 February 2015 and by the Board of Directors on 10 March 2017, was resolved by the Ordinary Shareholders’ Meeting of 1 April 2017.
The beneficiaries of the 2017 plan are the Board of Directors, the General Manager, the Management Committee, and key personnel. Specifically, the process was undertaken by analysing individual roles (responsibilities, hierarchical levels, activities performed, operational delegations, etc.) and according to qualitative and quantitative criteria, which identified the following individuals as plan beneficiaries:

- the General Manager;
- the managers of the principal business areas, business functions, or geographical areas, as well as those who report directly to bodies charged with strategic supervision, management, and control;
- the other individuals who have a substantial impact on the Bank’s risk profile.

In accordance with the Bank’s remuneration policies, managers of control functions are excluded from incentive mechanisms linked to financial results.
The entire compensation policy is based on a logic that is coherent with strategies for sustainability, aimed at maintaining a connection between compensation and the effective stability of results and the level of capitalisation.
The compensation structure includes variable components in the form of:

- incentives (incentive system) for categories of personnel that more directly influence the global performance of the Bank, as they are able to assume risk positions, generate profits, or have an impact on other financial statement items for relevant amounts, and
- performance bonuses (bonus system) for the categories of employees that, in accordance with national or Bank trade union contracts, contribute to the Bank’s overall result and achieve a high level of individual qualitative/quantitative performance.

The incentive system for key personnel is subject to access conditions and adjustments for risks assumed. Moreover, ex-post mechanisms for risk alignment are envisaged, which associate the variable remuneration disbursed with the sustainability of results over time.
Incentives are recognised in cash and financial instruments or correlated instruments that reflect the Bank’s economic value (hereafter, “financial instruments” or “instruments”). Cash incentives represent 75% of the incentive and 25% is recognised in financial instruments or correlated instruments whose value reflects the Bank’s economic value.
The use of shares or equity instruments of the Bank is dependent on prior authorisation by the Shareholders’ Meeting and requirements of the Articles of Association and relevant regulations. During the period of deferment and/or unavailability, dividends and interest are not recognised. Financial instruments are subject to an availability restriction for both the upfront component and the deferred component.
Variable compensation due to Executive Directors, General Managers, Central Management, managers of company control functions, managers of support functions, and other relevant risk takers is recognised as follows:

- 50% upfront, following the approval of the financial statements, and
- for 25% plus 25%, with deferment of 1 plus 1 year, when the underlying performance can be considered definitively obtained so that the access thresholds are met, for the first and second year following.

When the "entry gates" that condition the activation of the plan are lower than the access thresholds, the upfront portion and the deferred portions of the incentive are not recognised. Recognition of the deferred portions depends on the verification of the same conditions of asset sustainability, in the presence of business profits and the liquidity conditions described above for each deferment year.
Deferred components are cancelled should events occur that result in the restitution of amounts already disbursed.
Financial instruments recognised upfront are subject to an availability restriction for two years from the assignment date. Financial instruments recognised with deferment of 1 plus 1 year are subject to an availability restriction of 1 year from the assignment date.

B. QUANTITATIVE INFORMATION

At the approval date of the financial statements, the process for determining the amount of share-based payments was not yet concluded, including for the criterion to calculate the fair value of the assigned shares, for which certain conditions that are essential to the calculation have yet to be defined.
Hence, the amount of the bonus was estimated and recognised in item 150 a) "Personnel expenses", with contra-entry in "Other liabilities". The amount to be paid in shares, as well as the number of shares to be assigned, will be reported when the aforementioned process is complete.

