Banca Popolare di Cividale
Gruppo Banca Popolare di Cividale

La Banca del Territorio. Dal 1886.

Reports and Financial Statements at 31/12/2014

BANCA POPOLARE DI CIVIDALE
A cooperative joint-stock company – founded in 1886
Registered office and headquarters: Via Sen. Guglielmo Pelizzo 81;
33043 Cividale del Friuli;
Bank of Italy Register No. 5758.8.0; Italian Banking Association Code 05484;
Registration in the Banking Groups Register No. 05484.1;
Taxpayer ID, VAT reg. no. and Udine Companies Register no. 00249360306;
Share capital at 31/12/2014: €50,913,255, fully paid-in
A member of the Interbank Deposit Protection Fund

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Boards and senior management of Banca Popolare di Cividale at the date of approval of the consolidated financial statements for the year ended 31/12/2014

Board of Directors	
Chairman	Graziano Tilatti
Deputy Chairman	Carlo Devetak Adriano Luci
Directors	Francesca Bozzi Michela Del Piero Massimo Fuccaro Renzo Marinig Guglielmo Pelizzo
Board of Statutory Auditors	
Chairman	Renato Bernardi
Standing Members	Giovanni Dal Mas Gianluca Pico
Substitute Members	Pietro Cicuttini Andrea Volpe
Board of Arbitrators	
Standing Members	Mario Cicuttini Aldo Del Negro Ugo Gangheri Giampaolo Piccoli Eugenio Scarbolo
Substitute Members	Alessandro Rizza Giuseppe Bertolo
Senior management	
General Manager (*)	Gianluca Benatti
Assistant General Manager	Federico Fabbro Gianluca Picotti
(*) in office since 22/01/2015	
Manager responsible for preparing financial reports	Gabriele Rosin
Independent auditors	*Reconta Ernst & Young S.p.A.*

Convocation of ordinary and extraordinary meeting of the shareholders

The Bank's shareholders are hereby notified of the ordinary and extraordinary meeting of the shareholders to be held at the Centro San Francesco in Cividale (Piazza San Francesco), with first call at 9:00 AM on 24 April 2015 and second call, if necessary, at **9:30 AM on Sunday 26 April 2015**.

Agenda

Extraordinary business

1. Proposed amendments to the Articles of Association of Banca Popolare di Cividale S.c.p.A. (articles 3, 5, 6, 7, 8, 16, 17, 22, 24, 30, 31, 32, 33, 34, 37, 38, 39, 40, 41, 43, 44, 45, 47, 50, 51 and 53)

Ordinary business

1. Financial statements for the year ended 31 December 2014 and any related business;
2. Proposal to set the share premium pursuant to Article 2528 of the Italian Civil Code;
3. Regulation for the trading of the ordinary shares of Banca Popolare di Cividale;
4. Group compensation policies; and
5. Appointment of corporate officers and determination of their compensation.

We would also like to remind you that, pursuant to the law, only those shareholders presenting certification of ownership of their shares, issued at branches of Banca Popolare di Cividale S.c.p.A. or by another intermediary, are eligible to attend meetings of shareholders.

In accordance with the current Bylaws for the meetings of Banca Popolare di Cividale S.c.p.A., shareholders may obtain a copy of those Bylaws free of charge.

Cividale, 18 March 2015

The Chairman
Graziano Tilatti

Letter from the Chairman

Shareholders,
It is with true satisfaction that I inform you that after the loss reported in 2013, which put a severe strain on our bank's reputation in the local community for the first time in many years, 2014 was a positive year for the bank.

The consolidated net income of €10.1 million recorded in our books at the end of 2014 is to be regarded as a truly noteworthy result.

It took just a single year to restore the company to profitability and, above all – as you will see in this brief discussion of mine and the figures presented in the report on operations – to put it back on the path of virtuous growth. Accordingly, all stakeholders can look with confidence on the earnings, capitalisation and positioning prospects of Banca Popolare di Cividale in a banking market that in Friuli Venezia Giulia and Eastern Veneto, as in the rest of Italy, is poised to undergo further change relating to the development of the industry from an economic and regulatory standpoint.

Shareholders,
As an illustration of both our satisfaction and our prudent outlook, the following is a very brief overview of the scenario in which the Bank obtained this result and the environment in which it will be called upon to repeat this performance in the current year.

The economic and regulatory situation remains complex, requiring a high level of dedication and intelligence, according to a long-term approach based on judiciousness and prudence.

Signs of an economic recovery remain weak and require further tangible confirmation in terms of employment, business, in its role as the economy's driving force, and peace of mind for households.
The negative effects of the difficult economic scenario began to ease up in the fourth quarter of 2014. Indeed, while production by Friuli Venezia Giulia's manufacturing industry remained stable, some encouraging signs were seen in terms of international sales and orders, and there were the first indications that employment had recovered at companies with a strong international vocation, of which our region has many.

These are important signs, yet they remain weak and will require further confirmation before supporting the view that the current period of economic stagnation has come to an end, especially as concerns companies focusing on the Italian domestic market.
It bears considering that in 2014 the number of companies operating in Friuli Venezia Giulia decreased by 2,139, and more than 1,000 of these were in the primary sector.
Registrations of new companies in regional chamber of commerce registers reached an all-time low.
Household consumption in north-eastern Italy declined by 0.5% in 2014, following the large decline of 2.8% in the previous year.
The sector of the economy capable of leading the recovery – construction – has been the most affected by the crisis. The fourth quarter of 2014 saw continuing declines in production (-3.5%), sales (-4.5%) and employment (-3.9%). The real estate market shows few signs of a price recovery. This has the effect not only of draining relative household wealth, but also of weighing down the performance of banks, which, as you no doubt know better than I do, provide credit to the real economy and households, in many cases with real estate as collateral.

In this economic scenario, Italy's banking industry has therefore suffered the consequences.
In 2014 many banks continued to record large losses and are facing 2015 burdened with extensive loan impairment. At the industry level, total gross non-performing loans reached €180 billion in November 2014.
Banks with very long traditions, against which our bank competes each day in winning the confidence of its customers, are not having an easy time of it.
Of the total non-performing loans in the Italian banking system, 21%, or €38 billion, is carried by cooperative banks, a share that is nonetheless below the other indicators of cooperative banking sector's weight in the banking industry. Cooperative banks continue to show lower risk levels than the Italian national average thanks to their better understanding of their local communities and stable, long-term relationships with their customers, which have mitigated the weight of non-performing positions.

This is in addition to the undoubtedly greater degree of complexity and pervasiveness of the regulatory system for the banking industry, both in Italy and at the European level.

As the founding fathers of the cooperative banking system were well aware, the banking business stands on a single all-important foundation: trust.

In our times, undermined by a devastating economic crisis, well-intentioned efforts are being made to protect this trust in banks through the proliferation of regulations: it is estimated that the annual cost to banks of regulatory compliance at the global level is over €2 billion.
However, the true cost is indirect: every day we are faced with the consequences of bank capitalisation regulations. As in the rest of the industry, cooperative banks must not only be increasingly well capitalised in order to face an epochal systemic crisis, but also comply with European regulatory interpretations that "deduct" securities once considered eligible from capital, requiring that such securities be replaced as sound management practices.

Shareholders,
How is the cooperative banking industry to function in this scenario? More to the point, **how was the Bank able to recover so swiftly from 2013, and what is it doing to improve its competitive position in the economic and regulatory scenario described above?**

Overall, cooperative banks continued to support their local economies, disbursing new loans of over €30 billion to SMEs in 2014, a strong sign of the degree to which their strategies focus on businesses.
This is why we were perplexed by the reform of Italy's major cooperative banks by a law decree that, more than one year later, still appears problematic. It is not a foregone conclusion that transforming cooperative banks into joint-stock companies and undertaking the resulting extraordinary finance transactions will make such banks sounder and more functional for their home communities.

The drive to strengthen capitalisation is very strong. Consequently, bank leaders and strategists must constantly seek out new sources of profitability, while strengthening their institution's local roots and competitive positioning. In particular, we directors of Banca Popolare di Cividale feel the need to ensure that the Bank reaches its 130th year of operation in better shape than ever.

Although the economic situation remained highly challenging in 2014, in north-eastern Italy as elsewhere, our Bank achieved noteworthy positive results thanks to the joint efforts of the entire organisation, to which both the Board of Directors, and, if I may, all of the Bank's shareholders express their gratitude.

The main factors of our success are the daily efforts of the women and men who have put themselves on the line for us, the trust our customers have placed in us and the patience demonstrated by our shareholders. These make up the foundation for very specific key factors of success. Some a tangible nature, such as the geographical proximity of our decision-making centres to businesses and families, or the longer average tenure of our employees at our branches than at medium and large banks. Others are intangible, such as our high level of professional experience in several specific areas of our business (for example, finance and the green economy).

Our Bank is solid, has deep roots in its local community and enjoys growing trust among investors and business owners, resulting in constant growth of its customers and shareholders and loans to businesses.

Customers increased by 2.6% in the previous year; equally gratifying was the rise in shareholders of more than 15%. Direct funding from non-institutional customers increased by 6% and assets under management by 7.8%. New loans of €102 million to businesses and of €88 million to households were written during the year. During the year, we focused on numerous social, cultural and educational projects, fulfilling the requests of over 500 local organisations. Over the past seven years, those of the severe crisis (2008–2014), our Bank has distributed well over €7 million to social initiatives, a commitment that sets us apart as a local bank and genuine cooperative institution. I would be remiss if I were not to mention this year's purchase of 15 defibrillators, which the Bank donated to local municipalities and organisations in need, or if I failed to emphasise the recognition received from the Italian Banking Association for the highly innovative nature of the service represented by the fund-raising project for volunteer/non-profit organisations based on the latest methods and Internet technology (Civibanca 2.0). This specific aspect of our group’s activity will be described in detail in the 2014 Corporate Social Responsibility Report soon to be drafted and made available on our website.

These key factors of our success must be "cultivated," protected and enhanced.

Being an independent bank is essential to all of this: we are surrounded by banks that lost the key factors to their success when they lost their independence.
Independence means conceiving and immediately achieving a series of strategic partnerships worthy of a large bank.

Asset management, bancassurance, consumer credit, leasing and private banking: these are examples of key sectors in which we have struck partnerships from a multi-supplier standpoint capable of ensuring that our institution enjoys a high level of productivity and competitiveness, with positive consequences for the quality of service offered to customers. There are also approximately 15 national and international partners that help our Bank to remain competitive on the market by offering innovative instruments and products in support of its marketing efforts.

If this were not enough, in December we obtained four-year ECB funding through a €120 million TLTRO, while in Luxembourg the EIB provided us with access to an additional €60 million of 10-year funds to finance medium-/long-term projects in our community. Finally, we recently completed the securitisation of nearly €250 million of assets in a transaction of an entirely innovative nature in Italy, and probably in Europe as well, aimed at further improving our Bank's liquidity profile. This was in addition to our new Green Account, through which we raise funds over the Internet throughout Italy for investment in green economy projects in the country.
With the aim of ensuring that our lending business is increasingly attentively and efficiently managed, in 2014 we introduced a rating procedure, followed in early 2015 by a new loan monitoring procedure.
The coverage ratio for consolidated impaired loans was 43.7%, among the highest levels in the industry, whereas the level for non-performing loans was 56%.
We are proud to confirm – as we have often had occasion to do in recent years – that we do not have toxic securities in our portfolios, nor have we distributed such securities.
Our Finance Department generates fundamental profits, while closely monitoring liquidity and risk, without ever exploring exotic, dangerous terrain, in a manner fully consistent with what we believe the shareholders of a cooperative bank expect of us.
Our leasing subsidiary turns a profit, in an industry in which regulatory changes will need to be monitored and exploited in the manner most consistent with the Bank's mission.

As I mention above, we also need to build on the key factors of our success: the Bank has had a new general manager since 22 January. After 30 years of experience at Italy's three foremost banks, Gianluca Benatti, a Cividale native, decided that he had what was needed to take up the challenge of a career with our Bank. This is a tangible sign that the Bank can and must continue to seek out talent in order to grow.

The Bank is offering opportunities to many young people in its local community. While continuing to contain operating costs effectively, including at the level of the general manager (from a historical perspective), the Bank is also continuing to hire employees who have the skills it needs to continue to prosper.

Shareholders,
In other words, Banca Popolare di Cividale is one of the soundest companies in Friuli Venezia Giulia, with the mission of performing to the fullest its role as a "local bank," while keeping the closest possible ties to businesses and households, even at these difficult times. Investors did not lose confidence in our institution even at the most crucial periods: the increasing number of our customers and shareholders continues to bear witness to this fact.

This meeting marks the end of my three-year term of office as director, during the final portion of which, from May 2014 to the present, I also acted as chairman. It has been an honour to serve in this capacity, and it was with conviction that I dedicated all of my human and professional energy to the task, well aware of having to take over for the man responsible for the independent growth of our cooperative bank, Lorenzo Pelizzo, to whom we extend our utmost gratitude. I would also like to thank the board of directors, board of statutory auditors and all of the others who have been at my side professionally during this important experience.

My heartfelt thanks go to General Manager Mario Leonardi, who left the position on 31 December after 18 months of intense, determined and fruitful service. My sincere best wishes to the new general manager.

A sincere thank you to all of our employees, who have been the crucial factor in restoring our institution to profitability immediately, despite the many difficulties. Without this wealth of sound, dedicated resources, we would not have achieved the results that we have.

Finally, you, the shareholders, deserve our gratitude for the strong sense of loyalty to the Bank that you have shown: never squander this wealth, which has become a symbol of autonomy and independence for our region.

We are all working together to build on our company's history, setting aside the pursuit of personal interests contrary to the cooperative spirit. In this frame of mind, the board of directors has decided to nominate me for re-election by the shareholders as director, a gesture that I welcome in the spirit of service and with full awareness of the responsibility that it entails.

I would like to cite the words of my predecessor, with which he concluded last year's financial report: "If mention is still made of Cividale both in and beyond our region, it is due not only to its long history dating back to the times of the Romans or Lombards, its monuments or Unesco recognition, but also to this Bank, which bears the name of this city and embodies the sincere, genuine values of the people of Friuli."

Group financial highlights and balance sheet ratios

BALANCE SHEET DATA	31/12/2014	31/12/2013	Var %
Loans to customers	2.735.250	3.113.834	-12,2%
Financial assets and liabilities	1.100.531	1.580.092	-30,4%
Investments in associates and companies subject to joint	7.776	7.529	3,3%
Total assets	4.228.830	5.097.258	-17,0%
Direct funding	2.702.030	3.698.696	-26,9%
Indirect funding	879.658	874.087	0,6%
- of wich: Assets under management	586.920	544.303	7,8%
Total funding	3.581.687	4.572.783	-21,7%
Shareholders' equity	276.177	261.309	5,7%

Reclassified consolidated balance sheet

ASSETS	31/12/2014	31/12/2013	Var %
Cash and cash equivalents	18.487	20.021	-7,7%
Financial assets held for trading	3.032	3.512	-13,7%
Financial assets available for sale	1.033.838	1.472.132	-29,8%
Invetments held to maturity	64.697	105.413	-38,6%
Due from banks	159.347	163.750	-2,7%
Loans to customers	2.735.250	3.113.834	-12,2%
Investments in associates and companies subject to joint	7.776	7.529	3,3%
Property, plant and equipment and intangible assets (1)	103.971	106.377	-2,3%
Other assets (2)	102.432	104.690	-2,2%
Total assets	**4.228.830**	**5.097.258**	**-17,0%**

LIABILITIES	31/12/2014	31/12/2013	Var %
Due to banks	1.121.823	1.010.863	11,0%
Direct funding from customers (1)	2.702.030	3.698.696	-26,9%
Financial liabilities held for trading	1.036	965	7,4%
Other liabilities	118.034	116.332	1,5%
Specific provisions (2)	9.730	9.094	7,0%
Shareholders' equity (3)	276.177	261.309	5,7%
Total liabilities	**4.228.830**	**5.097.258**	**-17,0%**

Reclassified consolidated income statement

INCOME STATEMENT DATA	31/12/2014	31/12/2013	Var %
Net interest income (including result of hedging)	69.516	82.406	-15,6%
Net commissions	21.741	22.287	-2,5%
Dividends and net income (loss) of equity investments accounted for using equity method (1)	1.174	1.278	-8,1%
Net trading income	35.624	51.056	-30,2%
Other operating income (expenses) (4)	2.020	(411)	591,6%
Operating income	**130.075**	**156.616**	**-16,9%**
Personnel expenses	(39.879)	(41.308)	-3,5%
Other administrative expenses (2)	(23.906)	(25.696)	-7,0%
Net impairment/write backs on property, plant and equipment and intangible assets	(3.473)	(1.374)	152,7%
Operating cost	**(67.258)**	**(68.378)**	**-1,6%**
Income (loss) from operating	**62.817**	**88.238**	**-28,8%**
Charges/write-backs on impairment of loans and other assets	(38.950)	(128.150)	-69,6%
Goodwill impairment	-	(1.051)	100,0%
Net provisions for risks and charges	(1.286)	(2.410)	46,7%
Income (loss) before tax from continuing operations	**22.580**	**(43.374)**	**n.s.**
Tax on income from continuing operations	(12.517)	7.581	n.s.
Income (loss) after tax from continuing operations	**10.065**	**(35.793)**	**n.s.**
Net income for the period attributable to the parent company	**10.065**	**(35.793)**	**n.s.**

BALANCE SHEET RATIOS	31/12/2014	31/12/2013
Indirect funding from customers / Total funding	24,56%	19,11%
Assets under management / Indirect funding from customers	66,72%	62,27%
Direct funding from customers / Total liabilities	63,90%	72,56%
Loans to customers / Direct funding from customers	101,23%	84,19%
Loans to customers / Total assets	64,68%	61,09%

CREDIT RISK INDICATORS (thousands of euros)	31/12/2014	31/12/2013
Net non-performing loans	13,44%	11,07%
Other net impaired loans	6,59%	5,10%
Net non-performing loans / Loans to customers	1,32%	3,82%
Other net impaired loans / Loans to customers	64,1%	147,97%
Non performing loans hedging	13,69%	11,64%
Other impaired loans hedging	43,72%	44,65%
Cost of credit	1,32%	3,82%

Profitability ratios	31/12/2014	31/12/2013
Net interest income/Operating Income	53,44%	52,62%
Net commision income/Operating Income	16,71%	14,23%
Cost/income	51,71%	43,66%
Net income for the period/Total Assets	0,24%	-0,70%
Net income for the period/RWA	0,44%	-1,38%

Productivity ratios	31/12/2014	31/12/2013
Operating cost / N° of employees	115	117
Operating income / N° of employees	223	266
Loans to customers / N° of employees	4.692	5.251
Direct funding / N° of employees	4.635	6.237

Structure ratios	31/12/2014	31/12/2013
Loans to customers / Total net assets	67,23%	63,13%
Direct funding / Total net assets	66,41%	74,99%
Assets under management / Indirect funding from customers	66,72%	62,27%
Loans to customers / Direct funding from customers	101,23%	84,19%
Total assets / Shareholders' equity	1531,20%	1950,67%

Share value	31/12/2014	31/12/2013
Share value	24,50	24,50
N° of shares	16.971.085	17.022.649
Shareholders' equity	276.177	261.309
P/BV	**1,51**	**1,60**

Operating structure	31/12/2014	31/12/2013
N° of employees	583	593
Branches	75	74

Basic Earning per share	31/12/2014	31/12/2013
Adjusted attributable profit	10.065	(35.793)
Weighted average number of shares	16.634.078	16.634.078
Basic Earning per share	**0,605**	**(2,152)**

OTHER ECONOMIC INFORMATION	31/12/2014	31/12/2013
Operating cost / Operating income (cost income ratio)	51,7%	43,7%

SOLVENCY RATIOS	31/12/2014	31/12/2013
Common Equity Tier1	10,04%	8,37%
Total capital ratio	10,66%	10,31%

Directors’ report on operations of the Bank and Group

Introduction

The primary statutes governing the preparation of the directors’ report on operations are Art. 2428 of the Italian Civil Code, Art. 3 of Legislative Decree No. 87/1992 concerning the separate and consolidated accounts of banks, both as recently amended by Legislative Decree No. 32 of 2 February 2007, and Bank of Italy Circular No. 262 of 22 December 2005, as amended, Presentation Schemes and Rules for Compiling Separate and Consolidated Bank Financial Statements.
Pursuant to Art. 3, paragraph 3-bis, of Legislative Decree No. 87/1992, the separate and consolidated report on operations may be presented as a single document, in which greater emphasis is placed, as appropriate, on matters relevant to the companies included within the scope of consolidation as a whole.
Accordingly, this report has been drafted in accordance with the above Art. 3, paragraph 3-bis, of Legislative Decree No. 87/1992, consolidating the analysis of the Group’s and Parent Company’s performances into a single document.

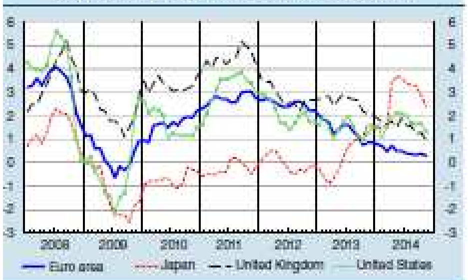
The macroeconomic scenario[1]

The international economy

In 2014 the global economy and international trade fell short of expectations. Economic activity accelerated in the United States, where consumption also grew, but continued to contract in Japan and China. There were also increased risks of a further slowdown due to continuing uncertainty regarding the economic and financial situation in Russia, whose economy is burdened by the sanctions imposed by the West, the sudden drop in the price of crude oil and the collapse of the rouble.
International trade is believed to have grown in 2014, although at an estimated rate of approximately 3.1%, below the growth rate for GDP and the historical average.

After a long period of high prices, **the price of oil** was halved from June to December 2014. This decline was due to both supply and demand factors. Supply continued to rise, thanks to greater production than expected, especially in the United States. On the demand side, lower growth than expected in Japan and the Euro Area in the second and third quarters, and signs of a slowdown in China, led to downwards revisions of forecast oil consumption in 2014 and 2015, with clear repercussions on prices. The International Monetary Fund has estimated that if the price of crude were to reach around 50 dollars a barrel, and 60% of the decline were due to supply factors, the increase in global GDP would amount to between 0.4 and 0.8 percentage points at the end of 2015–16. According to estimates by the OECD, on the basis of the Fund's assumptions, the increase for advanced nations alone will be 0.6 percentage points.

Consumer price inflation in the main advanced countries (1)
(monthly data; 12-month percentage changes)



Euro Area

The recovery is showing the first signs of slowing in the Euro Area. In the third quarter, the **GDP** of the major economies resumed its rise in France (+0.3%), driven by the expansion of public and private spending and the change in inventory and, to a very limited extent, in Germany (+0.1%), where spending by households and the government accelerated. In Italy, GDP fell (-0.1%). Growth is believed to have remained modest in the fourth quarter, with uneven performances from one country to the next.
Consumer prices fell into negative territory in December (-0.2% in the 12 months). The decline was undoubtedly due to the change in energy prices. Net of the most volatile components, inflation would amount to a positive 0.8%. According to economic surveys, price dynamics are expected to remain weak in 2015 and the medium term.
There are signs of improvement in **credit** conditions: loans to families increased at a moderate rate (+1.1%), whereas the reduction of loans to companies was more modest than in previous months (-0.4%).

[1] Source: The Bank of Italy’s Bolletino Economico.

The Italian economy
The Italian economy weakened once more, after essentially stabilising in the second half of 2013. In the summer, Italy's GDP decreased by 0.1% compared to the previous period, and is also believed to have declined in the fourth quarter of the year.
Industrial production decreased in the autumn. On the basis of the Bank of Italy's estimates for December, the decline is believed to have come to slightly less than half a percentage point in the fourth quarter of the year and nearly one percentage point in all of 2014. According to surveys by the Bank of Italy, more companies continue to believe that the general economic situation is worsening than perceive an improvement, although with a modest reduction of the negative balance compared with the September survey. The projected investment expenditure in 2015, in nominal terms, is believed to have remained essentially unchanged for nearly half of companies. More companies reported they were increasing investments than were planning cut-backs.
Company profitability also decreased slightly in the third quarter of 2014, to 31.9%. Financial expenses remained essentially unchanged, whereas the weight of gross fixed investments (in relation to added value) declined further, resulting in a decreased need for financing.
Private consumption continued to recover slowly, driven in particular by purchases of durable and semi-durable goods (1.9% and 1.1%, respectively), while other components stagnated. The recovery of disposable income in the summer, which benefited from measures in support of families with medium-to-low incomes included in the Stability Act, was accompanied by an increased propensity to save. Consumption spending continues to be held back by the difficult conditions of the labour market and uncertainty concerning the economic situations of families.