PART L SEGMENT REPORTING

The segment report was prepared in compliance with IFRS 8, which is based on identifying operating segments and the relative methods of management reporting adopted for purposes of business governance to identify the operating segments that must be included in segment reporting.
The organisational and governance model of Volksbank entails the centralisation of management decisions with General Management, where the strategies, new products and services, and sales initiatives are outlined and addressed centrally and applied indistinctly to all regional sales departments.
Hence, planning processes and reporting systems are managed at the business level, without being broken down into operating segments. Furthermore, financial risk is managed centrally and there are no distinct operating divisions or operating segments for homogeneous markets or sectors or based on economic or geographic characteristics.
As a result of the highly centralised structure, revenue flows are governed by business policies that are formulated centrally, based on balanced growth of the entire Bank entity.
Due to the single management design, each segment is identified in consideration of the nature of the products and services offered and the types of reference customers, so that the segment has appropriately homogeneous characteristics in terms of risk profile and profitability.
Considering the significant differences between products and services offered, and the substantial absence of differentiations at the geographic distribution level, the primary framework refers to sectors of economic activity while the geographic area is not relevant for the Bank's business, as it is not reflected in a corresponding management structure.

Criteria for identifying and combining operating segments

The identification and combination of operating segments in conformity with IFRS 8 was carried out by identifying the operating segments in accordance with the "operational approach" used by management when measuring performance:
- Private customers (including consumer families);
- Businesses (including non-financial companies and producer families);
- Finance (asset portfolio and cash management).

A residual segment in which the amounts not specifically referring to the business segments were specifically attributed to the other business segments was also identified.
The segments were identified based on the similarity of the economic characteristics as well as of the similarity of the sector with reference to the nature of the products and processes, the type of customers, the distribution methods, and the regulatory context.
For the purpose of reconciling the sector results with the Company's income, note that the measurement criteria for the sector disclosure reported in this section are consistent with those used in the internal reports, as required by the reference accounting standards. They are also consistent with the accounting standards used for preparing the financial statements for the year, in that they are deemed more suitable for the purpose of attaining a true and fair view of the Company's financial position.

A. PRIMARY FRAMEWORK

Analysis by business segments: income statement figures

(thousands of Euro)	Private individuals	Businesses	Finance	Other	Total
Interest margin	38,139	91,987	21,810	-	151,936
Net fee and commission income	41,158	47,203	(155)	-	88,206
Financial margin	-	-	17,521	-	17,521
Net interest and other banking income	**79,297**	**139,189**	**39,176**	**-**	**257,662**
Net losses/recoveries on impairment	(2,608)	(49,439)	(7,455)	-	(59,502)
Net income from financial activities	**76,689**	**89,750**	**31,721**	**-**	**198,160**
Administrative expenses	-	-	-	(174,426)	(174,426)
Provisions for risks and charges	-	-	-	(2,690)	(2,690)
Amortisation of intangible assets and depreciation of property and equipment	-	-	-	(8,379)	(8,379)
Other operating income/expenses	-	-	-	21,000	21,000
Profits (losses) on investments in associates and companies subject to joint control / on disposal of investments				(762)	(762)
Income (loss) before tax from continuing operations	**76,689**	**89,750**	**31,721**	**(165,256)**	**32,904**

Analysis by business segments: balance sheet figures

(thousands of Euro)	Private individuals	Businesses	Finance	Other	Total
Due from banks	-	-	109,746	-	109,746
Loans to customers	2,356,858	4,436,094	168,760	-	6,961,712
Own securities and investments	-	-	1,930,948	-	1,930,948
Due to banks	-	-	1,150,659	-	1,150,659
Direct funding	4,241,265	2,240,117	756,174	113,889	7,351,446
- Due to customers	3,445,883	2,194,602	649,174	107,212	6,396,871
- Securities issued	795,382	45,516	107,000	6,677	954,575
Indirect funding	3,216,929	188,257	-	-	3,405,186

Note that operating income and the business activities are performed in Italy, confirming that the Company is rooted in the reference territory, a factor of strategic significance in company development.

B. SECONDARY FRAMEWORK

As previously noted, a geographic segmentation is not included, as this does not correspond to any management or reporting structure within the Bank.
Specifically, note that in the provinces in which the Bank operates, there are no particular elements of differentiation in the composition of reference customers, which is reflected in the complete uniformity of products and services offered and the standardisation of sales and management policies.

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

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

The fees of the 2017 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.	Volksbank	84,474
Non-financial statement	BDO Italia S.p.A.	Volksbank	16,500
Certification services	BDO Italia S.p.A.	Volksbank	2,500
Comfort letter Base Prospectus – Supplement no. 2	BDO Italia S.p.A.	Volksbank	10,000
Total			113,474

(1) The amounts are net of VAT and accessory expenses.