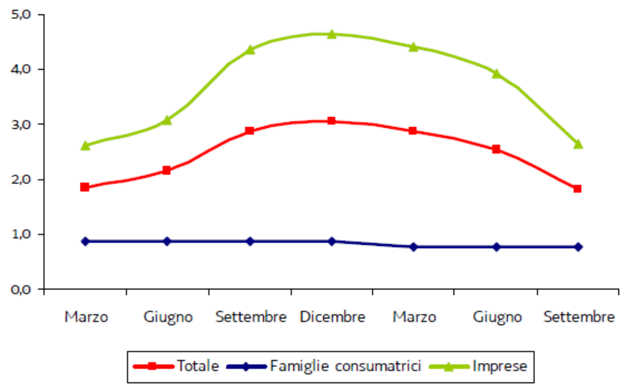
Banking and finance
The weakness of investments and the constant risk level associated with borrowers on the demand side contributed to keeping supply at conservative levels.
According to the banks interviewed as part of the quarterly survey of bank lending in the Euro Area (the *Bank Lending Survey*), the supply of credit to businesses and families slowed moderately, benefiting primarily from the improved liquidity positions of intermediaries and the greater competitive pressures from other banks. Customers with strong creditworthiness were favoured, while high perceived risk continued to be associated with the outlook for particular sectors or companies, and, in the case of families, the reduction in the value of collateral caused by declining property prices.
The improved lending policies and official rate cuts applied by the ECB in September of the previous year contributed to reducing margins on the average cost of loans.
In the fourth quarter of 2014, the flow of **new bad debts** remained stable 2.6% at total loans (net of seasonal factors and on an annual basis). Credit quality worsened for construction companies, whereas manufacturing and service companies recorded an improvement. For families, new bad debts decreased as a percentage of loans, to 1.2%. Preliminary information indicates that in October and November the total exposure to borrowers entering the bad debt category for the first time decreased by 9% compared to the corresponding period of 2013. Compared to the previous two months, the decline was more modest.

The cooperative banking system[2]
The continuing recession in Italy conditioned banks' lending practices. Nonetheless, in 2014 cooperative banks continued to provide support to local economies by disbursing over €30 billion of new loans to SMEs and dedicating over one-half of new loans to companies to this category. In terms of non-performing positions, the risk level associated with loans disbursed by cooperative banks continued to rise this year, although to a lesser extent than at the systemic level. Gross non-performing loans amounted to 12.9% of the total loans of cooperative banks, 2.5 percentage points below the figure for the entire industry. Similar figures apply to loans to small and medium businesses. The risk level of such loans written by cooperative banks was 14.6%, 1.5 percentage points below the level of the industry overall.
The OECD's estimates for the current year in Italy indicate modest growth (0.2%), accompanied by an increase in private consumption of a similar extent (+0.3%). Within this scenario of a gradual improvement in economic expectations, the forecast for the Italian banking system is of a return to increases in the main asset and liability captions, with an improvement at the level of the income statement as well.

[2] Source: Italian National Association of Cooperative Banks: Overview and Outlook of the Italian Economy.

The regional banking system

The September 2014 figures indicate a continuing decline in bank loans to businesses of an annual 2.7%, and in loans to consumer households of 0.8%. Deposits held by businesses began to grow once more in July and reached annual growth of 7.6% in September. By contrast, deposits held by households increased by 2.1%. There were positive signs from the real-estate market, which in the second quarter of 2014 posted a year-on-year increase in transactions in Friuli Venezia Giulia of 3.6% (-3.1% at the Italian national level), and an increase in mortgage loans disbursed of 5.8% (+5.1% at the Italian national level).



New bad debt flows in Friuli Venezia Giulia[3]:

Credit quality, measured as new bad debt positions as a percentage of total loans at the beginning of the period, is slowly improving for loans to businesses: new bad debt positions among loans approved by banks came to 2.7% in September 2014 (4.4% in September 2013). On the other hand, new bad debt positions amongst consumer households remained essentially stable at 0.8% (0.9% in September 2013) (Fig.).

Deposits held by businesses began to rise once more in July, and in September reached an annual growth rate of 7.6%, while household deposits increased by 2.1%.

According to the most recent economic forecasts[4], in 2015 regional GDP is expected to increase by approximately half a point, rising to +0.7% (+0.5% in Italy), while the unemployment rate is projected to continue to rise (7.9% in the region and 12.9% in Italy).

[3] Source: Autonomous Region of Friuli Venezia Giulia: *Economic Crisis in Friuli Venezia Giulia: Monthly Statistical Summary.*

[4] Source: Prometeia.

The Banca Popolare di Cividale Group

Scope of consolidation

The consolidated financial statements of the banking group of which Banca Popolare di Cividale S.c.p.A. is the Parent Company include:

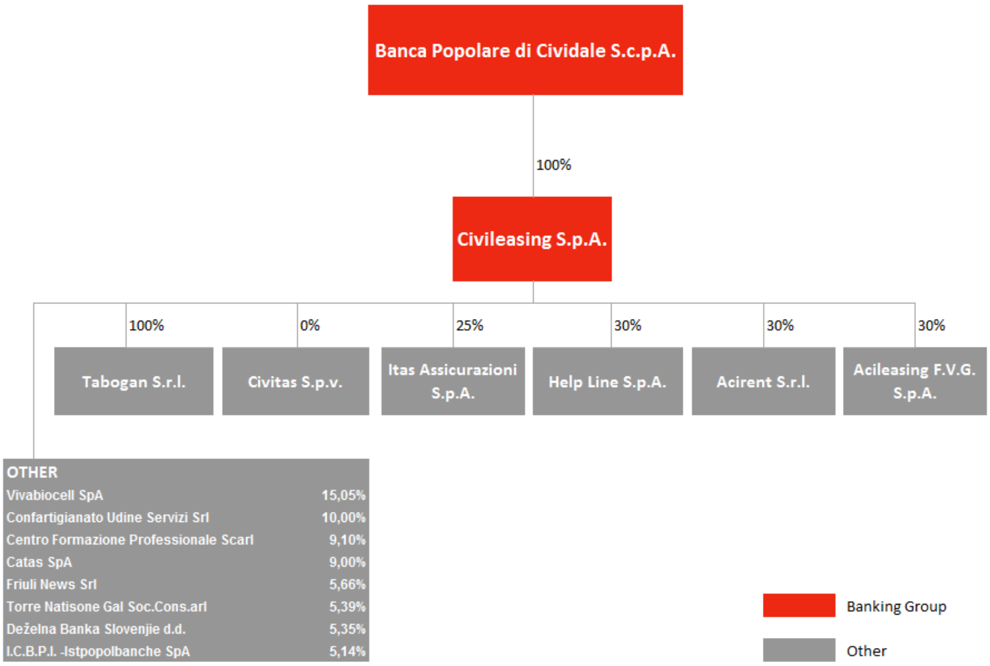
1. the financial statements of Banca Popolare di Cividale S.c.p.A., Civileasing S.p.A., Tabogan S.r.l., and Civitas SPV S.r.l., consolidated on a line-by-line basis; and
2. the financial statements of Acileasing Friuli Venezia Giulia S.p.A., Acirent S.r.l. and Help Line S.p.A. and Itas Assicurazioni S.p.A, consolidated according to the equity method.

Auditing of the consolidated financial statements

The Parent Company has submitted its separate and consolidated financial statements for the review of the independent auditors Reconta Ernst & Young S.p.A. The auditing engagement was granted by the Shareholders' Meeting on 9 May 2010.

Structure of the Banca Popolare di Cividale Group at 31 December 2014

At 31 December 2014, the Banca Popolare di Cividale Group was organised as follows:



The branch network of the Banca Popolare di Cividale Group

The Group's branch network consisted of 75 operational branches at 31 December 2014.
During the year, the Cividale del Friuli branch opened in a new location.

With the newly opened branches, the Group now has a presence in seven provinces in the regions of Friuli Venezia Giulia and Veneto, distributed as follows:

- 41 in the province of Udine;
- 8 in the province of Gorizia;
- 11 in the province of Pordenone;
- 3 in the province of Trieste;
- 6 in the province of Treviso;
- 5 in the province of Venice;
- 1 in the province of Belluno.

The human resources of the Banca Popolare di Cividale Group

At 31 December 2014, the human resources of the companies belonging to the Banca Popolare di Cividale S.c.p.A. Group numbered 583, compared to 593 in December 2013.

During the year, 4 employees were hired and 14 left the Group. The sales network (branches) employs a staff of 400, representing 68.6% of the total headcount.

Workforce statistics for the Banca Popolare di Cividale Group

Classification of staff by professional category:

	31/12/2014			31/12/2013		
	Men	Women	Total	Men	Women	Total
Senior managers	8	1	**9**	9	-	**9**
Middle managers	189	34	**223**	186	34	**220**
Middle managers – part time	-	11	**11**	-	10	**10**
3rd professional area	146	138	**284**	157	147	**304**
3rd professional area – part time	4	44	**48**	4	36	**40**
2nd professional area	3	5	**8**	3	7	**10**
Total	**350**	**233**	**583**	**359**	**234**	**593**

Incoming and outgoing personnel:

	Changes 2014			Changes 2013		
	Men	Women	Total	Men	Women	Total
Hirings	3	1	**4**	5	2	**7**
Terminations	12	2	**14**	7	2	**9**

Breakdown of workforce by age, gender and education:

	31/12/2014			31/12/2013		
	Men	Women	Total	Men	Women	Total
No. of employees by gender	350	233	**583**	359	234	**593**
Percentage of employees by gender	60,0%	40,0%	**100,0%**	60,5%	39,5%	**100,0%**
Average age (years)	46,00	42,30	**44,55**	44,30	40,43	**42,77**
Level of education						
University degree	134	104	**238**	138	102	**240**
Secondary school diploma	208	125	**333**	213	128	**341**
Other	8	4	**12**	8	4	**12**

Breakdown of workforce between headquarters and branch network:

	Number of employees		Number of employees	
	31/12/2014	%	31/12/2013	%
Headquarters	183	31,4%	187	31,5%
Branch network	400	68,6%	406	68,5%
Total	**583**	**100,0%**	**593**	**100,0%**

Training

As in previous years, the 2014 Training Plan was drafted according to the guidelines envisaged in the three-year Strategic Plan. In further detail, training programmes were implemented with the aim of: bringing current skills into line with the strategic skills identified; disseminating the knowledge present in the company and encouraging uniform behaviour; and disseminating company values and objectives. Training activity took the form of behavioural initiatives of a managerial nature (on communication, relationships and sales), initiatives

of a technical nature (on credit and products) and initiatives concerning laws and regulations (prevention of money-laundering, the administrative liability of entities, workplace safety, etc.).
During 2014, the employees of Banca Popolare di Cividale S.c.p.A. received a total of 20,325 hours of training, corresponding to 2,710 man-days.
Particular attention was devoted to organising courses concerning legal obligations, with a special focus on IVASS rules (IVASS Regulation No. 5 of 16/10/2006), a process that involved conducting the associated training and subsequent refresher sessions on insurance issues in order to ensure that insurance product sales staff were able to keep their qualifications current. Considerable efforts were also dedicated to training and refresher sessions for personnel concerning money-laundering prevention rules pursuant to Legislative Decree No. 231 of 2007.
Staff members also participated in conventions and seminars organised by industry associations and companies and other organisations with experience in the areas in question in order to further explore the various issues and new developments that occurred in the banking industry.

Document on the Group's compensation policies
The general principles of the governance provisions issued by the Bank of Italy place especial emphasis on the mechanisms for providing compensation and incentives to bank strategic supervision and control body members, management, employees and contractors, and state that those mechanisms are among the key factors to fostering the competitiveness and governance of banks, in addition to being a means of attracting and retaining employees with professional skills and expertise suited to the company's needs.
Such compensation mechanisms are to be inspired by the principles of sound, prudent risk management policies and are to be consistent with long-term company strategies and objectives. Supervisory regulations thus envisage that personnel compensation policies, including any plans based on financial instruments (e.g., stock options), be subject to approval by the shareholders' meeting.
The shareholders' meeting is thus called upon to approve the Group Compensation Policies, updated in respect of the new supervisory provisions on the matter issued in November 2014. This document provides a detailed account of the Banca Popolare di Cividale Group's compensation and incentive policies and the principles of propriety, fairness and transparency upon which those polices are founded, in accordance with the bank's business philosophy, which aims to create sustainable economic, but also social, value in the medium term.
In response to the supervisory provisions, the new document requires that a part of the variable compensation of key staff be paid in financial instruments, specifically the Bank's shares. Under the Consob rules governing the issuers of financial instruments, this results in the obligation to draw up a prospectus to be submitted for the approval of the shareholders' meeting, describing the compensation and the forms of remuneration paid in financial instruments.
On this first occasion, the prospectus is limited to a qualitative description of the process, in accordance with the Policies. At a later juncture, it will include the details of the financial instruments (number and value) that may be paid to beneficiaries if all of the conditions established by the bonus system are satisfied. A detailed disclosure of the implementation of the Group's compensation policies is also provided to the ordinary session of the Shareholders' Meeting.

Bonus and incentive system
During the year, activity in the area of human resources management policies included an update to the incentive system for the sales network focused on quantitative balance sheet and income statement targets with a focus on the long term and customer satisfaction, while also taking management risk profiles into consideration. The incentive system is integrated into the more general bonus system, which consists of the set of rewards (fixed and variable) for the professionalism and qualitative and quantitative performances of the Group's human resources.

Mission and values of the Banca Popolare di Cividale Group

The mission of the Banca Popolare di Cividale S.c.p.A. Group is to **create value over time** for:

- **shareholders**, who believe in this venture and have placed their trust in us;
- **customers**, the households and businesses that, in exchange for their loyalty, are entitled to appropriate services;
- **employees**, who add value to the Group and, in return, expect professional growth and economic rewards; and
- **the community**, as true progress is not possible unless economic growth is accompanied by social, cultural, ethical and moral advancement.

The Banca Popolare di Cividale S.c.p.A. Group seeks to become a point of reference for families, government and businesses in the Friuli Venezia Giulia region, and to promote cultural, economic and social growth in its local area.
The Banca Popolare di Cividale S.c.p.A. Group intends to continue to operate independently, identifying all forms of cooperation that can help it achieve its corporate aims.

The mission of the Banca Popolare di Cividale S.c.p.A. Group is inspired by the following values:

- *Driving change*

The Banca Popolare di Cividale S.c.p.A. Group seeks to be a driver of change by continuously questioning its function and re-casting itself in innovative, effective ways.

- *Independence*

The Banca Popolare di Cividale Group intends to continue to operate independently, identifying all forms of cooperation that can help it achieve its corporate aims.

- *Customer focus*

Customers lie at the heart of the Group’s strategic and operational choices. Relationships with customers are based on attentiveness and a propensity to listen, in order to offer a constantly evolving range of products and services.

- *Entrepreneurship and involvement*

A spirit of **initiative**, **belief**, **commitment** and **participation** characterise the people who work for our Group. These same characteristics underpin our search for quality and innovation in our products and services in order to cater to customer needs.

- *Competence and professional growth*

The growth of the Banca Popolare di Cividale S.c.p.A. Group over time leverages the Group’s wealth of professional skills and experience by sharing knowledge and promoting the development of interpersonal relations.

- *Ethics and transparency*

Responsibility and fairness are the cornerstones of the Group’s interaction with customers, shareholders, associates and the community as a whole. By enhancing transparency in business and commercial dealings, supporting social responsibility initiatives and respecting the environment, the Banca Popolare di Cividale S.c.p.A. Group intends to foster economic, social and cultural development in the area where it operates.

- *Identity and history*

The Group’s cultural roots can be traced back to its historic identity as a credit institution founded to foster local economic and social development.

Corporate management and the pursuit of a common objective

The shareholders

The Company had 14,544 shareholders at 31.12.2014, the result of the purchase of interests by 1,831 new investors and the sale of interests by 281 shareholders.
The new "Rules and Procedures for the Trading of Banca Popolare di Cividale Shares" approved by the shareholders' meeting of 8 December 2013, entered into force at the beginning of the year. In this document, the Bank governs the functional conditions of the platform for the trading of its ordinary shares on the secondary market, established with Istituto Centrale delle Banche Popolari (ICBPI) in order to offer its customers a means of supporting the liquidity of their investments, in a scenario of complete transparency.

A total of 2,512 transactions involving a total volume of 326,827 shares were executed during the year. All treasury shares held in portfolio (51,564) were cancelled by resolution of the Board of Directors of 17/12/2014. During 2014, 1,831 applications for the admission of new shareholders were reviewed and approved. The demonstration of the principle of the "open nature of the company" sanctioned by Article 2528 of the Italian Civil Code is summarised in the following table, which shows changes in shareholders over the past five years:

Year	Incoming shareholders	Outgoing shareholders
2009	878	374
2010	1,502	357
2011	570	384
2012	1,012	608
2013	1,236	551
2014	1,831	281

Annual report on the mutual nature of the cooperative and corporate social responsibility

This section of the report, in addition to discharging the obligation imposed by the reformed text of Article 2545 of the Italian Civil Code, represents an important opportunity to provide shareholders with objective, measurable data that certify that the Parent Company's operations match the mutual spirit of the Company as envisaged by Article 3 of the Articles of Association. In other words, this report allows the Bank to provide further proof that the cooperative model is well suited, even in the current competitive scenario, to meeting the needs of economic, moral and cultural promotion expressed by the society and communities in which the Bank operates.

The Parent Company pursues the wellbeing, promotion and development of its local communities, both in its traditional base of operation and new areas, in accordance with the mutual nature of cooperative banking.

The Parent Company's endeavours are inspired by the principles of lawfulness, loyalty, propriety and transparency as it pursues its primary goal of creating value for its shareholders, customers, employees and local communities at large.

During 2014, the Board of Directors steered the institution's operations towards a primary focus on shareholders. Shareholders are of central importance since they are also customers of the Bank or other Group institutions. The twofold role of shareholder and customer is an advantage that emphasises the bond of trust and strengthens the mutual orientation of commercial initiatives.

Article 3, paragraph 3, of the Articles of Association expressly states that "[i]n accordance with its institutional goals, the Company shall provide its shareholder-customers with access to specific services under privileged conditions, just as it shall give preference to its shareholders in issuing loans, all other conditions being equal".

The figure at the end of 2014 appears especially significant in this respect, in that it indicates that the shareholders of Banca Popolare di Cividale who are also customers of Group companies hold an interest of over 90%.

During 2014, the Bank continued to pursue the principles enunciated above by offering shareholders financial and banking products at better economic conditions than standard list prices.

Yet it is not only initiatives aimed at shareholders that bear witness to the Parent Company's pursuit of the mutual objectives envisaged by the Articles of Association. The focus on the local community's needs is borne out by a number of initiatives aimed at providing social, cultural, athletic, solidarity and environmental support. Most such initiatives are modest in scope and contribute to the lives of hundreds of entities and associations spread throughout the territory, giving rise to intense activity with an important effect on local communities.

Corporate social responsibility and the Banca Popolare di Cividale Group

The Banca Popolare di Cividale Group's socially responsible behaviour shows that our institution is both an economic player and an active participant in its local community.

The local focus that has always characterised our Group binds us to local communities with reciprocal support and reinforcement. Placing the community's expectations at the heart of the company's strategies is one of the factors that set apart our approach. Our Group has always contributed to the sustainable development of the community through an approach to management aimed at reinforcing social cohesion. A focus on the local community and solidarity are the founding values of cooperative banks, yet they are also the values that inspire our Group's mission. The Bank adds value and transfers it back to the community, allowing for the creation of further value and generating profits that stimulate demand and create jobs by also securing the involvement of those who do have direct relationships with the Bank. Banca Popolare di Cividale was born of the need for solidarity amongst people from the same local community who grasped the chance to work together to achieve goals not possible for the sum of individual efforts.

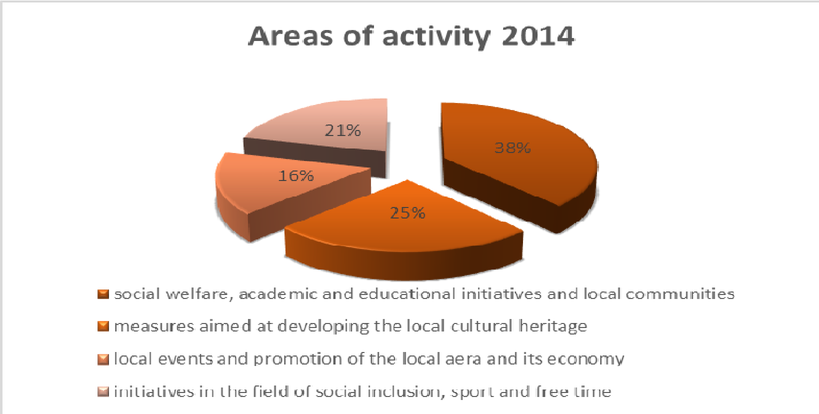
Local banks contribute to a community's growth by supporting its most deserving endeavours. During 2014, the companies of the Banca Popolare di Cividale Group supported local entities and associations in continuing to do their work on behalf of the community.

A total of €167 thousand in charitable donations were made to schools, entities, athletic and cultural associations and societies operating in the region. An additional €323 thousand was provided to local entities for which the Bank provides treasury service.

Accordingly, the total amount of funds donated to socially relevant initiatives at the Group level came to €490 thousand in 2014.

It should also be noted that Group companies have invested over €491 thousand in the community to sponsor cultural and educational activities, events aimed at promoting the local economy, and local athletic associations and events.

Considering contributions towards social initiatives and the investment in promotional activity, and excluding advertising, narrowly defined, the total financial support representative of the banking group's annual social commitment in the community came to €981 thousand, an amount that may fairly be considered to constitute a social dividend.



The Bank's endeavours to make the most of the community's rich historical and artistic heritage enabled important cultural activities to be carried out.

The exhibit "The Crucifix of Cividale and Wooden Sculpture in the Patriarchate of Aquileia in the Era of Pellegrine II (12th–13th Centuries)" promoted by the Regional Superintendency and hosted by the Palazzo de Nordis museum in Cividale di Friuli, was held during the year. The Bank was not only official sponsor to the art exhibit, but also lent an important item, namely Italy's oldest wooden crucifix, dating back to the 11th or 12th century, probably attributable to the Rhineland school, acquired by the bank in 2008. The exhibit showed 30 very rare works from Friuli Venezia Giulia, Slovenian Carniola, Istria, Veneto, Alto Adige, Tyrole, Carinthia, Styria, and Bavaria, representing four nations.

In 2014, thanks to the contribution provided by Banca Popolare di Cividale, the art catalogue The Virtues of Colour: from Figuration to Abstraction was presented. The volume includes interviews and critical notes on the works of artists of the calibre of Barbaro, Borsato, Celiberti, Colò, Finzi, Licata, Paolucci, and Zigaina. An unprecedented journey through the art world inspired by the multiple tonalities expressed by the works of the eight artists considered, representatives of the contemporary art scene in Friuli and Veneto and leaders of the cultural renaissance movement in north-eastern Italy that began in 1942 and continues to the present day.

Also worthy of mention is Banca Popolare di Cividale’s membership in and support for the Mittelfest Association, based in the ducal city. The association was created with the aim of contributing to the development of knowledge and the exchange of experience in the fields of theatrical and musical performance between Friuli Venezia Giulia and central European nations. To this end, each year the association organises an event entitled Mittelfest in Cividale del Friuli, a multi-cultural festival featuring prose, music, dance, cinema and street theatre.

During the reporting year, the Bank continued to support local associations committed to spreading and promoting popular culture and traditions, including organisations that represent the Slovenian minority in Friuli Venezia Giulia, which is highly active in the cultural arena.

The Banca Popolare di Cividale Group, which has always been attentive to academics and education, promoted the ninth edition of the Regional Savings Day devoted to nursery and elementary school students. The 2014 edition included an original touch: a train running on the stretch of rail between Udine and Cividale del Friuli was turned into a classroom and space to play games teaching the virtues of saving for hundreds of local students. Teaching students about savings is a highly current issue, which is why Banca Popolare di Cividale is interested in proposing the subject to young students, so that they might reflect on the importance of saving not only money, but also time, energy and respect for the environment, by identifying and adopting an appropriate lifestyle. The event also involved the presentation of the volume Tic Tac, Ce Nassial? by teacher Miriam Pupini, in collaboration with Banca Popolare di Cividale and the Friuli Philological Society. The book concerns the subject of saving time and is aimed at students of regional schools. The volume is in three languages, Italian, Friulian and Slovenian, with the intention of promoting mutual understanding between our linguistic communities.

Last year, the FAI (Italian Environmental Fund) Group of Cividale del Friuli proposed that Banca Popolare di Cividale participate in the project "Environmental Mornings for Schools" involving visits to its brand-new building, inaugurated in March 2014, by several classes from secondary schools in Cividale. *It was very interesting for young students to get a close look at the modern building from inside, in part because it*

allowed them to familiarise themselves with its peculiarities in various areas, such as ecology, technological innovation, energy conservation, contemporary art (architecture and sculpture), and the social function of a cooperative bank in the local community.
Local promotion is another of the banking group’s prerogatives, and its support for local development events is proof of that fact. The Bank continued to collaborate with the San Daniele Ham Consortium in 2014 to organise the international event A Festive Air, for which Banca Popolare di Cividale acted as the event's official sponsor. Support was also renewed for the Pro Loco Association of Friuli Venezia Giulia and the Alpine Refuge and Excursion Shelter Managers Association of Friuli Venezia Giulia and Veneto.
The Banca Popolare di Cividale Group continued to play an active role in the areas of sport and free time, maintaining support for racing, cycling and golf and contributing to the ongoing operation of local football, rugby, volleyball, basketball, tennis and swimming clubs, as well as all other disciplines that provide an important opportunity for togetherness.
In 2014 the Civibanca Project was revamped. The initiative, strongly supported by Banca Popolare di Cividale, promotes local associations with the involvement of the entire community. In order to keep with the times and the local community's needs, version 2.0 of the Civibanca Project was created: now online at the address www.progettocivibanca.it, the new fund-raising platform ("crowdfunding" is the technical term) serves our community. This free tool allows local associations to achieve their social aims with help from the local community, in addition to the aid that they have always received from Banca Popolare di Cividale. The Bank's goal is to forge partnerships with organisations and associations active in the local community, supporting and fostering the achievement of shared projects in pursuit of social and cultural growth, in response to the community's specific needs. Creating shared value is the true purpose of the Civibanca 2.0 Project.
For the 2014 Christmas holidays, the banking group decided to put the sum spent each year on personal organizers and year-end gifts to local associations, organisations and schools committed to important projects focusing on the social and cultural development of the community. In addition, defibrillators were purchased for local municipalities and organisations in need, thus providing an essential tool to be used to respond swiftly and save lives in cases of cardiac arrest. A concrete step for our community.
The reader is referred to the Banca Popolare di Cividale's forthcoming 2014 Social Responsibility Report.

The Group's operating performance during the year

The continuation of the unfavourable phase of the economic cycle, in an operating scenario of increasing complexity and ever-stricter regulatory constraints, has thrown Italian banks – and especially those with a strong local focus on traditional lending, which make up most of the Italian banking industry – into an unprecedented profitability crisis. This, then, is the challenge that banks must face today: recouping profitability and continuing to support the country's real economy by providing "good" credit, while also diversifying their revenues by entering new businesses, such as asset management and insurance and pension products, private banking and capital markets. Another important avenue to be explored by management is the structural reduction of operating costs, in terms of both personnel costs and logistics and organisational costs, through a new approach to distribution models and organisational structure.
In this challenging operating scenario of profound transformation, the year ended on 31 December 2014 marked a turning point for the Banca Popolare di Cividale Group, with a return to sustainable profitability in line with the objectives defined in its strategic plan.
Overall, the results achieved paint a positive picture, confirming the strong operating performance. The coverage ratio for doubtful loans stood at 43.7%, one of the highest levels in the entire Italian banking industry. There was also a further improvement in the Bank's liquidity position, with regulatory capital ratios in line with the minimum levels imposed by the new Basel III regulations. The common equity tier 1 ratio stood at 10.04% and the total capital ratio at 10.66%.

Main aspects of commercial activity

Sales and marketing policy
During 2014, the Group continued to implement its sales and marketing policy in accordance with the guidelines set in the new strategic plan, focusing on rationalising its product catalogue and implementing commercial initiatives aimed at helping bank branches reach their targets for direct, transparent relations with their customers. The Group also restyled its products and services portfolio effectively, constantly updating the terms over the year in line with developments in the financial market.

The initiatives carried to completion during the year allowed the Group to strengthen its customer relations, through intense cross-selling and customer loyalty programmes, while also increasing the number of the Bank's customers through promotional activities geared to specific customer targets.

Products and services for individuals and families

The Bank's line of products and services for individuals and families can be divided into three general areas: payment/services, credit and investment/security.

Payment/service products

In the current-account segment, the Group's diversified solutions, aimed at satisfying customers' specific needs, contributed to increasing the number of new customers who decided to choose our Group. The net balance of new accounts opened and accounts closed came to over 2,000 new current accounts opened, resulting in an increase in the Bank's individual and family customers of 2.9%.

During 2014, online services for individuals witnessed an increase in customers' usage of the Civib@nk Internet banking platform, a service that allows customers to receive information and make transactions with the Bank over the Internet directly from their own homes in absolute security, 24 hours a day. Active individual users numbered 25,931 at year-end (+18.7% compared to 2013).

The security measures implemented in 2014 have proved effective, as witnessed by the very low incidence of fraud.

In the electronic payments sector, payment card distribution yielded significant results in 2014: CartaSi credit cards climbed to 18,667 active cards, up by 9.6%; CiviPay prepaid cards increased by 29% to approximately 9,900 units; and ATM cards in issue numbered approximately 32,500, up by 14.6%.

Credit products

In 2014 the Group's activity continued to focus on maintaining credit offerings appropriate to the needs expressed by households in order to ensure the possibility of access to home ownership.

Customers who met the requirements continued to enjoy access to the subsidies provided under the regional residential construction guarantee fund for the Friuli Venezia Giulia area. These subsidies include a free guarantee for beneficiary families on the portion of a mortgage in excess of the value of the financed property, as well as the submission of applications for grants for first homes.

In order to aid families struggling to make their mortgage payments, the Bank implemented policies aimed at facilitating mortgage renegotiation, including through the suspension of repayment of the principal portion of instalments for up to 12 months, both within the context of the banking industry initiatives designated the "Family Plan" and through measures implemented on the basis of specific, justified individual situations.

The volume of mortgage loans issued for home purchases or renovations to consumer households stood at €48 million.

In the personal loan segment, commercial offerings were characterised by the launch of a new line of products, Civiprestito, and a revamping of credit products intended for energy saving initiatives and improving the energy efficiency of buildings, under the name Ecoprestito. The volume of credit disbursed in 2014 came to €17.8 million, stable compared to the previous year.

Investment/security products

In 2014 investment products maintained, and, in some cases, improved on, the positive performances recorded in 2013. The monetary policy pursued by the world's main central banks, and by the ECB in particular, fostered a further decline in interest rates at the global level, which, combined with the stabilisation of economic conditions of countries that had been faced with periods of severe recession and social difficulties, resulted in abundant liquidity in the financial system, which drove investments in both equity and bond markets. Asset management products succeeded in capturing a significant share of this asset flow, especially in the investment funds and SICAV sectors, which recorded net inflows in excess of 20%.

As the need to invest has increased, so has the need for security, which resulted in a sharp rise in demand for policies, concentrated mainly casualty policies, met by distributing the products of the Group's partner ITAS Assicurazioni, which in 2014 exceeded 2,800 policies.

The range of deposit accounts in the Civiconto Deposito line met with strong approval in terms of selection by customers, in confirmation of its conservative orientation focused on seeking liquidity and security. The range of products was updated constantly throughout the year, so as to keep pace with market interest rate movements and ensure that offerings remained competitive. Overall, the funds raised through these instruments that combine security and a high level of return exceeded €331 million, up 18%.

Products and services for businesses and entities

In 2014 initiatives continued with the aim of facilitating access to credit by small and medium enterprises in order to mitigate the negative effects of the economic cycle.

The Department’s offices continued to provide technical advice and support to the distribution network in order to facilitate and encourage the completion of the various lending procedures.

Of particular significance was the launch of direct operations with the SME Guarantee Fund (Law 662/1996), which facilitates access to credit for SMEs through public guarantees, with costs borne by the Bank.

During the year, new loans to businesses of €10.3 million guaranteed by the Fund were disbursed.

Further support for credit was provided by collaboration with the guarantee consortia system. New loans disbursed thanks to guarantees provided by guarantee consortia amounted to €36.9 million.

The agreement with the European Investment Bank (EIB) allowed additional resources a total of €11 million to be obtained, used to provide financing to SMEs at competitive interest rates, thanks to the financial advantage conferred by the EIB.

The various subsidised lending facilities made available by the Region of Friuli Venezia allowed further financing to be provided to various sectors of the economy, for an overall total of over €24 million. Among these, the primary sector was of particular significance: the funding provided drawing on the rotating funds for agriculture made available pursuant to Regional Law 80/1982 came to €11.4 million, while the funding provided by the FRIE Rotating Fund for Economic Initiatives resulted in approximately €7.9 million of new loans for industry, trades, commerce and services.

The number of POS terminals installed on the premises of merchants came to 2,554, up by 14%, while active and passive Civib@nk CBI multi-bank remote banking connections reached 3,500 units, an increase of 6%.

Changes in the organisational structure and procedures

Introduction of the digital ink signature

The process leading up to the use of digital ink signatures in branch procedures has begun, as part of the organisation's constant efforts in pursuit of technological innovation.

The digital ink signature is an advanced technical digital ink signature solution that allows bank documents to be signed in electronic format using a specific tablet that records and associates the customer's signature with the pertinent signed document and then stores it in electronic form.

Such electronic documents meet the technical requirements set by current legislation and thus at the legal level they have the same force as hand-signed print documents.

There are many advantages, from more efficient branch procedures thanks to a series of automatic checks performed by the procedure and printing of only the documents to be delivered to customers, to faster document storage and retrieval, since documents are stored in electronic format, and lower administrative and hardware maintenance costs.

The digital ink signature, which initially will be developed for branch documentation, will be released to all Banca Popolare di Cividale branches in 2015.

Revision of the Law 231 Organisational Model

In 2014, following the reorganisation of the group in 2013 and the changes in the law affecting Legislative Decree No. 231/2001, it became necessary to revise the Organisation and Management Model, aimed at preventing criminal offences that may result in liability for Group companies.

In order to identify the areas most exposed to the risk of offences, self-assessment activities were carried out with the heads of each of the Parent Company's organisational units. Observations were made with the assistance of a qualified law firm, with the aim of identifying the residual risk and implementing the resulting effective safeguards, which were then incorporated in the Model document.

The Code of Ethics, which is an integral part of the 231 Model, was also updated as part of the activity.

FATCA (“Foreign Account Tax Compliance Act”)

The FATCA application produced by OASI S.p.A. was made available. This application provides the Bank with the tools it needs to comply with the legislation, which requires intermediaries throughout the world to report potential U.S. persons, from a tax standpoint, to the U.S. Internal Revenue Service.

The programme's main feature generates a questionnaire for each customer, which through an automatic analysis of the customer's personal particulars, results in the creation of an affidavit in which the customer affirms or denies being a U.S. person.

EPC Crenope

The IT suite EPC Crenope, used to manage doubtful and bad debt positions, became operational during the year. It allowed the process of managing, surveying and reporting non-performing loans to be rationalised.

SEPA project

Legislative and technological compliance following the entry into force of Regulation EU No. 260/2012 was completed at the pan-European level in 2014. The Regulation sets the technical and commercial requirements for the execution of SEPA-compliant credit transfers and direct debits.

The Regulation lays down the operational specifications and terms for adopting standards in national and cross-border payments.

Our Bank, which had already implemented procedures and processes compliant with the new standard, finalised those procedures and processes with regard to branch, Internet banking, Web corporate banking and back-office operations.

Significant events during the year

Significant events during the year included:

Investigation by the Public Prosecutor's Office of Udine

Following the investigation conducted by the Public Prosecutor's Office of Udine in 2013, involving, as persons subject to investigation, several former company officers, in connection with events dating back to the period from 2004 to 2008, notices of conclusion of the preliminary investigations were served in December 2013. At this stage of the proceedings, the Bank was also charged with the offence punished under Art. 25-decies of Legislative Decree No. 231/2001, inducement not to render declarations or to render false declarations to the judicial authority.

The Public Prosecutor applied for committal to trial of the persons subject to investigation for these charges. The Public Prosecutor's indictments, defensive pleadings and responses have yet to be filed. Banca Popolare di Cividale has entered an appearance as civil claimant in the proceedings against its former officers under investigation.

Appointment of the new Board of Directors and Board of Statutory Auditors

The shareholders' meeting held on 25 April 2014 appointed new members of the Board of Directors and the entire Board of Statutory Auditors, who are to remain in office for three years. The shareholders elected Renzo Marinig, Massimo Fuccaro and Guglielmo Pelizzo as the new directors, whereas Renato Bernardi (Chairman of the Board of Statutory Auditors), Giovanni Dal Mas (Standing Auditor) and Gianluca Pico (Standing Auditor) were appointed to the Board of Statutory Auditors.

During its first session held on 3 May 2014, the Board of Directors appointed Graziano Tilatti the new Chairman of Banca Popolare di Cividale, in addition to re-electing Carlo Devetak and Adriano Luci as Deputy Chairmen.

Resolution authorising merger of Tabogan S.r.l.

On 17 September 2014 the Board of Directors approved the plan for the merger of Tabogan S.r.l. into Banca Popolare di Cividale S.c.p.A. The transaction was authorised by the supervisory authority on 15 December 2014. Once the necessary legal formalities have been completed, the resolution authorising the merger of 18 March 2015 will render the merger operational with effect from 1 January 2015. The merger is part of the broader corporate reorganisation process that began in 2013.

End of the general manager's term of office

Mario Leonardi's term of office as general manager ended on 31 December 2014, after three years at the group's helm in which he restored it to the stability it will need to live up to the challenges it will need to face in the future.

Analysis of main consolidated balance-sheet aggregates and earnings results

Net income amounted to €10.1 million in 2014, driven by net trading income. However, overall profitability is conditioned by the persistent difficulty in the operating environment, with positive, yet smaller margins than in the previous year, while the operating expense profile improved, showing a decrease of 1.6%.
Funding and lending volumes, down slightly, reflect the performance of the industry at large. Loans in particular were affected by the persistent weakness of demand, as well as the prudential accruals for impaired positions. In particular, direct funding amounted to €2,702 million, down by 26.9% compared to December 2013, primarily due to the reduction of repurchase agreements with institutional counterparties (Cassa di Compensazione e Garanzia). Net of this component, the aggregate was up by 6%.
In order to provide a more effective presentation of earnings results, in the reclassified balance sheet and income statement certain restatements have been applied with respect to the accounting schedules (the details of which are presented at the foot of each reclassified table).

Reclassified balance sheet

ASSETS	31/12/2014	31/12/2013	Var %
Cash and cash equivalents	18.487	20.021	-7,7%
Financial assets held for trading	3.032	3.512	-13,7%
Financial assets available for sale	1.033.838	1.472.132	-29,8%
Invetments held to maturity	64.697	105.413	-38,6%
Due from banks	159.347	163.750	-2,7%
Loans to customers	2.735.250	3.113.834	-12,2%
Investments in associates and companies subject to joint	7.776	7.529	3,3%
Property, plant and equipment and intangible assets (1)	103.971	106.377	-2,3%
Other assets (2)	102.432	104.690	-2,2%
Total assets	**4.228.830**	**5.097.258**	**-17,0%**

(1) The aggregates include captions "120. Property, plant and equipment" and "130. Intangible assets";
(2) The aggregates include captions "140. Tax assets" and "160. Other assets".

LIABILITIES	31/12/2014	31/12/2013	Var %
Due to banks	1.121.823	1.010.863	11,0%
Direct funding from customers (1)	2.702.030	3.698.696	-26,9%
Financial liabilities held for trading	1.036	965	7,4%
Other liabilities	118.034	116.332	1,5%
Specific provisions (2)	9.730	9.094	7,0%
Shareholders' equity (3)	276.177	261.309	5,7%
Total liabilities	**4.228.830**	**5.097.258**	**-17,0%**

(1) The aggregate includes captions "20. Due to customers" and "30. Debt securities issued";
(2) The aggregates include captions "110. Employee termination benefits" and "120. Provisions for risks and charges";
(3) The aggregate includes captions "140. Valuation reserves", "160. Equity instruments", "170. Reserves", "180. Share premium", "190. Share capital", "200. Treasury shares", and "220. Net income/(loss)".

Reclassified income statement

INCOME STATEMENT DATA	31/12/2014	31/12/2013	Var %
Net interest income (including result of hedging)	69.516	82.406	-15,6%
Net commissions	21.741	22.287	-2,5%
Dividends and net income (loss) of equity investments accounted for using equity method (1)	1.174	1.278	-8,1%
Net trading income	35.624	51.056	-30,2%
Other operating income (expenses) (4)	2.020	(411)	591,6%
Operating income	**130.075**	**156.616**	**-16,9%**
Personnel expenses	(39.879)	(41.308)	-3,5%
Other administrative expenses (2)	(23.906)	(25.696)	-7,0%
Net impairment/write backs on property, plant and equipment and intangible as:	(3.473)	(1.374)	152,7%
Operating cost	**(67.258)**	**(68.378)**	**-1,6%**
Income (loss) from operating	**62.817**	**88.238**	**-28,8%**
Charges/write-backs on impairment of loans and other assets	(38.950)	(128.150)	-69,6%
Goodwill impairment	-	(1.051)	100,0%
Net provisions for risks and charges	(1.286)	(2.410)	46,7%
Income (loss) before tax from continuing operations	**22.580**	**(43.374)**	**n.s.**
Tax on income from continuing operations	(12.517)	7.581	n.s.
Income (loss) after tax from continuing operations	**10.065**	**(35.793)**	**n.s.**
Net income for the period attributable to the parent company	**10.065**	**(35.793)**	**n.s.**

(1) Profits of equity investments measured at equity include the profits/losses of equity investments measured according to the equity method included in item "240. Profit (loss) of equity investments".
(2) Other administrative expenses include recoveries of taxes and duties and other recoveries recognised under "220. Other operating income/expenses" (€7,529 thousand in 2014 and €7,006 thousand in 2013).
(3) Net adjustments to property, plant and equipment and intangible assets include items "200. Charges/write-backs on impairment of property, plant and equipment" and "210. Charges/write-backs on impairment of intangible assets".
(4) Other income and expenses correspond to "220. Other operating income/expenses" net of the reclassifications presented above.

Banking business with customers

Total funding

Total direct and indirect funding came to €3,581.7 million at the end of 2014, marking a decrease of €991.1 million, or 21.7%, on the previous year.

	31/12/2014	inc %	31/12/2013	inc %	VAR	VAR %
Direct funding	**2.702.030**	**75,4%**	**3.698.696**	**73,3%**	**(996.666)**	-26,9%
Indirect funding:	**879.658**	**24,6%**	**874.087**	**26,7%**	**5.571**	0,6%
Assets under administration	292.738	**8,2%**	329.784	**16,1%**	**(37.046)**	-11,2%
Assets under management	586.920	**16,4%**	544.303	**10,6%**	**42.617**	7,8%
Total funding	**3.581.687**	**100,0%**	**4.572.783**	**100,0%**	**(991.095)**	**-21,7%**

Direct funding

Direct funding from Group customers comprises item 20 "Due to customers" and item 30 "Debt securities issued" on the liabilities side. At year-end, the aggregate amounted to €2,702.0 million, down by 26.9% compared to 31 December 2013.

Direct funding from customers – figures at 31 December 2014 in thousands of euros

	31/12/2014	31/12/2013	VAR	VAR %
Direct funding	**2.702.030**	**3.698.696**	**(996.666)**	**-26,9%**
Due to customers	2.013.024	2.968.412	(955.388)	-32,2%
Debt securities issued	689.006	730.284	(41.278)	-5,7%

The aggregate may be broken down into "Debt securities issued" (25.5%) and "Due to customers" (74.5%). The aggregate "Due to customers" was down by 32.2% due to the decrease in repurchase agreements with institutional counterparties (Cassa di Compensazione e Garanzia). Net of that component, the aggregate decreased by 6%.

Breakdown of "Due to customers" in thousands of euros

	31/12/2014	31/12/2013	%
1. Current accounts and demand deposits	1.523.934	1.378.360	10,6%
2. Time deposits	333.369	282.466	18,0%
3. Borrowings	120.231	1.268.021	-90,5%
3.1 Repurchase agreements	111.659	1.257.498	-91,1%
3.2 Other	8.571	10.524	-18,6%
4. Liabilities in respect of commitments to repurchase own equity	-	-	-
5. Other payables	35.491	39.564	-10,3%
Total	**2.013.024**	**2.968.412**	-32,2%
Fair value - L1	-	-	-
Fair value - L2	-	-	-
Fair value - L3	2.013.174	**2.957.656**	-31,9%
Fair value	**2.013.174**	**2.957.656**	-31,9%

An analysis of the trends that shaped the performance of the components of amounts due to customers shows sustained growth in current accounts and time deposits.

Breakdown of "Debt securities issued" in thousands of euros

	31/12/2014				31/12/2013				
	Book value	Fair value			Book value	Fair value			
		L1	L2	L3		L1	L2	L3	%
A. Securities									
1. Bonds	638.158	-	638.158	-	650.295	-	650.295	-	-1,9%
1.1 structured	-	-	-	-	14.936	-	14.936	-	-100,0%
1.2 other	638.158	-	638.158	-	635.358	-	635.358	-	0,4%
2. Other	50.847	-	-	50.847	79.989	-	-	79.989	-36,4%
2.1 structured	-	-	-	-	-	-	-	-	-
2.2 other	50.847	-	-	50.847	79.989	-	-	79.989	-36,4%
Total	**689.006**	-	**638.158**	**50.847**	**730.284**	-	**650.295**	**79.989**	**-5,7%**

Indirect funding and asset management

Indirect funding, which comprises assets under management and administration, came to €879.7 million at the end of 2014, an increase of 0.6%.

Indirect funding from customers – figures at 31 December 2014 in thousands of euros

	31/12/2014	Comp. %	31/12/2013	Comp. %	VAR %
Assets under management	**586.920**	**66,7%**	**544.303**	**62,3%**	**7,8%**
investment funds and ICVCs	329.458	37,5%	271.881	31,1%	21,2%
insurance savings products	60.098	6,8%	63.659	7,3%	-5,6%
portfolio products	197.364	22,4%	208.763	23,9%	-5,5%
Assets under administration	**292.738**	**33,3%**	**329.784**	**37,7%**	**-11,2%**
Total indirect funding	**879.658**	**100,0%**	**874.087**	**100,0%**	**0,6%**

An analysis of the components of indirect funding shows that assets under management came to €586.9 million at 31 December 2014, up by 7.8% compared to the previous year. This aggregate, which consists of mutual funds and investment companies with variable capital, bancassurance products and the securities- and funds-based portfolio management schemes operated by the Bank, accounted for 66.7% of total indirect funding at the end of 2014. In further detail, the securities- and funds-based portfolio management schemes operated by the Bank came to €197.4 million at 31 December 2014, down by 5.5% compared to the previous year. The bancassurance component decreased by 5.6% compared to the previous year to reach €60.1 million, whereas investment funds and investment companies with variable capital stood at €329.5 million, up by 21.2% compared to 31 December 2013.
Indirect funding in the form of assets under administration decreased by 11.2%, or €37.0 million, compared to the previous year.