Financial statements of the subsidiary Voba Invest S.r.l. in liquidation

Voba Invest S.r.l. in liquidation

Voba Invest S.r.l. - Single shareholder company in liquidation
Offices in Bolzano (BZ) Italy, Via del Macello no. 55
Share capital of Euro 30,000, fully paid in
Listed in the Bolzano Business Register
Tax code 03340170277
A company under the management and coordination of Banca Popolare dell'Alto Adige Soc. Coop. p.a. with registered office in Bolzano, Italy

FINANCIAL STATEMENTS AS AT 31/12/2017
BALANCE SHEET

ASSETS			31.12.2017	31.12.2016
(amounts in Euro)				
A. Share capital not paid in			**-**	**-**
B. Fixed assets				
	I.	Intangible assets		
	II.	Property and equipment		
	1.	Land and buildings	133,347	158,711
	Total		133,347	158,771
	III.	Financial investments		
	1.	Investments in:		
		b. associated companies	-	1
	Total		-	1
	3.	Other securities	100	100
	Total		100	101
Total fixed assets (B)			**133,447**	**158,812**
C. Current assets				
	I.	Inventories		
	4.	Finished products and goods for resale	1,264,187	1,167,980
	Total		1,264,187	1,167,980
	II.	Loans and receivables		
	1.	Due from customers	105	-
	5.bis	Tax receivables	13,624	541,156
	5.quater	Other	85,705	345,272
	Total		99,434	886,428
	III.	Financial assets under current assets		
	IV.	Cash and cash equivalents		
	1.	Bank and post office deposits	785,472	1,675,471
	3.	Cash and equivalents on hand	58	58
	Total		785,530	1,675,529
Total current assets (C)			**2,149,151**	**3,729,937**
D. Accrued income and prepayments			**4,770**	**6,607**
TOTAL ASSETS			**2,287,368**	**3,895,356**

FINANCIAL STATEMENTS AS AT 31/12/2017
BALANCE SHEET

LIABILITIES	31.12.2017	31.12.2016
(amounts in Euro)		
A. Shareholders' equity		
I. Share capital	30,000	30,000
IV. Legal reserve	6,000	-
VII. Other reserves		
13. Sundry other reserves	(45,001)	(45,002)
Total	(45,001)	(45,002)
VIII. Retained earnings/(accumulated losses)	2,268,944	(262,396)
IX. Net income (loss) for the year	(144,983)	2,537,341
Total	**2,114,960**	**2,259,943**
B. Provisions for risks and charges		
4. Other	147,000	45,000
Total	**147,000**	**45,000**
D. Payables		
3. Due to shareholders for loans	-	1,519,492
7. Trade payables	999	1,477
12. Tax payables	-	1,035
14. Other payables	24,409	68,409
Total	**25,408**	**1,590,413**
TOTAL LIABILITIES	**2,287,368**	**3,895,356**

FINANCIAL STATEMENTS AS AT 31/12/2017
INCOME STATEMENT

INCOME STATEMENT ITEMS	31.12.2017	31.12.2016
(amounts in Euro)		
A. Production value		
1. Revenues from sales and services	685,938	16,501
2. Change in inventories of work in progress semi-finished and finished products	96,208	43,702
5. Other revenues and income	316	17,734
Total	782,462	77,937
B. Production costs		
6. Raw, ancillary and consumable materials and goods for resale	5	10
7. Services	644,867	100,973
8. Use of third party assets	37,516	27,335
10. Amortisation, depreciation and write-downs		
b. depreciation of property and equipment	25,364	25,393
Total	25,364	25,393
12. Provisions for risks	102,000	0
14. Other operating charges	149,785	167,296
Total production costs	959,537	321,007
Difference between production value and costs (A-B)	**(177,075)**	**(243,070)**
C. Financial income and expenses		
16. Other financial income		
b. securities recognised under fixed assets	31,999	0
d. income other than the above	94	2,781,628
of which from associated companies	94	1,137
Total	32,093	2,781,628
17. Interest and other financial charges	1	1,217
of which from associated companies	1	180
Total financial income and expenses	32,092	2,780,411
D. Adjustments/recoveries on investments		
Income before taxes (A-B+C+D+E)	**(144,983)**	**2,537,341**
21. NET INCOME (LOSS) FOR THE YEAR	**(144,983)**	**2,537,341**

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

Valpolicella Alta Società Agricola S.r.l.