Lending

At year-end, total loans to customers amounted to €2,735.3 million, down by 12.2%.
In 2014 the persistence of the weak economic scenario was reflected in recovering, yet still weak, demand for credit by businesses and households.
Nonetheless, despite the stringent operating conditions, the Group continued to provide credit in support of the local real economy, disbursing approximately €88 million to households and over €102 million to SMEs.

Breakdown of loans to customers – period-end figures in thousands of euros

	31/12/2014			Fair value			31/12/2013						
	Performing	Non - performing					Performing	Non - performing		Fair value			%
		Purchased	Other	L1	L2	L3		Purchased	Other	L1	L2	L3	
Loans	2.360.814	-	374.436				2.751.535	-	362.299	-	-	-	-12,2%
1. Current accounts	126.772	-	80.516	X	X	X	429.620	-	80.288	X	X	X	-59,3%
2. Repurchase agreements	-	-	-	X	X	X	102.916	-	-	X	X	X	-100,0%
3. Mortgage loans	1.762.613	-	221.023	X	X	X	1.597.255	-	200.662	X	X	X	10,3%
4. Credit cards, personal loans and loans repaid by automatic deductions from wages	47.358	-	1.717	X	X	X	45.259	-	1.704	X	X	X	4,5%
5. Finance leases	244.655	-	56.521	X	X	X	256.118	-	63.705	X	X	X	-5,8%
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X	-
7. Other	179.417	-	14.658	X	X	X	320.366	-	15.939	X	X	X	-42,3%
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-
8. Structured	-	-	-	X	X	X	-	-	-	X	X	X	-
9. Other debt securities	-	-	-	X	X	X	-	-	-	X	X	X	-
Total	**2.360.814**	**-**	**374.436**	**-**	**-**	**2.771.202**	**2.751.535**	**-**	**362.299**	**-**	**-**	**3.172.523**	**-12,2%**

Quality of customer loans – breakdown

A. ON-BALANCE-SHEET EXPOSURES	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure	Hedging	Net exposure 2013	Hedging 2013
A.1 Bank Group							
a) Bad debts	409.289	229.102	X	180.187	55,98%	158.856	58,09%
b) Substandard loans	210.519	55.505	X	155.014	26,37%	148.158	30,20%
c) Restructured positions	13.241	3.514	X	9.727	26,54%	11.165	17,57%
d) Past due positions	32.240	2.731	X	29.508	8,47%	44.119	11,30%
e) Other assets	2.379.740	X	18.926	2.360.814	0,80%	2.751.536	0,65%
TOTAL A.1	**3.045.029**	**290.852**	**18.926**	**2.735.250**	**10,17%**	**3.113.834**	**9,06%**

Credit quality was affected by the ongoing recession. At year-end, total non-performing loans, net of adjustments, amounted to €374.4 million (after adjustments of €290.9 million), marking an increase of 3.3% compared to the €362.3 million in the previous year.
In further detail, bad debt positions, net of adjustments, stood at €180.2 million, compared to €158.9 million in the previous year, representing an increase of 13.4% and accounting for 6.6% of the total loan portfolio, with a coverage ratio of 55.9%.
Other doubtful positions stood at €194.2 million, down by 4.5% from €203.4 million at the end of 2013, accounting for 7.1% of the overall loan portfolio. Of this amount, €155.0 million (compared to €148.2 million

at the end of December 2013) consisted of substandard positions, €9.7 million (compared to €11.2 million at the end of December 2013) of restructured positions and €29.5 million (compared to €44.2 million at the end of 2013) of past-due positions. The overall coverage ratio for non-performing positions came to 43.7%.

Interbank market activities

At 31 December 2014, the Bank's fund-raising and lending activity on the interbank market stood at a net debtor position of €944.0 million (compared to a net debtor position of €827.1 million at 31 December 2013).

			change	
Interbank position	**31/12/2014**	**31/12/2013**	**Absolute**	**%**
Cash and cash equivalents	18.487	20.021	(1.534)	-7,7%
Loans to banks	159.347	163.750	(4.403)	-2,7%
Due to banks	(1.121.823)	(1.010.863)	(110.961)	-11,0%
NET INTERBANK POSITION	**(943.990)**	**(827.092)**	**(116.898)**	**-14,1%**

Finance

Management of the Group's liquidity and proprietary securities portfolio is entrusted to the Finance Service, which follows guidelines laid down by the Assets and Liabilities Committee (ALCO).
According to the ALCO's directives, the bank's proprietary securities portfolios are managed in close coordination with local funding and lending trends. The ALCO's periodic reports on the securities portfolio and liquidity, which are normally provided on a monthly basis, or whenever circumstances arise that may have a significant impact on the strategies in place, ensure that the performance, risk profile, risks and development guidelines for financial asset and liability management are constantly monitored.

Financial assets/liabilities held for trading

At year-end, the portfolio of securities held for trading amounted to €2.0 million, compared to €2.6 million at the end of the previous year, and consisted largely of bonds issued by banks and trading derivatives. The above portfolio thus presented a moderate risk profile compared to market risk factors (interest-rate, price and currency risks) and the risk of default by the issuers, as expressed by the ratings assigned by leading international agencies.

Financial assets/ liabilities held for trading	**31/12/2014**	**31/12/2013**	**%**
Debt securities	1.451	2.624	-44,7%
Equity securities and UCIs	222	18	1168,1%
Total assets	1.674	2.642	-36,6%
Financial derivatives	1.358	871	56,0%
Financial assets held for trading	3.032	3.512	-13,7%
financial liabilities held for trading	1.036	965	7,4%
Net financial assets/liabilities held for trading	**1.996**	**2.547**	**-21,6%**

Financial assets available for sale

Financial assets available for sale amounted to €1,033.8 million, compared to €1,472.1 million in December 2013. Breaking down the total at 31 December 2014, €961.8 million consisted of debt securities (primarily government bonds of €932.8 million and bank bonds of €17.7 million) and €16.1 million of interests in CIUs, whereas the remainder was represented by equity investments that do not entail control, joint control or a significant interest.

Financial assets held to maturity

Financial assets held to maturity came to €64.7 million and consisted of securities issued by governments and banks.

Exposure to sovereign credit risk

Following the growing interest by the market in exposures held by companies in sovereign debt securities, and as recommended by the European Securities and Markets Authority (ESMA) in document no. 2011/226, the following is a breakdown of exposures of this nature held by the Banca di Cividale Group at 31 December 2014. As indicated in the ESMA document, "sovereign debt" is understood to mean bonds issued by central and local governments and governmental entities, as well as loans disbursed to such entities.
The following tables present the Group's exposure to sovereign credit risk by carrying amount, broken down by type of instrument.

Exposure to sovereign debt - book value	Italy	France
Financial assets available for trading		
- Debt securities	-	-
Financial assets available for sale		
- Debt securities	932.343	500
Financial assets held to maturity		
- Debt securities	54.260	-
Total	**986.603**	**500**

Liquidity and the proprietary securities portfolio

Financial markets faced a challenging year in 2014, as asset valuations diverged from projections. At the beginning of the year, the consensus was in favour of higher yields on core bonds, stabilisation of the price of oil, supported by the risk of geopolitical tensions, and a reversal on risk assets, which had performed so well in the previous year. However, government bond yields plummeted during the year, the price of oil came under pressure in the second half of the year, and disappointing inflation expectations sustained all risk assets generally (starting with US equities).

In this challenging scenario, in 2014 the proprietary securities portfolio nonetheless achieved an excellent return performance, providing a significant contribution to both the Group's net interest income and operating revenues.

In managing the securities portfolio, the main strategic drivers identified by the ALCo were expanding the amount of investments in ECB-eligible securities and limiting equities and other financial instruments that do not meet eligibility requirements. Available-for-sale (AFS) financial assets came to €1,057 million at year-end and primarily consist of Italian government bonds with limited durations, and, to a residual extent, bank bonds and equities. Held-to-maturity (HTM) investments stood at €65 million and primarily consist of short-term Italian government bonds and, to a residual extent, bank bonds. Held-for-trading (HFT) assets and loans and receivables (LR) represented a marginal portion of the overall portfolio.

In completion of the figures presented in the financial statements and the tables in the notes, it should be noted that the pool of securities eligible for use as liquidity reserves also includes €361 million associated with the senior tranche of the Civitas and Quadrivio notes issued as part of the securitisation transactions held entirely by the originator, along with the respective junior notes.

At 31 December 2014 liquidity reserves eligible for refinancing operations with the European Central Bank amounted to €1,670 million, with three-month net liquidity reserves of €365 million and a liquidity coverage ratio of 306%. Refinancing with the European Central Bank is represented by participation in two three-year (LTRO) auctions held in December 2011 and February 2012, in addition to the TLTRO auction held in December 2014.

The retail channel remained a stable, reliable source of funds, which during the year were in addition to several institutional fund-raising transactions that contributed to improving the Group's liquidity profile.

Financial assets held for trading

	31/12/2014			31/12/2013			%
	L1	L2	L3	L1	L2	L3	
A. Cash assets							
1. Debt securities	1	1.450	-	1	2.623	-	-44,7%
1.1 structured securities	-	-	-	-	-	-	-
1.2 other debt securities	1	1.450	-	1	2.623	-	-44,7%
2. Equities	222	-	-	18	-	-	1168,1%
3. Quotas of UCI	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-
4.1 reverse repurchase agreements	-	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-	-
Total A	**223**	**1.450**	**-**	**18**	**2.623**	**-**	**-36,6%**
B. Derivatives	-	-	-	-	-	-	-
1. Financial derivatives	591	-	768	-	871	-	56,0%
1.1 trading	591	-	768	-	871	-	56,0%
1.2 fair value option	-	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-	-
2.2 fair value option	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-
Total	**591**	**-**	**768**	**-**	**871**	**-**	**56,0%**
TOTAL (A+B)	**814**	**1.450**	**768**	**18**	**3.494**	**-**	**-13,7%**

Financial assets available for sale

	31/12/2014			31/12/2013			%
	L1	L2	L3	L1	L2	L3	
1. Debt securities	961.733	100	-	1.376.433	20.250	-	-31,1%
1.1 Structured securities	-	-	-	-	-	-	-
1.2 Other debt securities	961.733	100	-	1.376.433	20.250	-	-31,1%
2. Equities	192	-	55.744	254	-	58.627	-5,0%
2.1 Measured at fair value	192	-	55.744	254	-	58.627	-5,0%
2.2 Measured at cost	-	-	-	-	-	-	-
3. Units in collective investment undei	-	-	16.069	27	-	16.541	-3,0%
4. Loans	-	-	-	-	-	-	-
TOTAL	**961.925**	**100**	**71.814**	**1.376.714**	**20.250**	**75.167**	**-29,8%**

Provisions for risks

Other provisions for risks and charges are accrued to account for current obligations resulting from past events that are considered likely to require an outlay of economic resources in order to discharge the obligation. For a detailed examination of the changes during the year, refer to the specific paragraph of the notes.

Consolidated shareholders' equity attributable to the Group and capital adequacy

At year-end, consolidated shareholders' equity, including the net income for the year, amounted to €276.2 million.

Own funds – a breakdown of which is provided in Chapter F of the notes to the financial statements, along with additional information on capital – came to €244.7 million as at 31 December 2014.

The level of own funds ensures compliance with capital requirements under applicable regulations.

Risk-weighted assets amounted to €2,297 million; the associated total capital ratio (the ratio of own funds to risk-weighted assets) was 10.66%.

	31/12/2014	31/12/2013	%
1. Share capital	50.913	51.068	-0,3%
2. Share premiums	167.022	198.570	-15,9%
3. Reserves	37.054	38.920	-4,8%
4. (Treasury shares)	-	(7)	100,0%
5. Valuation reserves	11.124	8.552	30,1%
6. Capital instruments	-	-	-
7. Net income (loss) for the period pertaining to the Group	10.065	(35.793)	128,1%
Total	**276.177**	**261.310**	**5,7%**

The following table provides reconciliation between the shareholders' equity and net income of the Parent Company, as reported in the separate financial statements as at the end of 2014, and the corresponding figures in the consolidated financial statements as at the same date:

	31/12/2014		31/12/2013	
	Shareholder's equity	of which: net income of period	Shareholder's equity	of which: net income of period
Balance in Parent company financial statements	**277.786**	**5.803**	**267.177**	**(33.850)**
Pro rata results of equity investments				
- line item consolidation	(5.987)	(5.987)	(4.531)	(4.531)
- accounted for using equity method	247	247	(55)	(55)
Amortization of goodwill	-	-	-	-
Differences with consolidated on line-item basis				
- companies consolidated on line-item basis	5.535	-	3.508	3.037
- companies accounted for using equity method	1.053	-	1.108	-
Dividends received in the period				
- current year	-	-	-	-
Consolidation adjustments				
- elimination of intercomany profits and losses	(2.457)	10.002	(5.899)	(394)
Balance in consolidated financial statements	**276.177**	**10.064**	**261.308**	**(35.793)**

Consolidated earnings results

The following reclassified income statement is provided to facilitate understanding of performance and comparisons with the previous year.

INCOME STATEMENT DATA	31/12/2014	31/12/2013	Var %
Net interest income (including result of hedging)	69.516	82.406	-15,6%
Net commissions	21.741	22.287	-2,5%
Dividends and net income (loss) of equity investments accounted for using equity method (1)	1.174	1.278	-8,1%
Net trading income	35.624	51.056	-30,2%
Other operating income (expenses) (4)	2.020	(411)	591,6%
Operating income	**130.075**	**156.616**	**-16,9%**
Personnel expenses	(39.879)	(41.308)	-3,5%
Other administrative expenses (2)	(23.906)	(25.696)	-7,0%
Net impairment/write backs on property, plant and equipment and intangible as:	(3.473)	(1.374)	152,7%
Operating cost	**(67.258)**	**(68.378)**	**-1,6%**
Income (loss) from operating	**62.817**	**88.238**	**-28,8%**
Charges/write-backs on impairment of loans and other assets	(38.950)	(128.150)	-69,6%
Goodwill impairment	-	(1.051)	100,0%
Net provisions for risks and charges	(1.286)	(2.410)	46,7%
Income (loss) before tax from continuing operations	**22.580**	**(43.374)**	**n.s.**
Tax on income from continuing operations	(12.517)	7.581	n.s.
Income (loss) after tax from continuing operations	**10.065**	**(35.793)**	**n.s.**
Net income for the period attributable to the parent company	**10.065**	**(35.793)**	**n.s.**

Net interest income amounted to €69.5 million, down by 15.6% from €82.4 million in 2013. The item's performance was affected by the low level of short-term interest rates, the absence of a recovery of volumes and the shift in the composition of the securities portfolio.

Net commission income stood at €21.7 million, down by 2.5% compared to the previous period. Collection, payment and security placement commissions performed positively, whereas there was a decline in the current account and provision of guarantee components.

The **net income on the trading, purchase and sale of AFS assets** amounted to €35.6 million. The decrease of 30.2% on the comparative period was essentially due to the decline in the component attributable to "profits on government bonds", which in 2013 yielded an entirely extraordinary contribution.

Total **operating revenues** were €130.1 million. The decline of 16.9% compared to the €156.6 million reported in the comparative period was primarily due, as specified above, to the changes in net interest income and net trading income.

Operating expenses came to €67.3 million, down compared to the previous period. In further detail, personnel expenses stood at €39.9 million, down by 3.5%; other administrative expenses fell from €25.7 million to €23.9 million, a decline of 7.0% compared to December 2013. Net adjustments to property, plant and equipment and intangible assets amounted to €3.5 million and were up by €2.1 million on the previous period as a result of greater depreciation of property, plant and equipment and impairment charges on real-estate assets.

Accordingly, **net operating income** amounted to €62.8 million.

Net impairment losses on loans and other financial assets came to €39.0 million. Of this sum, €2.0 million consisted of impairment losses on equities and shares of CIUs classified to the AFS portfolio. Impairment losses on loans of €36.2 million thus yield a loan loss rate, expressed as a percentage of total loans to customers, of 132 basis points. Accruals to provisions include €0.3 million attributable to the estimate of bankruptcy claw-back risks, €0.9 million to civil litigation and customer complaints and €0.1 million to the measures required by the Interbank Deposit Protection Fund.

Following accruals to provisions for **tax charges** of an estimated €12.5 million, the **net income** for the year was €10.1 million.

Statement of cash flows

Performance of main items of the consolidated statement of cash flows

a) Financial assets available for sale (+€436.3 million); the change was largely due to the sale of debt securities.
b) Loans to customers (+€344.1 million); the change was primarily the result of the decrease in current accounts and repurchase agreements with customers.
c) Due from banks on demand (+€4.4 million); the change was primarily due to the increase in demand bank deposits.
d) Due from banks – other (-€34.2 million); the change was primarily the result of the increase in repurchase agreements and other loans to banks.
e) Due to banks on demand (+€111.0 million); the change was primarily due to the increase in current accounts and free deposits.
f) Due to banks – other (-€13.1 million); the change was primarily due to the decrease in repurchase agreements.
g) Due to customers (-€958.8 million); the change was due to repurchase agreements.
h) Debt securities issued (-€42.2 million); the change was largely due to the decrease in certificates of deposit and the redemption of bonds issued.

Analysis of main balance-sheet aggregates and earnings results of the Parent Company

In order to provide a more effective presentation of earnings results, in the reclassified balance sheet and income statement certain reclassifications have been applied with respect to the accounting schedules, the details of which are presented in the attachments to the financial statements, appended following the notes.

BALANCE SHEET DATA	31/12/2014	31/12/2013	Var %
Loans to customers	2.711.728	3.082.164	-12,0%
Financial assets and liabilities	1.100.514	1.580.075	-30,4%
Investments in associates and companies subject to joint	36.495	36.718	-0,6%
Total assets	4.220.126	5.073.557	-16,8%
Direct funding	2.701.156	3.688.803	-26,8%
Indirect funding	879.658	874.087	0,6%
- of wich: Assets under management	586.920	544.303	7,8%
Total funding	3.580.813	4.562.890	-21,5%
Shareholders' equity	277.786	267.177	4,0%

BALANCE SHEET RATIOS	31/12/2014	31/12/2013
Indirect funding from customers / Total funding	24,57%	19,16%
Assets under management / Indirect funding from customers	66,72%	62,27%
Direct funding from customers / Total liabilities	64,01%	72,71%
Loans to customers / Direct funding from customers	100,39%	83,55%
Loans to customers / Total assets	64,26%	60,75%

CREDIT RISK INDICATORS (thousands of euros)	31/12/2014	31/12/2013
Net non-performing loans	12,60%	10,61%
Other net impaired loans	5,98%	4,69%
Net non-performing loans / Loans to customers	1,18%	3,60%
Other net impaired loans / Loans to customers	63,57%	-142,56%
Total net impaired loans / Loans to customers	58,88%	52,39%
Non performing loans hedging	11,71%	9,64%
Other impaired loans hedging	46,22%	48,33%
Cost of credit	1,18%	3,60%

Operating structure	31/12/2014	31/12/2013
N° of employees	573	581
Branches	75	74

OTHER ECONOMIC INFORMATION	31/12/2014	31/12/2013
Operating cost / Operating income (cost income ratio)	51,92%	43,90%

SOLVENCY RATIOS	31/12/2014	31/12/2013
Common Equity Tier1	11,43%	13,29%
Total capital ratio	12,14%	16,31%

Reclassified balance sheet

ASSETS	31/12/2014	31/12/2013	Var %
Cash and cash equivalents	18.486	20.020	-7,7%
Financial assets held for trading	3.032	3.512	-13,7%
Financial assets available for sale	1.033.821	1.472.115	-29,8%
Due from banks	64.697	105.413	-38,6%
Loans to customers	158.686	162.912	-2,6%
Hedging derivatives	2.711.728	3.082.164	-12,0%
Property, plant and equipment and intangible assets (1)	36.495	36.718	-0,6%
Other assets (2)	95.895	91.748	4,5%
Total assets	97.286	98.955	-1,7%
	4.220.126	**5.073.557**	**-16,8%**

(1) The aggregates include captions "110. Property, plant and equipment" and "120. Intangible assets";
(2) The aggregates include captions "130. Tax assets" and "150. Other assets".

Due to banks	31/12/2014	31/12/2013	Var %
Direct funding from customers (1)	1.116.403	997.922	11,9%
Financial liabilities held for trading	2.701.156	3.688.803	-26,8%
Hedging derivatives	1.036	965	7,4%
Specific provisions (2)	112.815	109.749	2,8%
Shareholders' equity pertaining to minority interests	10.929	8.941	22,2%
Shareholders' equity (3)	277.786	267.177	4,0%
Total liabilities	**4.220.126**	**5.073.557**	**-16,8%**

(1) The aggregate includes captions "20. Due to customers" and "30. Debt securities issued";
(2) The aggregates include captions "110. Employee termination benefits" and "120. Provisions for risks and charges";
(3) The aggregate includes captions "130. Valuation reserves", "150. Equity instruments", "160. Reserves", "170. Share premium", "180. Share capital", "190. Treasury shares", and "200. Net income/(loss)".

Reclassified income statement

INCOME STATEMENT DATA	31/12/2014	31/12/2013	Var %
Net interest income (including result of hedging)	64.636	77.711	-16,8%
Net commissions	21.074	21.956	-4,0%
Dividends and net income (loss) of equity investments accounted for using eq	927	1.333	-30,4%
Net trading income	35.797	51.284	-30,2%
Other operating income (expenses) (4)	64	(152)	142,1%
Operating income	**122.497**	**152.132**	-19,5%
Personnel expenses	(39.067)	(40.189)	-2,8%
Other administrative expenses (2)	(22.821)	(24.662)	-7,5%
Net impairment/write backs on property, plant and equipment and intangible as	(1.717)	(1.289)	33,2%
Operating cost	**(63.606)**	**(66.140)**	-3,8%
Income (loss) from operating	**58.892**	**85.992**	-31,5%
Charges/write-backs on impairment of loans and other assets	(34.793)	(120.210)	-71,1%
Goodwill impairment	(5.223)	(4.088)	27,8%
Net provisions for risks and charges	(2.643)	(2.380)	11,1%
Income (loss) before tax from continuing operations	**16.233**	**(40.685)**	**n.s**
Tax on income from continuing operations	(10.430)	6.835	n.s
Net income for the period	**5.803**	**(33.850)**	**n.s**

(1) Profits of equity investments measured at equity include the profits/losses of equity investments measured according to the equity method included in item "210. Profit (loss) of equity investments".
(2) Other administrative expenses include recoveries of taxes and duties and other recoveries recognised under "190. Other operating income/expenses".
(3) Net adjustments to property, plant and equipment and intangible assets include items "170. Charges/write-backs on impairment of property, plant and equipment" and "180. Charges/write-backs on impairment of intangible assets".
(4) Other income and expenses correspond to "190. Other operating income/expenses" net of the reclassifications presented above.

Net interest income stood at €64,636 thousand, down by 16.8% from €77,711 thousand in 2013. The caption's performance reflected the low level of short-term interest rates, the absence of a recovery of volumes and the shift in the composition of the securities portfolio.
Net commission income came to €21,074 thousand, down by 4.0% compared to the previous period. Collection, payment and security placement commissions performed positively, whereas there was a decline in the current account and provision of guarantee components.
Net income on the trading, purchase and sale of AFS assets was €35,797 thousand. The decrease of 30.2% on the comparative period was essentially due to the decline in the component attributable to gains on government securities, which in 2013 benefited from an entirely extraordinary contribution.
Total **operating revenues** were €122,497 thousand. The decline of 19.5% compared to €152,132 thousand in the comparative period was due primarily, as mentioned above, to the changes in net interest income and net trading income.
Operating expenses came to €63,606 thousand, down by 3.8% compared to the previous period. In further detail, personnel expenses stood at €39,067 thousand; other administrative expenses fell from €24,662 thousand to €22,821 thousand, a decline of 7.5% compared to December 2013. Net adjustments to property, plant and equipment and intangible assets came to €1,717 thousand, up by €428 thousand compared to the previous year as a result of greater depreciation of property, plant and equipment.
Accordingly, **net operating income** amounted to €58,892 thousand.
Net impairment losses on loans and other financial assets came to €34,793 thousand. Of this sum, €2,039 thousand consisted of impairment losses on equities and funds classified to the AFS portfolio. Impairment losses on loans of €32,052 thousand thus yield a loan loss rate, expressed as a percentage of total loans to customers, of 118 basis points. Impairment losses on goodwill and equity investments of €5,223 thousand refer solely to the impairment of interests in associated companies. Accruals to provisions include €300 thousand attributable to the estimate of bankruptcy claw-back risks, €857 thousand to civil litigation and customer complaints, €129 thousand to the measures required by the Interbank Deposit Protection Fund and €1,357 thousand to liabilities attributable to valuations of assets held by subsidiaries.
Income before tax from continuing operations stood at €16,233 thousand.
Income taxes totalled €10,430 thousand. The **net income** for the period amounted to €5,803 thousand.

Banking business with customers

Funding

The direct funding of Banca Popolare di Cividale S.c.p.A. is represented by item 30 on the liabilities side, "Debt securities issued", i.e. the bonds issued and placed on the market.
At 31 December 2014, total funding was €2,701.2 million and consisted primarily of deposits and current accounts of €1,857.5 million. The total aggregate also includes bonds in issue of €638.2 million and certificates of deposit of €50.8 million. The aggregate may be broken down into "Debt securities issued" (25.5%) and "Due to customers" (74.5%). The aggregate "Due to customers" was down by 32.0% due to the

decrease in repurchase agreements with institutional counterparties (Cassa di Compensazione e Garanzia). Net of this component, the aggregate was up by 6%.

	31/12/2014	31/12/2013	VAR	VAR %
Direct funding	**2.701.156**	**3.688.803**	**(987.648)**	**-26,8%**
Due to customers	2.012.150	2.958.519	(946.369)	-32,0%
Debt securities issued	689.006	730.284	(41.278)	-5,7%
Indirect funding:	**879.658**	**874.087**	**5.571**	**0,0%**
Assets under administration	292.738	329.784	**(37.046)**	-11,2%
Assets under management	586.920	544.303	**42.617**	7,8%
Total funding	**3.580.813**	**4.562.890**	**(982.076)**	**-21,5%**

Lending

Loans to customers stood at €2,711.2 million at 31 December 2014 (-12.0% compared to 2013). In 2014 the persistence of the weak economic scenario was reflected in recovering, yet still weak, demand for credit by businesses and households.

Nonetheless, despite the stringent operating conditions, the Bank continued to provide credit in support of the local real economy, disbursing approximately €78 million to households and €78 million to SMEs.

Loans to customers – breakdown

	31/12/2014						31/12/2013						%
	Book value			Fair value			Book value			Fair value			
	Performing	Non performing		L1	L2	L3	Performing	Non performing		L1	L2		
		Purchased	Other					Purchased	Other				
Loans													
1. Current accounts	405.587	-	80.516	X	X	X	429.620	-	80.288	X	X	X	-4,7%
2. Repurchase agreements	-	-	-	X	X	X	102.916	-	-	X	X	X	-100,0%
3. Mortgage loans	1.762.613	-	221.023	X	X	X	1.890.322	-	200.662	X	X	X	-5,1%
4. Credit cards, personal loans and loans repaid by automatic deductions from wages	47.358	-	1.717	X	X	X	45.259	-	1.704	X	X	X	4,5%
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X	-
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X	-
7. Other	178.646	-	14.269	X	X	X	316.900	-	14.493	X	X	X	-41,8%
Debt securities	-	-	-	X	X	X	-	-	-	X	X	X	-
8. structured	-	-	-	X	X	X	-	-	-	X	X	X	-
9 other debt securities	-	-	-	X	X	X	-	-	-	X	X	X	-
Total	**2.394.203**	-	**317.525**	-	-	**2.749.598**	**2.785.017**	-	**297.147**	-	-	**3.142.834**	**-12,02%**

Quality of customer loans – breakdown

A. ON-BALANCE-SHEET EXPOSURES	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure	Hedging	Net exposure 2013	Hedging 20
A. ESPOSIZIONI PER CASSA				***dic-14***	***dic-14***	***dic-13***	***dic-13***
A.1 Bank Group							
a) Bad debts	378.342.538	216.228.901	-	162.113.637	57,15%	144.673.412	59,63%
b) Substandard loans	182.904.324	50.774.610	-	132.129.714	27,76%	120.233.685	31,96%
c) Restructured positions	13.241.439	3.514.234	-	9.727.205	26,54%	11.165.066	17,57%
d) Past due positions	15.960.043	2.405.179	-	13.554.864	15,07%	21.074.927	20,43%
e) Other assets	2.411.996.651	X	17.794.098	2.394.202.553	0,74%	2.785.017.078	0,61%
TOTAL A.1	**3.002.444.995**	**272.922.923**	**17.794.098**	**2.711.727.973**	**9,68%**	**3.082.164.168**	**8,73%**

Credit quality was affected by the ongoing recession. At the end of the period, impaired positions, net of impairment losses, came to €317,525 thousand, compared to €297,147 thousand at the end of 2013. In further detail, bad debt positions, net of impairment losses, stood at €162,114 thousand, compared to €144,673 thousand at the end of December 2013, accounting for 6.0% of the total loan portfolio, with a coverage ratio of 57.2%. Other doubtful positions totalled €155,412 thousand, up by 1.9% from €152,474 thousand at the end of 2013, accounting for 5.7% of the overall loan portfolio. Of this amount, €132,130 thousand (compared to €120,234 thousand at the end of December 2013) consisted of substandard positions, €9,727 thousand (compared to €11,165 thousand at the end of December 2013) of restructured positions and €13,555 thousand (compared to €21,075 thousand at the end of 2013) of past-due positions. The overall coverage ratio for non-performing positions exceeded 46.2%.

Exposure to sovereign credit risk

Following the growing interest by the market in exposures held by companies in sovereign debt securities, and as recommended by the European Securities and Markets Authority (ESMA) in document no. 2011/226, the following is a breakdown of exposures of this nature held by the Bank at 31 December 2014. As indicated in the ESMA document, "sovereign debt" is understood to mean bonds issued by central and local governments and governmental entities, as well as loans disbursed to such entities.

The following tables present the Group's exposure to sovereign credit risk by carrying amount, broken down by type of instrument. Banca Popolare di Cividale did not have exposures to Greece, Ireland or Portugal at the reporting date.

Exposure to sovereign debt - book value	Italy	France
Financial assets available for trading		
- Debt securities	-	-
Financial assets available for sale		
- Debt securities	932.343	500
Financial assets held to maturity		
- Debt securities	54.260	-
Total	**986.603**	**500**

Shareholders' equity and capital adequacy

At year-end, shareholders' equity, including the net loss for the year, came to €277.8 million.

Own funds – a breakdown of which is provided in Chapter F of the notes to the financial statements, along with additional information on capital – came to €247.0 million as at 31 December 2014.

The level of own funds ensures compliance with capital requirements under applicable regulations. Risk-weighted assets came to €2,033.2 million. The tier 1 capital ratio was 11.43% and the total capital ratio 12.14%.

Statement of cash flows

Performance of main items of the statement of cash flows

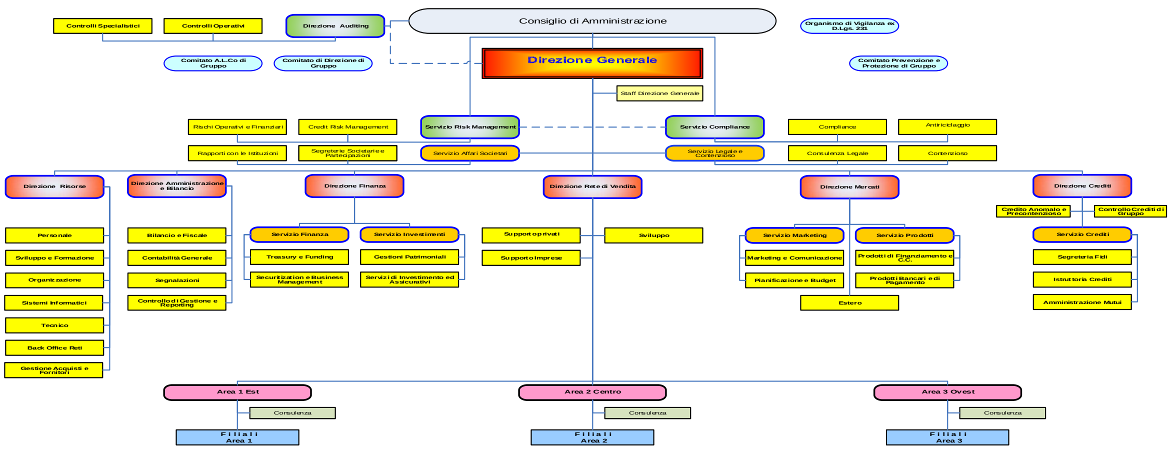
a) Financial assets available for sale (+€436.3 million); the change was largely due to the sale of debt securities.
b) Loans to customers (+€336.0 million); the change was primarily the result of the decrease in current accounts and repurchase agreements with customers.
c) Due from banks – other (+€4.4 million); the change was primarily the result of the decrease in debt securities with banks.
d) Due to banks – other (+€105.4 million); the change was primarily due to the increase in time deposits with central banks.
e) Due to customers (-€950.0 million); the change was due to repurchase agreements.
f) Debt securities issued (-€42.2 million); the change was due to the decrease in certificates of deposit and the redemption of bonds.

Organisational structure

The current configuration of the Parent Company may be broken down as follows:

- senior management and support staff offices;
- Group committees that ensure the proper level of communication and discussion of guidelines regarding fundamental issues allow for the sharing of information of common interest and play an advisory and informational role in decisions of an operational nature; and
- technical and specialist departments and services, which support the senior management, Group companies and, where applicable, corporate bodies.

Organisational structure



Human resources

The Parent Company's headcount came to 573 at 31 December 2014.

Financial highlights of the main Banca Popolare di Cividale Group companies

Civileasing S.p.A.

The subsidiary Civileasing S.p.A. ended 2014 with a net income of €573 thousand. Loans amounted to €301.2 million at 31 December 2014, down by 5.8% compared to the previous year, owing in part to the strategic and commercial objectives set by the Parent Company.

(in euro)

ASSETS	31/12/2014	31/12/2013	Var %
Financial assets available for sale	18	18	0,0%
Due from banks	1.031	1.456	-29,2%
Loans to customers	301.176	319.823	-5,8%
Property, plant and equipment and intangible assets (1)	3.957	4.119	-3,9%
Other assets (2)	7.501	7.101	5,6%
Total assets	**313.683**	**332.517**	**-5,7%**

(1) The aggregates include captions "100. Property, plant and equipment" and "110. Intangible assets";
(2) The aggregates include captions "120. Tax assets" and "140. Other assets".

LIABILITIES	31/12/2014	31/12/2013	Var %
Due to banks	277.736	294.550	-5,7%
Direct funding from customers	1.024	2.412	-57,5%
Other liabilities	5.200	6.407	-18,8%
Specific provisions (1)	158	154	2,8%
Shareholders' equity (2)	29.565	28.994	2,0%
Total liabilities	**313.683**	**332.517**	**-5,7%**

(1) The aggregates include captions "100. Employee termination benefits" and "110. Provisions for risks and charges";
(2) The aggregate includes captions "120. Share capital", "150. Share premium", "160. Reserves", and "180. Net income/(loss)".

INCOME STATEMENT DATA	31/12/2014	31/12/2013	Var %
Net interest income (including result of hedging)	5.226	5.856	-10,7%
Net commissions	(118)	(249)	-52,7%
Profit (loss) on disposal or repurchase of loans and other financial assets	(173)	(229)	-24,3%
Other operating income (expenses)	395	450	-12,1%
Operating income	**5.331**	**5.828**	**-8,5%**
Personnel expenses	(766)	(1.082)	-29,2%
Other administrative expenses	(1.090)	(1.035)	5,4%
Net impairment/write backs on property, plant and equipment and intangibl	(179)	(85)	110,5%
Operating cost	**(2.036)**	**(2.202)**	**-7,5%**
Income (loss) from operating	**3.295**	**3.626**	**-9,1%**
Charges/write-backs on impairment of loans and other assets	(2.256)	(5.770)	-60,9%
Net provisions for risks and charges	-	(30)	-100,0%
Income (loss) before tax from continuing operations	**1.039**	**(2.174)**	**-147,8%**
Tax on income from continuing operations	(466)	584	-179,7%
Net income for the period	**573**	**(1.590)**	**-136,0%**

Tabogan S.r.l.

The following are the key financial performance and financial position figures of the company, which, as previously indicated, will be merged into the Parent Company in 2015.

(in euro)

	Balance sheet - Assets	30/11/2014	30/11/2013	%
B	Fixed assets			
	Tangible fixed assets	1.349.172	955.534	41,2%
C	Current assets			
	Inventories	2.770.036	14.085.884	-80,3%
	Trade receivables	1.283.864	4.913.578	-73,9%
	Cash and cash equivalents	5	935	-99,5%
E	Accrued and rediscount			
	- Accrued	2.425	21.479	-88,7%
	TOTAL ASSETS	**5.405.501**	**19.977.410**	**-72,9%**

	Balance sheet - Liabilities and shareholders' equity	30/11/2014	30/11/2013	%
A	Shareholders' equity			
	Share premium reserve	110.000	110.000	0,0%
	RISERVA LEGALE	22.000	22.000	0,0%
	Other reserves	5.091.020	3.032.023	67,9%
	Income for the period	(6.560.288)	(2.941.003)	123,1%
D	Payables	6.709.544	19.556.280	-65,7%
E	Accrued expenses and deferred income	33.224	198.110	-83,2%
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5.405.501**	**19.977.410**	**-72,9%**

	Income statement	30/11/2014	30/11/2013	%
A	**Value of production**			
	Revenues from sales and services	7.868.912	506.830	1452,6%
	Other revenues and income	14	3.293	-99,6%
B	**Costs of production**			
	Net impairment/write backs on property, plant and equipment	(1.576.000)	(698)	225688,0%
	Use of third party assets	(9.036)	(8.982)	0,6%
	Related to services	(1.254.820)	(3.656.278)	-65,7%
	For employees	(45.760)	(36.439)	25,6%
	Change in inventory of raw materials, ancillaries, consumables and g	(7.027.004)	3.801.818	-284,8%
	Net provisions for risks and charges	(1.327.000)	(2.170.000)	-38,8%
	Other operating expenses	(122.130)	(9.740)	1153,9%
	Operating margin (A-B)	**(3.492.824)**	**(1.570.196)**	**122,4%**
C	Financial income and expenses	(269.385)	-	-
	financial expenses	(346.214)	(1.145.678)	-69,8%
E	Extraordinary income and charges	(2.451.865)	(200.000)	1125,9%
	Income (loss) before tax	**(6.560.288)**	**(2.915.874)**	**125,0%**
	Tax on income	-	(25.129)	-100,0%
	Net income for the period	**(6.560.288)**	**(2.941.003)**	**123,1%**

Strategic management of the Group's equity investments

Istituto Centrale delle Banche Popolari Italiane S.p.A.

Istituto Centrale delle Banche Popolari Italiane (ICBPI) is the parent company of a banking group that supports the growth and consolidation of banks, financial institutions and insurers, businesses and government authorities. ICBPI is a "systemic" bank specialised in national and international payment services and systems, securities services offered according to a business process outsourcing model and services for banks, businesses and government.

In recent years, the ICBPI Group has undertaken a number of extraordinary transactions that have significantly increased its size and complexity.

In the Group's new configuration, ICBPI acts as parent company, while also providing services in the following areas:

1) **Payment services**. ICBPI operates in traditional services: collection and payment (funds transfers, collections, cheques, etc.); settlement; national interbank network application centre; and ACH (automated clearing house). For these services, ICBPI ensures compliance with the rules and criteria established by European regulations (PSD – Payment Services Directive and SEPA – Single Euro Payments Area);

2) **Banking, business and government services**. ICBPI provides e-banking, electronic invoicing and interbank corporate banking services. In this latter area, ICBPI supports the CBI Consortium's infrastructure in a temporary consortium;

3) **Securities services**. ICBPI provides a full range of investment services: order receipt, trading, placement, clearing, settlement and global custody. Important investments continue to be devoted to developing its custodian bank and fund administration businesses, fields in which ICBPI is Italy's only operator.

At 31 December 2014, in addition to the parent company, Istituto Centrale delle Banche Popolari Italiane S.p.A., the Group consisted of the following entities: CartaSi S.p.A., a financial company registered in the Register of Payment Institutions pursuant to Art. 114-septies of Italy's Consolidated Banking Act, in which the parent company holds a 94.88% interest; Help Line S.p.A., an instrumental company in which the parent company has a 70% interest; and Oasi Diagram – Outsourcing Applicativo e Servizi Innovativi S.p.A., an instrumental company in which the parent company has a 100% interest.

In the final months of the year, several private-equity funds of international calibre expressed an interest to ICBPI shareholders in purchasing a majority or all of the company. In view of obtaining the best value, Mediobanca and EquitaSim were engaged as advisors to verify and compare the offers received, in terms of both the amount of the offers and the strategic rationale for the transaction and possible future governance and commercial agreements.

Help Line S.p.A.

The company is part of the Istituto Centrale delle Banche Popolari Italiane Group and functions as a contact centre.

Help Line S.p.A. is the ICBPI Group's contact centre and was created in 2010 as part of the larger project of integrating the members of the Istituto Centrale Banche Popolari Italiane Group, from the merger of Società Help Phone S.r.l. and Si Call S.p.A. and the subsequent absorption of the Help Desk unit of CartaSi S.p.A. The company provides third parties with services based on the use of telephone and remote channels in the fields of customer support, debt recovery and telemarketing. Help Line S.p.A. manages inbound services (incoming telephone calls), outbound services (outgoing telephone calls), Web interactions (help via the Internet) and high value-added services (datawarehousing, back office, and fraud prevention).

The company's shareholders are Istituto Centrale Banche Popolari Italiane (ICBPI), with a 70% interest, and Banca Popolare di Cividale, with a 30% interest. In 2014 the company reported a net income of €823 thousand.

ITAS Assicurazioni S.p.A.

Itas Assicurazioni is a member of the ITAS Group, controlled directly, with a 51% interest, by ITAS Mutua Assicurazioni, one of Italy's oldest insurers (in October 2011 it celebrated 190 years of operation) and among the top 14 on the nation's insurance market. At 31 December 2013, the ITAS Group had 185 agencies and 221 sub-agencies, and its products are also distributed through 1,200 bank branches, 427 employees and 1,400 agents, sub-agents and contractors. In addition to its two banking partners (Banca Popolare di Cividale and Cassa di Risparmio di Bolzano), insurance products are also distributed through other financial institutions. The sales network is based primarily in northern Italy. In 2014 the company recorded an 11% increase in new contracts and a 13.5% increase in premiums written compared to 2013.

ACILEASING Friuli Venezia Giulia S.p.A.

Following changes in the law, on 19 December 2012 Acileasing Friuli Venezia Giulia S.p.A., which had operated in the vehicle lease sector, resolved to dissolve and liquidate the company, which will carry the lease agreements in its portfolio to their natural expiry dates (three to four years). The sales arm of the company, including sales personnel, the lease of the Udine offices and the associated equipment and furnishings were sold to Civileasing S.p.A., a subsidiary of Banca Popolare di Cividale S.c.p.A., effective 1 January 2013. Civileasing S.p.A. also acquired the Acileasing brand name for an initially agreed term of nine years, thereby expanding its operations in the car leasing sector, in which it will operate under the brand name Acileasing Full Service.

ACIRENT S.p.A.

The company operates in the short-term rental sector and holds the Herz Ltd licence for Friuli Venezia Giulia and part of eastern Veneto. Airport rental stations (Treviso and Ronchi dei Legionari) are operated under an agency scheme, whereas city offices are operated under franchise arrangements (Udine, Trieste, Pordenone and Feltre). The company has 20 years of experience in managing fleets of vehicles intended for rental without drivers and also operates in the long-term lease sector for companies and individuals, in synergy with the operations of the ACU Group, from which it receives the technical and organisational support of the latter’s facilities for managing fleets of vehicles intended for operational lease (mechanics’ garages, roadside assistance, logistical support, etc.).

Risk management and monitoring

Risk management

In accordance with applicable regulations, the Group has adopted specific rules and procedures governing the process of determining present and prospective capital adequacy, in light of the risks assumed and company strategies (the Internal Capital Adequacy Assessment Process or ICAAP).

In 2014, as part of activities aimed at achieving compliance with the new banking supervisory provisions (the 15th update to Bank of Italy Circular 263/2006, which entered into force on 1 July 2014), the Banca Popolare di Cividale Group redefined and reinforced its governance control and risk management system, which extends to organisational, regulatory and methodological aspects.

With regard to the risk objective system (the Risk Appetite Framework or RAF), a scheme of reference has been prepared and introduced, defining the Group's risk appetite, tolerance thresholds, exposure limits, risk governance policies and the processes of reference for defining and implementing such policies, all in accordance with the maximum risk that may be assumed. The process of defining and periodically revising the RAF is carried out in conjunction with the Risk Management Service, which supports the general management during the phases of application review and preparation of proposals to be submitted for the approval of the Parent Company's Board of Directors. The process involves a high level of consistency and thorough reconciliation of the RAF, business model, strategic plan, ICAAP, budget, company organisation and internal control system.

A clear identification of the risks to which the Group is potentially exposed (the "risk map") represents the essential foundation for an informed assumption and effective management of such risks.

Given the Group's mission and operations, and considering the market context in which it operates, the risk map that has been identified essentially reflects the list of risks that is subject to assessment as part of ICAAP (Annex A to Chapter 1, Title II, Part One, of Circular 285, Supervisory Provisions for Banks, concerning the prudential control process), excluding several specific types deemed irrelevant to the Group (country risk, transfer risk and securitisation risk), with the addition of compliance risk.

The main risks thus identified, which are assessed as part of ICAAP and are also monitored in the context of the RAF system, are described below.

- ✓ *Credit and counterparty risk*: the possibility that an unexpected change in the creditworthiness of a counterparty to which the bank has an exposure may generate a corresponding unexpected change in the market value of the credit position. This risk essentially identifies the probability that a borrower will fail to fulfil its obligations or will do so at a delay with respect to the established due dates. Counterparty risk is a sub-case of credit risk, i.e., the risk that a counterparty to a transaction involving certain financial instruments defaults before the transaction is settled.
- ✓ *Market risk* (including basis risk): the possibility of sustaining losses due to changes in the value of an instrument or a portfolio of financial instruments associated with unexpected changes in market conditions (share prices, interest rates, exchange rates, etc.).
- ✓ *Operational risk*: the risk of sustaining losses due to the inadequacy or improper functioning of procedures, human resources, internal systems, or to external events. This category includes losses resulting from fraud, human error, business disruption, system unavailability, breach of contract and natural disasters. Operational risk also includes legal risk and information technology risk but not strategic or reputational risk.
- ✓ *Concentration risk*: the risk deriving from exposures to counterparties, including central counterparties, groups of related counterparties and counterparties operating in the same economic sector, geographical region or business segment.
- ✓ *Interest rate risk*: the risk associated with assets not held for trading, deriving from the possibility that a change in the rates on which the bank's assets and liabilities are indexed may result in an adverse effect on net interest income or the present value of assets and liabilities, and thus a decrease in the economic value of the bank and Group companies. This risk typically manifests itself on positions included in the banking book.
- ✓ *Liquidity risk*: this the risk that the bank may be unable to fulfil its payment obligations, due to an inability to obtain funds on the market, or that it may be forced to meet its payment obligations while incurring a high cost of funding (funding liquidity risk), or the risk that the bank may sustain capital losses due to the presence of limits on the sale of assets regarded as liquid in normal market conditions (market liquidity risk).