Valpolicella Alta Società Agricola S.r.l. - Single shareholder company
Offices in Bolzano (BZ) Italy, Via del Macello no. 55
Share capital of Euro 10,000, fully paid in
Listed in the Bolzano Business Register
Tax code 02625480211
A company under the management and coordination of Banca Popolare dell'Alto Adige SpA based in Bolzano – Italy

FINANCIAL STATEMENTS AS AT 31/12/2017
BALANCE SHEET

ASSETS	31.12.2017	31.12.2016
(amounts in Euro)		
A. Share capital not paid in	**-**	**-**
B. Fixed assets		
I. Intangible assets	-	-
II. Property and equipment		
1. Land and buildings	2,812,642	2,812,642
2. Plant and machinery	124,830	-
4. Other assets	1,117,340	1,181,697
5. Construction in progress and advances	-	62,994
Total	4,054,812	4,057,333
III. Financial investments		
Total fixed assets (B)	**4,054,812**	**4,057,333**
C. Current assets		
I. Inventories		
II. Loans and receivables		
1. Due from customers	217,747	216,466
5.bis Tax receivables	28,526	57,037
5.quater Other	47	47
Total	246,320	273,550
III. Financial assets under current assets		
IV. Cash and cash equivalents		
Total current assets (C)	**246,320**	**273,550**
D. Accrued income and prepayments	**1**	**1**
TOTAL ASSETS	**4,301,133**	**4,330,884**

FINANCIAL STATEMENTS AS AT 31/12/2017
BALANCE SHEET

LIABILITIES	**31.12.2017**	**31.12.2016**
(amounts in Euro)		
A. Shareholders' equity		
I. Share capital	10,000	10,000
IV. Legal reserve	2,000	2,000
VII. Other reserves		
1. Extraordinary and optional reserve	5,292	141,568
8. Payments to cover losses	-	4,660
IX. Net income (loss) for the year	(179,247)	(140,935)
Total	**(161,955)**	**17,293**
B. Provisions for risks and charges		
4. Other	37,500	37,500
Total	**37,500**	**37,500**
C. Employee termination indemnities	**-**	**-**
D. Payables		
3. Due to shareholders for loans	1,082,880	1,040,180
5. Due to banks	3,302,548	3,187,916
7. Trade payables	14,250	47,874
12. Tax payables	-	84
14. Other payables	-	37
Total	**4,399,678**	**4,276,091**
E. Accrued expenses and deferred income	**25,910**	**-**
TOTAL LIABILITIES	**4,301,133**	**4,330,884**

FINANCIAL STATEMENTS AS AT 31/12/2017
INCOME STATEMENT

INCOME STATEMENT ITEMS	31.12.2017	31.12.2016
(amounts in Euro)		
A. Production value		
1. Revenues from sales and services	197,946	196,778
5. Other revenues and income	20,254	29,000
Total	218,200	225,778
B. Production costs		
6. Raw, ancillary and consumable materials and goods for resale	36,903	29,817
7. Services	169,924	126,627
10. Amortisation, depreciation and write-downs		
b. depreciation of property and equipment	70,238	64,356
Total	70,238	64,356
12. Provisions for risks		
14. Other operating charges	20,852	3,078
Total production costs	297,917	261,378
Difference between production value and costs (A-B)	**(79,717)**	**(35,600)**
C. Financial income and expenses		
16. Other financial income		
d. income other than the above	68	18
Total	68	18
17. Interest and other financial charges	(99,598)	(105,353)
Total financial income and expenses	(99,530)	(105,335)
D. Adjustments/recoveries on investments		
Income before taxes (A-B+C+D+E)	**(179,247)**	**(140,935)**
21. NET INCOME (LOSS) FOR THE YEAR	**(179,247)**	**(140,935)**