- ✓ *Residual risk*: the risk that the recognised techniques for mitigating credit risk used by the bank are less effective than expected.
- ✓ *Strategic risk* (including the risk associated with equity investments): the current or prospective risk of a decrease in profits or capital arising from changes in the operating context or poor company decisions, the inadequate implementation of decisions, or insufficient reaction to changes in the competitive scenario.
- ✓ *Reputation risk*: the current or prospective risk of a decline in operating result or capital should customers, counterparties, shareholders, investors or supervisors take a negative view of the Bank.
- ✓ *Excessive leverage risk*: the risk that a particularly high level of indebtedness with respect to equity may render the bank vulnerable, requiring the adoption of corrective measures to its industrial plan, including the sale of assets involving the recognition of losses that could also entail impairment of the remaining assets.
- ✓ *Compliance risk*: the risk of incurring legal or administrative penalties, significant financial losses or damages to reputation due to breaches of compulsory provisions (of laws or regulations) or self-imposed rules (e.g., bylaws, codes of conduct and governance codes).

In the assessment and measurement of credit, counterparty and market risk, account must also be taken of the risk associated with dealings with associated parties, as provided for in Bank of Italy Circular 263, Title V, Chapter 5, Risk Assets and Conflicts of Interest in Dealings with Associated Parties.

Appropriate risk policies have been adopted for the governance of the risks described above. The methods of supervision and organisational oversight of risks are established in the context of these policies through the definition of operating limits and/or management and control processes.

For a complete description of the organisational structure and operating procedures covering the various areas of risk and methods used to measure and prevent those risks, refer to Part E of the notes, Risks and hedging policies.

With regard to the third pillar public disclosure, with effect from 1 January 2014 the prudential supervisory provisions applicable to banks have been consolidated into Bank of Italy Circular 285 of 17 December 2013, the issuance of which is functional to application of Community regulations (the CRR, Regulation EU 575/2013, and the CRD IV, Directive 2013/36/EU) containing the reforms of the Basel Accord ("Basel III"). The subject matter, as specifically mentioned in Part II, Chapter 13 of the above Circular, is governed directly by the CRR (Part Eight, Disclosure by Institutions, and Part Ten, Title I, Chapter 3) and by the regulations of the European Commission containing regulatory or implementing technical standards. In particular, as established in the CRR, banks must publish the required disclosures on at least an annual basis. The public disclosure documents, which essentially reflect the contents of the annual ICAAP (*Internal Capital Adequacy Assessment Process*) report, are made available on the Bank's website, www.civibank.it.

The internal control system

In 2014 the Banca Popolare di Cividale Group undertook all implementing initiatives required to render the structure of its internal control system compliant with the requirements laid down in the 15th update to Bank of Italy Circular 263/2006 (Title V, Chapters 7, 8 and 9), with effect from 1 July 2014.

These provisions introduced significant changes to the previous regulatory framework, aimed at ensuring that banks implement complete, adequate, functional and reliable internal control systems, governing, among other matters, the role of company bodies in the context of the internal control system, the role of company control functions, the Risk Appetite Framework (RAF), the outsourcing of company functions, the information technology system and operating continuity.

The measures identified as necessary to ensure compliance with the new provisions and the schedule for their implementation are described in a specific document, Assessment of the Company's Compliance with Provisions Concerning the Internal Control System, Information Technology System and Operating Continuity ("Gap Analysis"), approved by the Board of Directors of the Parent Company, Banca Popolare di Cividale, and sent to the Bank of Italy on 30 January 2014.

The Internal Control System is the set of rules, functions, units, resources, processes and procedures aimed at ensuring that the following objectives are achieved:

- ✓ the verification of the implementation of company strategies and policies;
- ✓ the containment of risks within the limits established in the determination of the RAF;
- ✓ the effectiveness and efficiency of Company processes;
- ✓ the safeguarding of asset value and protection from losses;
- ✓ the reliability and integrity of company information and IT procedures;

- ✓ the reliability and timeliness of information, and in particular financial reporting and management control information;
- ✓ the prevention of the risk that the Bank may be involved, voluntarily or involuntarily, in illegal activities (with especial regard to those relating to money-laundering, usury and financing for terrorism);
- ✓ transaction compliance with laws and supervisory regulations as well as policies, procedures and internal regulations.

According to supervisory regulations, the internal control system is "the fundamental element of a bank's overall governance system. It ensures that company activity is in line with company strategies and policies and is guided by principles of sound and prudent management".
The internal control system is organised into three levels:

- o line controls (level one): these are aimed at ensuring that transactions are executed properly; they are performed by production units themselves (for example, hierarchical type controls) and are incorporated into IT procedures and systems or are conducted in the context of back-office activity;
- o level-two controls: these include risk management and compliance activity. They are aimed at ensuring, among other objectives:
  - the proper implementation of the risk management process;
  - the observance of the operating limits assigned to the various functions;
  - the compliance of company operations with laws and regulations, including self-imposed regulations.

  Level-two control functions are independent of assumption and management functions (production and management units). They contribute to defining risk governance policies and the risk management process;
- o level-three controls: this is internal auditing activity aimed at identifying anomalous performances and breaches of rules and procedures, as well as at assessing the functionality of the overall internal control system; it is conducted on an ongoing basis, with periodic frequency, or in exceptional cases, by units independent of production units, including through onsite inspections. This activity is performed by the Auditing function.

The entire internal control system is periodically revised by the Board of Directors of Banca Popolare di Cividale in order to constantly improve strategies and operating processes and assess business risks.
The new internal control rules have considerably reinforced the powers of the risk control function by establishing that “safeguards relating to the internal control system must cover all types of company risk”. The above rules have been reflected in Banca Popolare di Cividale’s organisational structure, which entered into force on 30 December 2013 and envisages the second-level control functions of the Risk Management Service and Compliance Service, functions that are separate from and independent of business units, in that they report to the strategic supervision body (the Board of Directors). This is also assured for the Auditing Department, a level-three control function that is independent of the other company units.
For a description of the overall structure of the internal control System, please refer to the Corporate Governance Report annexed to this document and also available on the Company’s website at the address www.civibank.it

Disclosure required by joint Bank of Italy, ISVAP and CONSOB documents
In documents no. 4 of 3 March 2010 and no. 2 of 6 February 2009, national regulators called attention to the need to provide clear disclosure in the financial statements on some areas where a high degree of transparency is of the essence: the measurement of goodwill (impairment testing), other intangible assets with indefinite useful lives and equity investments; the measurement of available-for-sale equities; the contractual clauses of financial payables; information concerning the going-concern assumption; financial risks to which the enterprise is exposed; audits conducted of any indications that assets have become impaired; and uncertainty in the use of estimates.
The foregoing notices, which do not have independent regulatory force, but rather are limited to urging the proper application of current statutes and applicable accounting standards, then provide a detailed account of the disclosures to be furnished on debt restructurings and recall disclosure requirements concerning the fair value hierarchy.
In these financial statements, the disclosures relevant to the Banca Popolare di Cividale Group are set out below in this report and in the notes, as part of the illustration of the various specific items.
With respect to the “going-concern” principle, which was the subject of a specific disclosure request in the 2008 financial statements (document no. 2 of February 2009), regulators have once again drawn the attention

of all the parties involved in preparation of financial statements to the need to devote especial effort to the assessments relating to such assumption. On this point, the Bank's Directors reiterate that they are reasonably certain that the Group will continue to operate profitably in the foreseeable future. Accordingly, the 2014 consolidated financial statements have been prepared on a going-concern basis, considering, among other factors, the adequate capital structure and prospective profitability outlined in the business plan currently in the process of being prepared and approved. It should further be noted that there is no basis for doubt on the specific issue of the going-concern principle in the Group's financial position or operating performance.
With respect to the disclosure concerning financial risks, such risks are analysed in the consolidated report on operations and in Chapter E of the notes, Risks and hedging policies.
In the course of preparing the year-end financial statements, the Group punctually conducted reviews aimed at determining whether any of its assets had become impaired, with a specific focus on goodwill and other intangible assets, equity investments carried among assets and available-for-sale equity investments. A description of the methods used to carry out such tests and the results thereof is specifically illustrated in the notes, in which the discussion is divided by asset type.
A specific section has been prepared concerning uncertainty in the use of estimates in preparing the separate financial statements as part of the drafting process, namely Chapter A of the notes, Accounting policies, A.1 – General information.

Legal risks

Money-laundering (Legislative Decree No. 231/2007)

Responsibility for overseeing compliance with anti-money laundering legislation, in accordance with Bank of Italy rules governing the anti-money laundering organisation, procedures and internal controls, falls to the Anti-Money Laundering Office within the Compliance Service, the head of which has been placed in charge of the function in accordance with those rules.
The Anti-Money Laundering Function, which operates on behalf of all Group companies, has the mission of preventing and combating transactions involving the laundering of money and financing for terrorism within the Parent Company and Group companies. To this end, it ensures that the IT and organisational procedures prepared by those companies are consistent with the objective of preventing and combating the breach of applicable laws and internal rules governing money-laundering. It also performs specific monitoring activity aimed at identifying any potentially suspect transactions.
The Anti-Money Laundering office sends Italy's Ministry of the Economy and Finance notices of breaches of rules governing the use of cash and bearer securities. It also responds to requests from the authorities concerning the reporting of suspect transactions to the Financial Information Office.
The head of the function, as the party delegated to report suspect transactions, conducts analysis, carries out preliminary investigation and sends reports of suspect transactions pursuant to Art. 41 of Legislative Decree No. 231/07.

Information concerning disputes

For detailed information concerning disputes, including disputes of a tax nature, and the main pending judicial actions, refer to Part E of the notes, Risks and hedging policies.

Administrative liability (Legislative Decree No. 231/2001)

In consideration of the provisions of Legislative Decree No. 231/01, the Group adopted specific organisational models, which were updated in 2014 to comply with the changes to the law enacted.
Such models pursue the primary goal of setting up a well-organised, organic system of organisational and control principles and procedures suited to preventing or reducing the risk of the commission of the offences set forth in the Decree.
The Founding and Operational Rules govern the Supervisory Board's activity.
The Supervisory Board is entrusted with the task of supervising:

- ✓ the efficacy and adequacy of the Model in relation to the company's structure and its effective ability to prevent the commission of the Offences;
- ✓ compliance with the Model's prescriptions by corporate bodies, employees and other addressees, in the latter case also through the competent company units;
- ✓ the appropriateness of updating the Model, where it is found necessary to adjust it in connection with changes in company conditions and/or legislation; and
- ✓ the company's fulfilment of its obligations under applicable money-laundering legislation.

In September 2014, the supervision and control function identified in Legislative Decree No. 231/2001 was assigned to the Board of Statutory Auditors, as indicated by the Bank of Italy.

Corporate governance report (Art. 123-bis, Legislative Decree 58 of 24 February 1998)

Introduction

As an issuer of securities quoted on regulated markets, Banca Popolare di Cividale S.c.p.A. is required to comply with the disclosure obligations provided for in Article 123-bis of the Consolidated Finance Act. For issuers of quoted securities other than shares, such obligations relate to "the primary characteristics of existing risk management and internal control systems in relation to the financial reporting process, including at a consolidated level, where applicable".

Internal control system

In accordance with the dictates of corporate law and the Bank of Italy's supervisory regulations, the Group has implemented an internal control system aimed at ensuring that the main risks associated with its core business are constantly monitored, thus ensuring that its operations are managed soundly, properly and in a manner consistent with pre-determined objectives, in harmony with applicable models and in agreement with best practices at a national and international level.

The Banca Popolare di Cividale Group's internal control system involves its collegial bodies, control functions, Supervisory Board pursuant to Law 231/2001, the independent auditors, general management and all personnel.

The internal control system takes two forms:

1) ongoing monitoring, divided into three levels of continual controls:

1. tier one, conducted on an ongoing basis, when a transaction is launched and during the approval process, by the operators themselves, their hierarchical superiors or automated transaction processing systems; activities aimed at producing accounting data and preparing the financial statements are subject to specific tier-one controls conducted within accounting units;
2. tier two/level one (2.1), carried out by personnel with operating duties, yet distinct from personnel directly involved in decisions concerning the transaction subject to control; in particular, central administrative departments are responsible for monitoring controls of all functions with access to the accounting information system; and
3. tier two/level 2 (2.2), carried out by staff members of specialised ongoing control functions of the last instance, not authorised to assume risks, namely the Compliance function, Risk Management function and manager responsible for preparing financial reports;

2) periodic control, represented by a third-tier control performed by the Audit function on a periodic basis through onsite inspections and documentary review.

The internal control and risk management system is also aimed at ensuring the reliability, accuracy, trustworthiness and timeliness of financial reporting.

Collegial bodies

In accordance with the Group's characteristics, within a traditional governance model the Board of Directors plays a fundamental role in achieving an effective, efficient risk management and control system.

In further detail, the strategic supervision body has adopted organisational models and appropriate operational and control mechanisms compliant with applicable legislation and company strategies.

Tier-two/level 2 (2.2) and tier-three control functions report to the Board of Directors concerning the activities performed, the main risks detected, the identification and implementation of mitigation mechanisms and the effects of the application thereof.

The boards of directors of subsidiaries adopt the risk management and mitigation policies approved by the Parent Company's Board of Directors. In addition, they identify the responsibilities of company units and functions so that the associated tasks are clearly assigned and potential conflicts of interest are prevented.

The Chairman of the Board of Directors, in conjunction with the manager responsible for preparing financial reports, issues a specific report on the separate financial statements, condensed half-yearly financial statements and consolidated financial statements attesting to the adequacy and effective application of the administrative and accounting procedures for the preparation of the separate and consolidated financial statements.

With at least half-yearly frequency, control functions report to the Board of Directors concerning the activities performed, the main risks detected, the identification and implementation of mitigation mechanisms and the effects of the application thereof.

Manager responsible for preparing financial reports

The manager responsible for preparing financial reports issues a specific report on the consolidated financial statements attesting to the adequacy and effective application of administrative and accounting procedures for the preparation of the consolidated financial statements and all other notices of a financial nature, as well as the correspondence between documents and accounting books and records.

In order to provide such certification, the manager responsible for preparing financial reports conducts reviews of the adequacy and efficacy of the Financial Reporting Internal Control System:

- ✓ at the company and Group level, such reviews take the form of a concise analysis at the overall company and Group level aimed at verifying the existence of arrangements within the company aimed at reducing risk of errors and improper conduct for the purposes of accounting and financial information; and
- ✓ at the process level, such reviews take the form of analyses and verification of company operations aimed at generating and driving financial reporting, in part through the use of the results generated by other control functions; to that end, the scope of the relevant activities is identified, which then results in the identification of significant processes to be verified for the Parent Company and its subsidiaries.

Compliance

Compliance pursues the mission of ensuring the observance of provisions of law concerning banking and financial activities, professional and ethical rules and customs and Group regulations with the aim of ensuring the centrality of customers' interests, market integrity, the prevention of money-laundering and market abuse, the protection of Group companies, employees and senior management against the risks of penalties, financial loss and reputational damage.

Auditing

Internal Audit is responsible for third-tier periodic controls. Such controls involve analysing organisational structures, processes and behaviours through spot checks of documentation and onsite inspections.

Statutory auditing

For the Banca Popolare di Cividale Group, statutory auditing is conducted by an auditing firm that renders the services provided for in Article 14, paragraph 1, of Legislative Decree No. 39 of 27 January 2010.

The independent auditors express an opinion of the separate financial statements and consolidated financial statements in specific reports, in addition to drafting a limited audit report on the half-yearly financial report.

At present, the firm Reconta Ernst & Young S.p.A. has been engaged to conduct statutory auditing of Group companies.

Dealings with Group companies and other related parties

The subject is governed by Article 2391-bis of the Italian Civil Code, according to which the administrative bodies of companies that have recourse to the risk capital market are required, in accordance with the general principles indicated by Consob, to adopt rules that ensure the "transparency and substantial and procedural propriety of related-party transactions" undertaken directly or through subsidiaries. The control body is required to supervise compliance with the rules adopted and review the matter in its report to the shareholders' meeting.

By resolution 17221 of 12 March 2010, exercising the authority delegated to it under Article 2391-bis of the Italian Civil Code, Consob approved the Regulations for Transactions with Related Parties (also referred to hereinafter as the "Consob Regulations"), subsequently amended by resolution 17389 of 23 June 2010, which sets out the general principles to be observed by companies that obtain funding from the risk-capital market when setting rules aimed at ensuring the transparency and substantive and procedural propriety of transactions with related parties.

In relation to its specific activity, the Bank is also subject to the provisions of Article 136 of the Consolidated Banking Act, as recently amended by Law 221/2012, governing the obligations of bank officers.

On 12 December 2011, the Bank of Italy published new supervisory rules governing risk assets and conflicts of interests within banks and banking groups in regard to "Associated Parties" (ninth update of Circular 263 of 27 December 2006, hereinafter the "Bank of Italy Rules"), in supplementation of the provisions of the Consob Regulation. The definition of Associated Parties includes not only related parties, as defined in the Consob Regulation, but also parties associated with such related parties, as identified in supervisory provisions.

The new rules aim to prevent the risk that the proximity of certain parties to the Bank's decision-making centres may compromise the objectivity and impartiality of decisions relating to the granting of loans and other transactions with such parties, with possible distortions of the resource-allocation process, and are in addition to, and only partly overlap with, the other applicable provisions on the subject (Article 2391 of the Italian Civil Code, Article 136 of the Italian Consolidated Banking Act, the Consob Regulation and IAS 24).

In 2013 the Banca Popolare di Cividale Banking Group, in accordance with the combined provisions of the regulations cited above, adopted its Procedures for Transactions with Related Parties and Associated Parties (also referred to hereinafter as the "APT BPC Procedures").

On 3 December 2014 the Board of Directors approved the document Dealings with Related Parties and Parties Identified Pursuant to Article 136 of the Consolidated Banking Act and Article 2391 of the Italian Civil Code with the aim of grouping together internal conflict of interest rules into a single document. This document brings together the pre-existing rules and procedures issued in application of the supervisory provisions concerning activities at risk with associated parties (ninth update to Circular 263/06), the Consob Regulation on Transactions with Related Parties (Resolution 17221 of 12 March 2010), Article 136 of the Consolidated Banking Act, Obligations of Bank Officers and the related supervisory instructions and, finally, Article 2391 of the Italian Civil Code, Interests of Directors. In accordance with applicable regulations, the document has been published on the website at the address http://www.gruppobancapopolaredicividale.it/it/126/Procedure parti correlate.

With the aim of establishing a consolidated text of internal conflict of interest rules, this document combines the pre-existing rules and procedures issued in application of the supervisory provisions concerning activities at risk with associated parties (ninth update to Circular 263/06), the Consob regulation on transactions with related parties (Resolution 17221 of 12 March 2010), Article 136 of the Consolidated Banking Act, Obligations of Bank Officers, and the related supervisory instructions, and, finally, Article 2391 of the Italian Civil Code, Interests of Directors.

Major transactions

No transactions with related parties considered major transactions pursuant to the Procedures for Related-Party Transactions cited above were undertaken during the reporting period. In 2014 there were no additional atypical and/or unusual transactions to be disclosed pursuant to Consob bulletin no. DEM/6064293 of 28 July 2006.

Transactions of an ordinary or recurring nature

The transactions of an ordinary or recurring nature undertaken in 2014 with related parties are part of the Bank's ordinary operations and are normally governed by market conditions and meet the requirement of mutual economic expedience in accordance with the internal procedures cited above.

In keeping with the above arrangement, dealings with Group companies consist primarily of consideration for services rendered, deposits and financing in the course of ordinary interbank operations, as regards the banking firms. The other contractual dealings with specialised finance companies and the Group's service providers involve assistance and advisory services and specialised services in support of current operations.
Detailed information regarding intra-Group and related-party dealings, including information on the impact of outstanding transactions and positions with such counterparties on the Group's financial performance and financial position, accompanied by tables summarising those effects, are set forth in Chapter H of the Notes.

Subsequent events

The significant events that occurred between the end of 2014 and the date of approval of this report include:

Appointment of the new general manager

Gianluca Benatti was appointed the new general manager of Banca Popolare di Cividale in January.

Securitisation

In January the Bank completed an innovative "renewal" (known as a "size increase in continuity of eligibility") of a securitisation, involving the sale of a new residual mortgage portfolio with a nominal value of €246 million and resulting in an increase in the pre-existing senior and junior securities issued as part of the securitisation undertaken in 2012 in the respective amounts of €214 and €34 million.

Merger of Tabogan S.r.l. into Banca Popolare di Cividale S.c.p.A.

On 18 March 2015 the Board of Directors authorised the merger of Tabogan S.r.l. into the parent company.

With the exception of the foregoing, since the end of the period there have been no other material events of a sort that would have a significant effect on either the earnings and financial position of the Company or the various entities within the scope of consolidation or on the representation thereof.

Business outlook and the going concern assumption

The Board of Directors confirm that they may reasonably expect that the Company and Group will continue to operate as a going concern for the foreseeable future, and that the 2014 separate and consolidated financial statements have therefore been prepared on a going concern basis.
The Board of Directors further certify that there are no factors or signs at the level of financial position or operating performance that might represent causes for uncertainty on the subject of the going-concern principle.
For information on the impairment testing of assets and uncertainty in the use of estimates, refer to the pertinent sections of the notes (Chapter A – Accounting policies and Chapter B – Notes to the balance sheet – Assets).

Outlook

Economic activity in the Euro Area appears to be gradually recovering, as also confirmed by the most recent qualitative survey results. While still weak, labour markets continue to improve. From a longer-term perspective, the recent drop in oil prices should support growth, and above all domestic demand, through an increase in real disposable household incomes and corporate profits. Domestic demand should also be supported by the ECB's monetary policy measures, ongoing improvement of financial conditions and progress in terms of sounder corporate balance sheets and structural reforms. In addition, the Euro Area's exports should benefit from the global recovery.
In Italy consumption is on the rise, but investments in production are struggling to rebound. The recovery of employment, which increased in the third quarter of last year, but then fell in October and November, remains fragile. Credit conditions are gradually improving, but the outlook for the next two years depends on the robustness of the recovery of investments.
The most recent statistical projections indicate that the Italian economy will experience modest growth this year and more robust growth next year, of approximately +0.4% and +1%, respectively. However, such projections continue to be surrounded by considerable uncertainty relating to the absence of a recovery in investment expenditures. Conversely, a swift improvement in demand prospects and financial conditions could expedite the recovery, despite the considerable unused production capacity. An even more favourable outcome could result if the price of oil were to remain at the previous year's levels.
The profitability prospects for the Italian banking industry – closely correlated with the outlook for economic activity in the country – remain modest and continue to be significantly conditioned by the flow of adjustments to loan portfolios, although such adjustments are expected to improve gradually. Banks will continue to adopt measures aimed at improving operating efficiency, although margins for reducing costs, in the absence of far-reaching changes to their business models and in an environment in which significant

modification of the law is necessary, remain rather limited. In this complex scenario, the Bank's operations will give priority to focusing on achieving performance targets in keeping with the objectives laid down in the strategic plan.

Proposed allocation of the net income for the year

Shareholders,

The financial statements submitted for your review have been drafted in accordance with IASs/IFRSs as required by Legislative Decree No. 38 of 28 February 2005 and order of the Bank of Italy no. 262 of 22 December 2005, as amended, and have been audited by the independent auditors Reconta Ernst & Young S.p.A., a copy of whose report is included in the financial statement package.

The financial statements we ask you to approve show the following results, in concise form:

Balance sheet

Total Assets	4.220.125.529	
Liabilities		3.942.339.205
Share capital		50.913.255
Share premiums		167.021.739
Reserves		42.922.245
Valuation reserves		11.126.085
Treasury stock		-
Total liabilities and shareholders' equity (excluding Income for the period)		**4.214.322.529**

In accordance with Article 53 of the Articles of Association, we propose the following allocation of net income. In this regard, it should be noted that in its deliberations regarding dividends, the Board took due account of the formal and informal exchanges with the supervisory authorities, and in particular the notice from the Bank of Italy dated 6 March 2015 on the subject of "2014 Financial Statements: Dividend Policy". In this notice, the supervisory authority invites intermediaries – among other recommendations – to adopt profit distribution policies that permit them to maintain prospective and current capital adequacy conditions suitable to the overall risk assumed.

We therefore propose the following allocation of net income for the year to the shareholders' meeting:

Allocation of net income	31/12/2014
To Legal reserve	580.300
To Statutory reserve	5.222.700
Net income for the period	**5.803.000**

If you approve the foregoing proposal for allocation of the net income, share capital and reserves will be as follows:

	Amounts to 31/12/2014	Allocation of net income	Amounts after allocation of net income
Share capital	50.913.255		50.913.255
Share premiums	167.021.739		167.021.739
Reserves	42.922.245	5.803.000	48.725.245
Valuation reserves	11.126.085		11.126.085

Proposal to set the share premium pursuant to Article 2528 of the Italian Civil Code

Shareholders,

After having consulted with the Board of Statutory Auditors on the subject, this Shareholders' Meeting has also been called upon to approve the Directors' proposal for setting the share premium to be paid in addition to the value of shares (par value).

Having acknowledged the results presented in the 2014 financial statements, the proposed allocation of net income, the accruals to provisions, the Company's financial performance and financial position, market conditions, the supervisory authority's observations, and media attention dedicated to the shares of unlisted cooperative banks, the Board of Directors has decided to propose that the share premium be set at €16.60 for 2015. That share premium, in addition to the par value, would bring the price of one share to a total of €19.60.

Cividale del Friuli, 18 March 2015

Consolidated Financial Statements of the Banca Popolare di Cividale Group
2014

Consolidated financial statements

Consolidated balance sheet

Balance sheet - Assets			31/12/2014		31/12/2013
10	Cash and cash equivalents		18.487		20.021
20	Financial assets held for trading		3.032		3.512
40	Financial assets available for sale		1.033.838		1.472.132
50	Invetments held to maturity		64.697		105.413
60	Due from banks		159.347		163.750
70	Loans to customers		2.735.250		3.113.834
100	Investments in associates and companies subject to joint		7.776		7.529
120	Property and equipment		84.621		86.998
130	Intangible assets		19.350		19.379
	of which:				
	- goodwill	19.136		19.136	
140	Tax assets		74.171		73.893
	a) current	19.371		17.361	
	b) deferred	54.800		56.532	
	of which convertible into tax credit (Law no. 214/2011)	*50.636*		*48.719*	
160	Other assets		28.261		30.797
	Total assets		**4.228.830**		**5.097.258**

Balance sheet - Liabilities and shareholders' equity			31/12/2014		31/12/2013
10	Due to banks		1.121.823		1.010.863
20	Due to customers		2.013.024		2.968.412
30	Debt securities issued		689.006		730.284
40	Financial liabilities held for trading		1.036		965
80	Tax liabilities		28.813		27.056
	a) current	17.665		19.935	
	b) deferred	11.148		7.121	
100	Other liabilities		89.221		89.276
110	Employee termination benefits		6.040		5.658
120	Provisions for risk and charges:		3.690		3.436
	b) other provisions	3.690		3.436	
140	Valuation reserves		11.124		8.552
170	Reserves		37.054		38.920
180	Share premiums		167.022		198.570
190	Share capital		50.913		51.068
200	Treasury shares (-)		-		(7)
220	Net income (loss) for the period (+/-)		10.065		(35.793)
	Total liabilities and shareholders' equity		**4.228.830**		**5.097.258**

Consolidated income statement

Consolidated income statement			31/12/2014		31/12/2013
10	Interest income and similar revenues		118.004		140.119
20	Interest expense and similar charges		(48.488)		(57.659)
30	**Net interest income**		**69.516**		**82.460**
40	Commission income		28.599		29.041
50	Commission expense		(6.858)		(6.754)
60	**Net commission income**		**21.741**		**22.287**
70	Dividends and similar income		927		996
80	Net trading income		705		423
90	Fair value adjustments in hedge accounting		-		(54)
100	Profit (loss) on disposal or repurchase of:		34.919		50.633
	a) loans	(173)		852	
	b) financial assets available for sale	34.556		51.586	
	d) financial liabilities	537		(1.806)	
120	**Total income**		**127.807**		**156.744**
130	Charges/write-backs on impairment of:		(38.950)		(128.150)
	a) loans	(36.209)		(118.911)	
	b) financial assets available for sale	(2.039)		(9.281)	
	d) other financial transactions	(702)		42	
140	**Net Financial income**		**88.857**		**28.594**
170	**Net income from financial and insurance operations**		**88.857**		**28.594**
180	G&A expenses:		(71.380)		(74.010)
	a) personnel expenses	(39.879)		(41.308)	
	b) other administrative expenses	(31.501)		(32.702)	
190	Net provisions for risks and charges		(1.286)		(2.410)
200	Net impairment/write-backs on property, plant and equipment		(3.429)		(1.266)
210	Net impairment/write-backs on intangible assets		(44)		(108)
220	Other operating income (expenses)		9.615		6.595
230	**Operating cost**		**(66.524)**		**(71.199)**
240	Profit (loss) on equity investments		247		(769)
280	**Income (loss) before tax from continuing operations**		**22.580**		**(43.375)**
290	Tax on income from continuing operations		(12.517)		7.581
300	**Income (loss) after tax from continuing operations**		**10.065**		**(35.793)**
320	**Net income for the period**		**10.065**		**(35.793)**
340	**Net income for the period attributable to the Parent company**		**10.065**		**(35.793)**

Consolidated statement of comprehensive income

		31/12/2014	31/12/2013
10	**Net profit for the year**	**10.065**	**(35.793)**
	Other income net of income taxes without transfer to profit and loss account		
40	Actuarial gains (losses) from defined benefit plans	(351)	185
100	AFS financial assets	6.188	(10.646)
130	**Total other income, net of income taxes**	**5.837**	**(10.461)**
140	**Comprehensive income (10 + 130)**	**15.902**	**(46.253)**
160	**Consolidated comprehensive income attributable to the Parent Com**	**15.902**	**(46.253)**

Statement of changes in consolidated shareholders' equity (2014)

			Allocation of result for previous period		Changhes during the year									
						Equity operations								
2014	Balance at 01/01/2014	Balance at 01/01/2014	Reserves	Dividends and other uses	Changes in reserves	New share issues	Purchase of treasury stock	Extraordinary dividend distribution	Change in equity instruments	Derivatives on own shares	Stock options	Total comprehensive income for the period	**Patrimonio netto del gruppo al 31/12/2014**	**Shareholders' equity at 31/12/2014**
Share capital	**51.068**	**51.068**	**-**	**-**	**-**	**-**	**155**	**-**	**-**	**-**	**-**	**-**	**50.913**	**-**
a) ordinary shares	51.068	51.068	-	-	-	-	(155)	-	-	-	-	-	50.913	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**198.569**	**198.569**	**(30.585)**	**-**	**-**	**-**	**(962)**	**-**	**-**	**-**	**-**	**-**	**167.021**	**-**
Reserves	**38.920**	**38.920**	**(1.943)**	**-**	**77**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37.054**	**-**
a) income	38.920	38.920	(1.943)	-	77	-	-	-	-	-	-	-	37.054	-
b) other	(0)	(0)	-	-	-	-	-	-	-	-	-	-	(0)	-
Valuation reserves:	**8.551**	**8.551**	**(3.265)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5.837**	**11.124**	**-**
Equity instruments	**-**	**-**			**-**								**-**	**-**
Treasury shares	**(7)**	**(7)**	**-**	**-**	**-**	**-**	**7**	**-**	**-**	**-**	**-**	**-**	**(0)**	**-**
Net income (loss) for the period	**(35.793)**	**(35.793)**	**35.793**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10.065**	**10.065**	**-**
Shareholders' equity	**261.308**	**261.308**	**-**	**-**	**77**	**-**	**(1.110)**	**-**	**-**	**-**	**-**	**15.902**	**276.177**	**-**

Statement of changes in consolidated shareholders' equity (2013)

	Balance at 01/01/2013		Allocation of result for previous period			Changes during the year												Shareholders' equity at 31/12/2013	
			Reserves			Changes in reserves		Equity operations								Total comprehensive income for the			
								New share issues		Purchase of treasury stock									
2013	Group	Minority interests	Group	Minority interests	Dividends and other uses	Group	Minority interests	Group	Minority interests	Group	Minority interests	Extraordinary dividend distribution	Change in equity instruments	Derivatives on own shares	Stock options	Group	Minority interests	Group	Minority interests
Share capital	**50.783**	**28.027**	**-**	**-**	**-**	**-**	**(28.027)**	**285**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**51.068**	**-**
a) ordinary shares	50.783	28.027	-	-	-	-	(28.027)	285	-	-	-	-	-	-	-	-	-	51.068	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**196.529**	**29.958**				**-**	**(29.958)**	**2.040**	**-**		**-**							**198.569**	**-**
Reserves	**63.752**	**716**	**-**	**-**	**-**	**(24.832)**	**(716)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38.920**	**-**
a) income	36.069	716				2.851	(716)		-	-		-	-	-	-	-	-	38.920	-
b) other	27.683	-	-			(27.683)		-	-	-	-	-	-	-	-	-	-	(0)	-
Valuation reserves:	**28.730**	**2.184**	**-**	**-**	**-**	**(9.718)**	**(2.184)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(10.461)**	**-**	**8.551**	**-**
a) available for sale	16.140	(160)	-			(160)	160		-	-		-	-	-	-	(10.646)		5.334	-
b) cash flow hedging	-	-	-					-	-	-	-	-	-	-	-	-	-	-	-
c) other (*)	12.590	2.344				(9.558)	(2.344)		-	-		-	-	-	-	185		3.218	-
Equity instruments	**-**	**-**																**-**	**-**
Treasury shares	**(9.740)**	**-**	**-**	**-**	**-**	**9.733**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7)**	**-**
a) of Parent Company	(9.740)	-	-	-	-	9.733	-	-	-	-	-	-	-	-	-	-	-	(7)	-
b) of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss) for the period	**9.552**	**(3.225)**	**98**	**-**	**(6.425)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(35.793)**	**-**	**(35.793)**	**-**
Shareholders' equity	**339.606**	**57.660**	**98**	**-**	**(6.425)**	**(24.817)**	**(60.885)**	**2.325**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(46.253)**	**-**	**261.308**	**-**

(*) The amount refers to valuation reserves for property, plant and equipment.

Consolidated statement of cash flows

CONSOLIIDATED STATEMENT OF CASH FLOW				
OPERATING ACTIVITY	31/12/2014		31/12/2013	
1. Operations		**119.347**		**140.064**
- interest income received (+)	154.192		180.510	
- interest expense paid (-)	(31.004)		(41.946)	
- net commissions (+/-)	18.287		25.682	
- staff costs	(37.874)		(38.739)	
- other expenses (-)	(32.663)		(42.046)	
- other revenues (+)	50.029		56.441	
- taxes and duties (-)	(1.621)		162	
2. Liquidity generated/absorbed by financial assets: (+/-)		**763.093**		**61.555**
- financial assets held for trading	480		7.685	
- financial assets available for sale	436.255		(78.767)	
- loans to custumers	344.115		(87.060)	
- due from banks: repayable on demand	4.403		(163.054)	
- due from banks: other	(34.240)		382.725	
- other assets	12.081		26	
3. Liquidity generated/absorbed by financial liabilities: (+/-)		**(919.589)**		**(110.635)**
- due to banks: repayable on demand	110.961		1.009.367	
- due to banks: other	(13.079)		(980.481)	
- due to customers	(958.811)		283.642	
- securities issued	(42.225)		(377.650)	
- financial liabilities held for trading	71		(1.108)	
- other liabilities	(16.505)		(44.405)	
Net liquidity generated/absorbed by operating activity A (+/-)		**(37.149)**		**90.984**
INVESTING ACTIVITY				
1. Liquidity generated by: (+)		**912**		**757**
- dividends received on equity investments	927		996	
- disposal of intangible assets	(15)		(240)	
2. Liquidity absorbed by: (-)		**35.770**		**(11.204)**
- purchase of equity investments	(5.470)		1.106	
- purchase of financial assets held to maturity	40.716		(1.305)	
- purchase of property, plant and equipment	524		(11.005)	
Net liquidity generated/absorbed by investing activity B (+/-)		**36.682**		**(10.447)**
FUNDING ACTIVITY				
- issue/purchase of own shares	(1.068)		(79.591)	
- distribution of dividends and other uses	-		(6.425)	
Net liquidity generated/absorbed by funding activity C (+/-)		**(1.068)**		**(86.016)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD D = A +/- B +/- C		**(1.535)**		**(5.479)**

RECONCILIATION		
Cash and cash equivalents at the start of the period E	20.021	25.501
Total net liquidity generated/absorbed during the period D	(1.535)	(5.479)
Cash and cash equivalents: effect of exchange rate changes F	0	0
Cash and cash equivalents at the end of the period G = E +/-D+/-F	**18.486**	**20.021**

Notes to the consolidated financial statements

Chapter A – ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

Section 1 Statement of compliance with international accounting standards

In application of Legislative Decree No. 38 of 28 February 2005, the consolidated financial statements of the Banca Popolare di Cividale Group are prepared in accordance with the international accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, the adoption of which was compulsory at 31 December 2014, including the relative Interpretations of the International Financial Reporting Interpretation Committee (IFRIC), as established by Regulation (EC) No. 1606 of 19 July 2002.

The consolidated financial statements for the year ended 31 December 2014 have been prepared on the basis of the instructions issued by the Bank of Italy within the scope of its regulatory powers governing the technical form of the financial statements of banks and financial institutions as set forth in Legislative Decree No. 38/05 Instructions for the Preparation of the Separate and Consolidated Financial Statements of Banks and Financial Institutions that are the Parent Companies of Banking Groups (Order of 22 December 2005 – Circular No. 262 – third update of 22 December 2014).

Those Instructions set out a compulsory presentation for the financial statements and the basis for the preparation thereof, as well as the contents of the notes to the financial statements.

The financial statements have been prepared using the international accounting standards in force at 31 December 2014 (including the SIC and IFRIC interpretation documents).

The following is a list of the regulations endorsing several new standards or amendments to existing standards, applicable on a compulsory basis effective financial year 2014, as limited to the cases of interest to the Group’s business, for which an early application option was not exercised in previous years:

- ✓ Regulation No. 1254/2012, which adopts the following international accounting standards: IFRS 10 *Consolidated Financial Statements*, which replaces IAS 27 and the interpretation SIC 12 and has the objective of providing a single consolidation model that identifies control as the basis for consolidation of all types of entities; ii. IFRS 11 *Joint Arrangements*, which establishes principles for the financial reporting by parties to a joint arrangement and replaces IAS 31 Interests in Joint Ventures and the interpretation SIC 13; iii. IFRS 12 *Disclosure of Interests in Other Entities*, which combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. That same Regulation also amends IAS 27 *Separate Financial Statements* and IAS 28 *Investment in Associates and Joint Ventures* (in addition to replacing IAS 31 *Interests in Joint Ventures*).
- ✓ Regulation No. 313/2013 – transition guidance and amendments to IFRS 10, 11 and 12, clarifying the IASB's intention when first issuing the transition guidance in IFRS 10. The amendments also provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before IFRS 12 is first applied.
- ✓ Regulation No. 1174/2013 – Investment Entities, which amends IFRS 10, IFRS 12 and IAS 27 so as to require that investment entities measure their subsidiaries at fair value through profit or loss account rather than consolidate them in order to better reflect their business model. Disclosures about interests in other entities (IFRS 12) have also been amended so as to require specific disclosure about the subsidiaries of the above-mentioned investment entities.
- ✓ Regulation No. 1374/2013 – Recoverable Amount Disclosures for Non-Financial Assets, which amends IAS 36 and clarifies that the scope of the disclosures of information about the recoverable amount of assets, where that amount is based on fair value less costs of disposal, is limited to impaired assets.
- ✓ Regulation No. 1375/2013 – Novation of Derivatives and Continuation of Hedge Accounting, which amends IAS 39, governing situations where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. Hedge accounting may therefore continue irrespective of the novation, which, without the amendment, would not be permitted.

Among the regulations that have been endorsed but have yet to enter into force, attention should be drawn to:

- ✓ Regulation No. 634/2014, which adopts the interpretation IFRIC 21 *Levies*. That Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, as well as the accounting for a liability to pay a levy whose timing and amount is uncertain. Application is required from 1 January 2015.
- ✓ Regulation No. 1361/2014, adopting Annual Improvements to the International Reporting Standards 2011–2013 Cycle, with the aim of addressing non-urgent issues relating to areas of inconsistency in IFRS or clarification of wording, discussed by the IASB during the project cycle that began in 2011. The amendments to IFRS 3 and 13 are clarifications or corrections to the respective standards. The amendments to IAS 40 involve changes to the existing requirements or additional guidance on the implementation of those requirements.
- ✓ Regulation No. 28/2015, adopting Annual Improvements to International Financial Reporting Standards 2010–2012 Cycle, with the aim of addressing non-urgent, but necessary issues discussed by the IASB during the project cycle that began in 2011 on areas of inconsistency in IFRS or clarification of wording. The amendments to IFRS 8 and IAS 16, 24 and 38 are clarifications or corrections to the respective standards. The amendments to IFRS 2 and IFRS 3 involve changes to the existing requirements or additional guidance on the implementation of those requirements.

Application of the new provisions did not have a significant impact on consolidated results or the net situation for the period.
The publication of the consolidated financial statements for the year ended 31 December 2014 was authorised by the Board of Directors on 18 March 2015.

Section 2 General basis of preparation

The consolidated financial statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and the notes to the financial statements. A report on operations, earnings results and financial position has also been included. The figures presented in the financial statements and in the notes, as well in the report on operations, are expressed in thousands of euro, unless otherwise indicated. The financial statements and notes include figures for the period under review as well as comparative data at 31 December 2013. The financial statements have been prepared in application of the general preparation principles set forth in IAS 1, the accounting standards illustrated in Chapter A.2 of the Notes (international accounting standards endorsed by the European Union the adoption of which was compulsory at 31 December 2014).
In application of Article 3, paragraph 3-bis, of Legislative Decree No. 87/1992, introduced by Legislative Decree No. 32/2007, transposing the EU accounts modernisation Directive 2003/51/EC into Italian law, the consolidated report on operations also includes the main comments with respect to the matters material to the set of companies within the scope of consolidation, with the separate report of operations of the parent included in a single document.
Measurement criteria have been adopted in view of the continuity of company activity and reflect the principles of accruals-basis accounting, the materiality and significant of accounting information and the prevalence of economic substance over legal form.
In particular, the directors may reasonably expect that the Bank will continue to operate as a going concern for the foreseeable future (at least 12 months) and have prepared the financial statements on a going-concern basis. Any uncertainties identified are not material and do not cast doubt on the ability to operate as a going concern.
The consolidated financial statements for the year ended 31 December 2014 have been prepared in a clear manner and provide a fair and true representation of the Bank's financial position and earnings results for the year.

Contents of the financial statements

The balance sheet and income statement consist of items, sub-items and further information (the "of which" within items and sub-items). In the income statement, revenues are indicated without sign, whereas costs are presented in parentheses.
The statement of comprehensive income consists of items that show changes in the carrying amount of assets during the year recognised through valuation reserves. Consolidated comprehensive income is broken down into the share attributable to the Parent Company and the share attributable to minority interests. Negative amounts are presented in parentheses.

The statement of changes in shareholders' equity presents the composition of and changes in shareholders' equity accounts during the reporting year and the previous year, broken down into share capital, equity reserves, reserves from retained earnings, reserves from the valuation of assets or liabilities and net income or loss. Treasury shares are deducted from shareholders' equity. Items are broken down into the share attributable to the Group and the share attributable to minority interests.
The statement of cash flows has been prepared according to the direct method, which shows the main categories of gross receipts and payments. Cash flows have been presented by distinguishing between operating, investing and financing activity.
The notes to the financial statements include the information provided for by International Financial Reporting Standards and Circular No. 262/2005 of the Bank of Italy (third update of 22 December 2014).
In particular, the third update to Circular No. 262 adopts:

a) the changes concerning disclosures introduced by IFRS 12 *Disclosure of Interests in Other Entities*;
b) compliance of the disclosure presented in Chapter F of the notes, Information on capital, Section 2, Own funds and capital ratios, with the new requirements introduced by Regulation EU No. 575/2013 of the European Parliament and the Council of 26 June 2013 ("CRR") and Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013 ("CRD IV").

With regard to IFRS 12, the main changes introduced relate to the disclosure concerning:

- ✓ the "significant judgements and assumptions" made in determining that it has control, joint control or significant influence over another entity;
- ✓ the composition of the group;
- ✓ subsidiaries with material non-controlling interests;
- ✓ significant restrictions on the ability to use or access assets and settle liabilities of subsidiaries;
- ✓ the nature of the risks associated with structured entities (for example, special purpose vehicles);
- ✓ the consequences of changes in ownership interest in a subsidiary that result or do not result in a loss of control;
- ✓ the material joint ventures or entities subject to significant influence for the reporting entity;
- ✓ the nature and extent of interests in non-consolidated structured entities and the associated risks.

Specific disclosure is also required concerning performing positions subject to renegotiation approved by banks for customers in financial difficulty (forborne exposures), in addition to certain additional disclosures concerning liquidity risk and the fair value of derivative financial instruments.
The financial statements and notes include figures for the period under review as well as comparative data at 31 December 2013.

Section 3 Scope of consolidation and consolidation methods

The consolidated financial statements include Banca Popolare di Cividale and its direct or indirect subsidiaries as at 31 December 2014, and the scope of consolidation – as specifically required by IASs/IFRSs – also extends the companies operating in sectors dissimilar to that of the Parent Company.
In application of IFRS 10, entities (including structured entities) over which the Group has direct or indirect control are considered subsidiaries.
Control is determined by the Group's ability to exercise power in order to influence the variable returns to which the Group is exposed due to its involvement with the entity.
The Group considers the following factors when determining whether control exists:

- ✓ the purpose and design of the investee, in order to identify the entity's objectives, the activities that determine its returns and how those activities are governed;
- ✓ power, in order to understand whether the Group has contractual rights that give it the ability to direct the relevant activities. For the purposes of assessing power, only substantive rights that provide practical governance ability are considered;
- ✓ the exposure to the investee, in order to assess whether the Group is involved with the investee whose returns are subject to variation according to variation of the investee's performance;
- ✓ the existence of a potential principal/agent relationship.

When the relevant activities are governed through voting rights, the following factors provide evidence of control:

- ✓ the investor holds more than half of the voting rights of its investee, directly or indirectly through its subsidiaries, unless, in exceptional cases, it may clearly be demonstrated that holding such voting rights does not constitute control;
- ✓ the investor has half, or less than half, of the voting rights but has the practical ability to direct the relevant activities unilaterally through:

- control of more than half of voting rights under an agreement with other investors;
- the power to govern the financial and operating policies of an entity under a clause of the articles of association or of a contract;
- the power to appoint or remove the majority of the members of the board of directors, or equivalent corporate governance body, and that board of body is responsible for managing the entity;
- the power to cast the majority of the voting rights in sessions of the board of directors or equivalent corporate governance body, and that board or body is responsible for managing the entity.

The existence and effect of potential voting rights, where substantive, are considered when assessing whether the investor has the power to govern an entity's financial and operating policies.
Subsidiaries may also include any "structured entities" in which voting rights are not sufficient to confer control, including special purpose entities and investment funds. Structured entities are considered subsidiaries if:

- ✓ the Group has power through contractual rights that allow it to govern the relevant activities;
- ✓ the Group is exposed to the variable returns arising from those activities.

The carrying amounts of equity interests in entities consolidated line-by-line held by the Parent Company or other Group companies is eliminated against the assets and liabilities of the investees through the corresponding share of equity attributable to the Group.
Companies are considered associates (subject to significant influence) when Banca Popolare di Cividale directly or indirectly holds at least 20% of voting rights (including "potential" voting rights) or holds a lesser percentage of voting rights but has the power to participate in governing the entity's financial and operating policies under specific legal arrangements such as shareholders' agreements.
In the financial statements at and for the year ended 31 December 2014, line-by-line consolidation has been applied for Civileasing S.p.A. and Tabogan S.r.l., which Banca Popolare di Cividale controls because it fully owns them and holds all pertinent voting rights, and, with effect from 2014, Civitas SPV S.r.l., considered a special purpose entity, which Banca Popolare di Cividale controls due to its status as originator of the securitisation and the contractual provisions governing the execution of the transaction, in accordance with IFRS 10.
The following is a list of the equity investments included within the scope of consolidation according to the equity method.

Equity investments in companies subject to significant influence and joint arrangements

	Registered office	Headquarters	Type of relationship	Equity investment		% of votes	Book
				Investor	% holding		value
B. Companies under significant influence							
1 Acileasing S.p.A.	Udine - Via Crispi n. 3	Udine - Via Crispi n. 3	2	Banca Popolare di Cividale ScpA	30,00%		1.408
2 Acrent S.p.A.	Udine - Via Crispi n. 17	Udine - Via Crispi n. 17	2	Banca Popolare di Cividale ScpA	30,00%		669
3 Itas Assicurazioni S.p.A.	Trento - Piazza delle Donne Lavoratrici n. 2	Trento - Piazza delle Donne Lavoratrici n. 2	2	Banca Popolare di Cividale ScpA	25,00%		2.199
4 Help line S.p.A.	Cividale del Friuli (UD) - Via G. Pelizzo n. 8	Cividale del Friuli (UD) - Via G. Pelizzo n. 8	2	Banca Popolare di Cividale ScpA	30,01%		3.500
Total							7.776

Consolidation methods
The methods used to consolidate subsidiaries (line-by-line consolidation) and associates (equity method) have remained unchanged with respect to those adopted for the Banca Popolare di Cividale Group's 2013 Annual Report, to which the reader is therefore referred. The financial statements of the Parent Company and of the other companies used to prepare the Report refer to 31 December 2014. The financial statements of subsidiaries have been drafted in accordance with uniform accounting standards.
Subsidiaries are fully consolidated, i.e. by adding their balance sheet and income statement aggregates on a line-by-line basis. The value of an equity investment is eliminated against the residual value of the interest in the company, after attributing the minority-interest share. The differences resulting from that operation (at the date of initial acquisition), where positive, are recognised under intangible assets (after allocation to the subsidiary's assets or liabilities), and, where negative, are recognised through the income statement. Assets, liabilities, income and expenses between consolidated companies are fully eliminated. Changes in the equity interest of a parent in a subsidiary that do not result in the loss of control are accounted for as equity transactions.
Equity investments in joint ventures and associates are accounted for according to the equity method, which requires the initial recognition of the investment at cost and subsequent adjustment according to the interest in the investee's net income or loss after the acquisition date. Goodwill associated with the associate is included in the carrying amount of the equity interest and is not amortised nor separately tested for impairment. The investor's share of the investee's net income or loss for the period is recognised in a specific item of the consolidated income statement. The income statement reflects the share of the net income or loss of the associate or joint venture attributable to the Group. If an associate recognises adjustments directly through

equity, the Group accounts for its share of such adjustments and presents them, where applicable, in the statement of changes in shareholders' equity. Gains and losses arising from transactions between the Group and an associate are eliminated in proportion to the equity interest in the associate. After the equity method has been applied, the Group assesses whether there is evidence of impairment, estimating the recoverable amount of the investment by considering the present value of the future cash flows that may be generated by the investment, including the final disposal value. If the recoverable amount is below the carrying amount, the difference is recognised in the income statement.

Section 4 Subsequent events

Please refer to the corresponding section of the report on operations.

Section 5 Other aspects

During the year, there were no transactions or events of a non-recurring nature beyond the course of ordinary operations with a material impact on financial performance and financial position (Consob Notice No. DEM/6064293 of 28-7-2006).
For the three-year period from 2012 to 2014, the Parent Company and the subsidiary Civileasing S.p.A. adopted the consolidated taxation mechanism. The option, governed by Articles 117 et seq. of the Consolidated Income Tax Act (introduced into the tax code by Legislative Decree No. 344/2003), allows income to be taxed at the consolidated level by transferring the tax positions of participating companies to the Parent Company.
The consolidated financial statements have been audited by Reconta Ernst & Young.

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

This section describes the accounting policies adopted in preparing the financial statements for the year ended 31 December 2014 and includes an illustration by item of the criteria for recognition, classification, measurement, derecognition and, where relevant, the criteria for the recognition of income components.

1 – Financial assets held for trading

This category includes debt and equity securities held for trading and the positive value of derivative contracts. Derivative contracts also include those embedded in hybrid financial instruments that have been recognised separately because:

- ✓ their financial characteristics and risks are not strictly correlated with the characteristics of the host contract;
- ✓ the embedded instruments meet the definition of derivative, even when separated; and
- ✓ the hybrid instruments are not measured at fair value with changes in fair value recognised through the income statement.

Reclassifications to other categories of financial assets are not permitted except in cases of unusual events that are highly unlikely to recur in the near term. In such cases, debt securities and equities not held for trading may be reclassified into other categories established by IAS 39 if the conditions for their recognition have been met (financial assets held to maturity, financial assets available for sale and loans and receivables). The transfer value is the fair value at the time of the reclassification. The presence of any embedded derivative contracts to be separated is assessed upon reclassification.
Initial recognition of financial assets occurs at the settlement date for debt securities and equities and the trade date for derivative contracts. Upon initial recognition, financial assets held for trading are recorded at fair value, without considering transaction costs or revenues directly attributable to the instrument, which are recognised in the income statement.
After initial recognition, financial assets held for trading are measured at fair value. The effects of the application of this measurement criterion are taken to the income statement.
Market prices are used to determine the fair value of financial instruments listed on active markets. In the absence of an active market, the Group uses estimation methods and valuation models that take account of all risk factors associated with the instruments and that, where possible, are based on data that may be obtained from the market, such as: the valuation of listed instruments with similar characteristics (comparables method), discounted cash flow analysis, option-pricing models, values reported for recent comparable transactions (recent transactions method), etc.
Where it is impossible to use the approaches indicated above, the Group adopts estimation methods and valuation models that also contemplate input data not directly available from the market.

Equity securities, units of CIUs that invest in equity securities and derivatives on equity securities not listed on active markets for which fair value may not be determined reliably according to the foregoing guidelines continue to be carried at cost.

Financial assets are only derecognised if they are transferred along with substantially all of the associated risks and rewards of ownership. Conversely, if a significant part of the risks and rewards associated with the transferred financial assets has been retained, those assets continue to be carried, even though ownership of the assets has effectively been transferred. When it is not possible to determine that substantially all risks and rewards have been transferred, financial assets are derecognised where no control over the assets has been retained. Where this is not the case, continuing control, even partial control, results in continuing recognition of the assets to the extent of the entity's continuing involvement, measured by the exposure to changes in the value of the transferred assets and changes in the associated cash flows.

Lastly, transferred financial assets are derecognised if the entity retains the contractual rights to receive the cash flows from the assets, but assumes a concurrent obligation to remit such cash flows, and only such cash flows, to third parties.

2 – Financial assets available for sale

This category includes non-derivative financial assets not classified as loans and receivables, financial assets held to maturity, financial assets held for trading or designated at fair value. In particular, this category includes not only debt securities not held for trading or classified to the other foregoing portfolios, but also equity interests not managed for trading purposes or classifiable as interests in subsidiaries, associates or joint ventures.

Where allowed by accounting standards, reclassifications are permitted only into the category financial assets held to maturity, except in cases of unusual events that are highly unlikely to recur in the near term. In such cases, debt securities may be reclassified to the loans and receivables category if the conditions for their recognition have been met. The transfer value is the fair value at the time of the reclassification.

Initial recognition of the financial asset occurs at settlement date for debt securities and equities and at disbursement date for loans.

On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument. If, where allowed by the accounting standards, an asset is recognised following reclassification from financial assets held to maturity or, in rare circumstances, from financial assets held for trading, the recognition value is the fair value as at the time of transfer.

After initial recognition, financial assets available for sale are measured at their fair value by recognising the interest, calculated according to the effective interest rate method for debt securities, in the income statement, while gains or losses deriving from changes in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised or becomes impaired. When the financial asset is sold or impairment is recognised, the cumulative gain or loss must be reversed, in whole or in part, to the income statement.

Fair value is determined on the basis of the criteria illustrated above for financial assets held for trading. Equities and derivative instruments with equities as underlying assets that are not quoted on an active market, the fair value of which may not be determined reliably, continue to be carried at cost.

Financial assets available for sale are assessed to determine whether they show objective evidence of an impairment loss. If such evidence is found to exist, the amount of the loss is measured as the difference between the asset's acquisition cost and its fair value, less any previously recognised impairment losses. If the grounds for impairment cease to apply as a result of an event that occurs after an impairment loss has been recognised, recoveries are recognised in the income statement for loans or debt securities and in shareholders' equity for equities.

Financial assets are only derecognised if they are transferred along with substantially all of the associated risks and rewards of ownership. When it is not possible to determine that substantially all risks and rewards have been transferred, financial assets are derecognised where no control over the assets has been retained. Where this is not the case, continuing control, even partial control, results in continuing recognition of the assets to the extent of the entity's continuing involvement, measured by the exposure to changes in the value of the transferred assets and changes in the associated cash flows.

Lastly, transferred financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but assumes a concurrent obligation to remit those cash flows, and only those cash flows, to third parties.

3 – Financial assets held to maturity

Item “50 Financial assets held to maturity” includes non-derivative quoted debt securities with fixed or determinable payments and fixed maturities that the entity actually intends and is able to hold until maturity.
Where allowed by accounting standards, reclassifications are permitted solely into the category financial assets available for sale. Where a material amount of investments classified to this category is sold or reclassified prior to maturity, the remaining financial assets held to maturity are reclassified as financial assets available for sale, and the use of the portfolio in question is restricted for the following two years, unless such sales or reclassifications:

- ✓ are so close to the maturity or the call date of the financial asset that changes in the market rate of interest would not have a significant effect on the financial asset’s fair value;
- ✓ occur after the collection of substantially all of the asset’s original principal through scheduled or early ordinary payments; or
- ✓ are attributable to an isolated event that is beyond the entity’s control, is non-recurring and could not have been reasonably anticipated by the entity.

Assets in this category are initially recognised at the settlement date and are measured at their fair value, including directly attributable transaction costs and revenue. If an asset is included in this category due to reclassification from financial assets available for sale or, in rare circumstances, from financial assets held for trading, the asset's reclassification date fair value is taken as its new amortised cost.
After initial recognition, such assets are measured according to the amortised cost method through the effective interest rate approach. Gains or losses associated with financial assets held to maturity are recognised in the income statement when the assets are derecognised or become impaired, and through the amortisation process applicable to the difference between carrying amount and the value reimbursable at maturity. It is periodically assessed whether there is objective evidence that such financial assets have become impaired. If such evidence exists, the loss is measured as the difference between the carrying value of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate. The loss is recognised in the income statement. If the grounds for impairment cease to apply due to an event that occurs after such a loss has been recognised, a recovery is recognised through the income statement. The amount of the recovery cannot result in a carrying amount for the financial asset in excess of its amortised cost if no impairment losses had been recognised in previous periods.
Financial assets are only derecognised if they are transferred along with substantially all of the associated risks and rewards of ownership. When it is not possible to determine that substantially all risks and rewards have been transferred, financial assets are derecognised where no control over the assets has been retained. Where this is not the case, continuing control, even partial control, results in continuing recognition of the assets to the extent of the entity’s continuing involvement, measured by the exposure to changes in the value of the transferred assets and changes in the associated cash flows.
Lastly, transferred financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but assumes a concurrent obligation to remit those cash flows, and only those cash flows, to third parties.

4 – Loans and receivables

Loans and receivables include loans to customers and banks with fixed or determinable payments that are not quoted on an active market. The item also includes commercial loans, repurchase agreements with the obligation a forward resale obligation, receivables originating from finance lease transactions and securities subscribed at issue or via private placements, with fixed or determinable payments and not quoted in active markets.
Loans and receivables are initially recognised on the date the contract is signed, which normally coincides with the date of disbursement, while debt securities are recognised on the settlement date. A loan or receivable is recognised according to its fair value, which is equal to the amount disbursed or the subscription price, including any costs or revenues directly attributable to the individual loan or receivable and determinable from inception, even when settled at a later date. Costs that, even with the aforementioned characteristics, are reimbursed by the borrower or are classifiable as normal internal administrative costs are excluded. If in certain rare circumstances an asset is included in this category due to reclassification from financial assets available for sale or from financial assets held for trading, the asset's reclassification date fair value is taken as its new amortised cost.

After initial recognition, loans and receivables are measured at amortised cost, which is equal to their initial value increased or decreased by principal repayments, adjustments or recoveries and amortisation – calculated according to the effective interest method – of the difference between the amount disbursed and the amount to be repaid at maturity, typically attributable to the costs/revenues directly connected to the single loan or receivable. The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan or receivable, by way of principal and interest, to the amount disbursed, including the costs/revenues attributable to the loan or receivable.
The amortised cost method is not used for loans or receivables for which application of the discounting approach may be deemed immaterial due to their short durations. Such loans or receivables are measured at their historical cost. An analogous measurement criterion is applied to loans or receivables with an unspecified maturity or with a notice period.
Loans and receivables are tested to identify those that show objective evidence of possible impairment as a result of events after initial recognition.
These include loans and receivables classified as bad debts, substandard loans, restructured loans and past-due positions according to the rules issued by the Bank of Italy, consistent with IAS/IFRS regulations. Such non-performing loans and receivables are measured separately, or according to the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan or receivable is the difference between its carrying amount at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.
Expected cash flows account for expected recovery periods, the presumed realisable value of guarantees and estimated debt-recovery costs. The adjustment is recognised in the income statement.
The original amount of a loan or receivable is recovered in subsequent periods to the extent that the grounds for impairment cease to apply, provided that such valuation is objectively attributed to an event after the impairment loss. The recovery is recognised in the income statement and cannot result in a carrying amount for the loan or receivable in excess of its amortised cost if no impairment losses had been recognised in previous periods. Recoveries on impairment include time-value effects.
The renegotiation of credit exposures granted by the Bank with respect to performing loans to customers is substantially similar to the opening of a new position, when it is due to commercial reasons other than the deterioration in the borrower’s financial situation, provided that the interest rate applied is a market rate at the renegotiation date. When renegotiations are granted to borrowers suffering from a deterioration in their financial situation, exposures are classified under non-performing loans.
Loans or receivables for which no objective evidence of loss has emerged from individual testing are tested collectively. Collective measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series and other objective elements observable at the measurement date, which allow the latent loss for each loan category to be estimated. Measurement also considers the risk connected to the borrower’s country of residence. Collective adjustments are recognised through the income statement.
Transferred loans and receivables are only derecognised if they are transferred along with substantially all risks and rewards of ownership. If it cannot be determined that substantially all risks and rewards have been transferred, loans and receivables are derecognised provided that no control has been retained. If this is not the case, continuing control, including partial control, results in the entity continuing to carry the loans and receivables to the extent of its continuing involvement, measured as the entity's exposure to changes in the value of the transferred loans and receivables and changes in the associated cash flows.
Lastly, transferred loans are derecognised if the entity retains the contractual rights to receive the cash flows from the loan or receivables, but assumes a concurrent obligation to remit those cash flows, and only those cash flows, to third parties.

5 – Financial assets designated at fair value
This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

6 – Hedging transactions
Hedging transactions are aimed at neutralising potential losses on a specific item or group of items attributable to a certain risk where the risk event should occur.
The only hedges that have been used are fair-value hedges, which are intended to hedge exposure to changes in the fair value of a balance-sheet item attributable to a specific risk. This type of hedging is also used to hedge the market risk (specifically, interest-rate risk) on fixed-rate or structured bonds.
Hedging derivatives are initially recognised at their fair values.

Changes in the fair value of interest rate hedging derivatives are recognised in the income statement among finance expenses. Changes in the fair value of hedging instruments attributed to the hedged item are recognised as part of the carrying amount of the hedged item and are also recognised in the income statement among finance expenses. Any difference, representing the partial ineffectiveness of the hedge, is therefore the net financial effect.

When a hedging transaction is undertaken, the Group designates and formally documents the hedging relationship to which it intends to apply hedge accounting when the hedge commences and, if the hedge is effective, prospectively through the life of the hedge. Documentation includes an identification of the hedging instrument, the hedged item or transaction, the nature of the risk and the methods the entity intends to use to assess the effectiveness of the hedge in offsetting the exposure to changes in the fair value of the hedged item or the cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting the exposure of the hedged item to changes in fair value or cash flows attributable to the hedged risk. Assessments of whether such hedges have proved highly effective are conducted on an ongoing basis during the years for which the hedges have been designated. Hedge effectiveness is assessed at every annual or interim reporting date using:

- ✓ prospective tests, which justify the application of hedge accounting, since these prove the expected effectiveness of the hedge; and
- ✓ retrospective tests, which highlight the degree of hedge effectiveness reached in the period to which they refer. In other words, they measure to what extent results achieved differ from perfect hedging.

If such assessments do not confirm hedge effectiveness, from that moment hedge accounting is discontinued, the derivative is reclassified to financial assets held for trading and the hedged item is measured on the basis of its classification in the balance sheet.

7 – Equity investments

The item includes investments in joint ventures and associates, which are accounted for according to the equity method.

Companies are considered joint ventures when the voting rights and the control of the economic activities of the company are equally shared, directly or indirectly, with another entity.

Companies are considered associates, that is, subject to significant influence, when the Parent Company, directly or indirectly, holds at least 20% of voting rights, or if the Parent Company holds a lesser equity stake but has the power to participate in determining the company's financial and operational policies due to specific legal relationships such as participation in shareholders' agreements.

Where there is evidence of impairment, the recoverable amount of an investment is estimated, considering the present value of the future cash flows that may be generated by the investment, including the final disposal value.

If the recoverable amount is lower than the carrying amount, the difference is recognised in the income statement. If the grounds for impairment cease to apply due to an event that occurs after such a loss has been recognised, a recovery is recognised through the income statement.

Equity investments are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is transferred along with substantially all the associated risks and rewards.

8 – Property, plant and equipment

Property, plant and equipment includes land, buildings used in operations, technical plant, furniture, fixtures and equipment of all types. They are tangible items that are held for use in the production or supply of goods or services and are expected to be used during more than one period. Property, plant and equipment are initially recognised at cost, which also includes any expenses directly attributable to purchasing or commissioning the asset. Extraordinary maintenance expenses that increase the future economic benefits are allocated to increase the value of the assets, while other ordinary maintenance costs are recognised in the income statement.

Items of property, plant and equipment are then measured at cost less accumulated appreciation, including any impairment losses or recoveries.

Property, plant and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount consists of the cost of the assets less their estimated residual value at the end of the depreciation period. Buildings are amortised at a rate deemed appropriate to account for the deterioration of the assets over time due to use. By contrast, land is not depreciated, irrespectively of whether it is acquired individually or embedded in the value of buildings, since it has an indefinite useful life. Each

asset's residual amount, useful life and depreciation methods are revised at the end of each year and, where necessary, adjusted on a prospective basis.
If there is evidence that an asset may have become impaired, the carrying value and recoverable amount of the asset are compared. Any impairment losses are recognised in the income statement. If the grounds for impairment cease to apply, a recovery is recognised, in an amount that may not exceed the asset's value net of depreciation charges, in the absence of any previous impairment losses.
Items of property, plant and equipment are derecognised on disposal or when an asset is permanently withdrawn from use and no future economic benefits are expected to flow from its disposal.

9 – Intangible assets

Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Goodwill, which represents the positive difference between the purchase cost and the fair value of an acquiree's assets and liabilities, is also recognised among intangible assets.
Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. Where this is not the case, the cost of an intangible asset is recognised in the income statement in the year in which it is incurred.
For assets with finite useful lives, cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected to flow from the asset.
Assets with indefinite useful lives are not subject to systematic amortisation, but rather periodically tested for impairment. If there is any evidence that an asset may have become impairment, that asset's recoverable amount is estimated. The impairment loss, which is recognised through the income statement, is equal to the difference between the carrying amount and recoverable amount of the asset.
In particular, intangible assets include:

- ✓ technology-related intangibles, such as software, which are amortised on the basis of their obsolescence and over a maximum period of five years; and
- ✓ goodwill.

Goodwill may be recognised when the positive difference between the fair value of the shareholders' equity acquired and the purchase price or initial recognition amount (inclusive of accessory costs) is representative of the equity investment's future income-generating potential. If the difference is negative (badwill), or if goodwill is not justified by the entity's future income-generating potential, it is recognised directly through the income statement.
Goodwill is tested for impairment annually (or whenever there is evidence of impairment). The amount of an impairment loss is determined on the basis of the difference between the carrying amount of goodwill and the recoverable amount of the CGU to which the goodwill has been allocated, if lower. The recoverable amount is equal to the greater of the fair value of the cash-generating unit, less any cost to sell, and the relative value in use. The consequent adjustments are recognised through the income statement.
An intangible asset is derecognised upon disposal or when no future economic benefits are expected to flow from the use or disposal of the asset.

10 – Non-current assets held for sale

This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

11 – Current and deferred taxation

Income tax, calculated according to the national tax code, is accounted for as a cost on an accruals basis, in a manner consistent with the method applied to account for the costs and revenue that give rise to the tax. It thus represents the balance of current and deferred taxation relating to the net income or loss for the year. Current tax assets and liabilities include the tax balances of the Group companies due to the relevant Italian and foreign tax authorities. More specifically, these items include the net balance of current tax liabilities for the year, calculated on the basis of a conservative estimate of the tax charges due for the year, assessed according to the tax code currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes paid or tax credits from previous years that the Bank claimed against taxes payable in future years. Current tax assets also include tax credits in respect of which a tax refund claim has been filed by the Bank with the relevant tax authorities.
Considering the Group's adoption of the national tax consolidation mechanism, tax positions which may be referred to the Bank and those originated by other Group companies are managed separately from an administrative standpoint.

Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years. Deferred tax liabilities are calculated by applying the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable amounts at the time when the related tax deductibility occurs (so-called probability test). Deferred tax assets and liabilities related to the same tax and due in the same period are set off against one another.
If deferred tax assets and liabilities refer to items affecting the income statement, they are recognised through income taxes.
Deferred tax liabilities associated with companies included in the scope of tax consolidation are reported in their financial statements, in application of the matching principle and in consideration of the fact that the effects of fiscal consolidation are limited to the settlement of current tax positions.

12 – Provisions
Provisions are recognised to account for liabilities the amount or timing of which is uncertain, if and only if:

- ✓ there is a present obligation (legal or constructive) as a result of a past event;
- ✓ it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- ✓ the probable future outlay can be reliably estimated.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance-sheet date and reflects the risks and uncertainties that inevitably surround various events and circumstances. Provisions and increases due to the time factor are recognised in the income statement. Provisions are released when it becomes unlikely that resources capable of yielding economic benefits will need to be expended in order to discharge the obligation or when the obligation is extinguished.
Provisions include those for long-term and post-employment benefits within the scope of IAS 19 and provisions for risks and contingencies within the scope of IAS 37. Provisions do not include impairment losses recognised on the deterioration of guarantees, credit derivatives and similar items pursuant to IAS 39, which instead are recognised under "Other liabilities". The sub-item "Other provisions" includes amounts accrued to account for presumed losses in lawsuits in which an entity is a defendant, including revocatory actions, estimated outlays under complaints filed by customers concerning securities brokerage operations and a reliable estimate of other outlays in connection with any other legal or constructive obligation as at the end of the year or interim period.
Where the time factor is significant, provisions are discounted using current market rates. The discounting effect and the increase in provisions due to the passage of time are recognised through the income statement.

13 – Debt and debt securities issued
Amounts due to banks, amounts due to customers and debt securities issued include the various forms of interbank funding and direct customer deposits, as well as funding through certificates of deposit and the issue of bonds and other debt securities, net of any amounts repurchased.
Such financial liabilities are initially recognised on the date on which the contract is signed, which normally coincides with the moment of receipt of the sums deposited or the issuance of the debt securities. Financial liabilities are initially measured at their fair value, plus directly attributable transaction costs.
After initial recognition, financial liabilities are measured at amortised cost according to the effective interest method. An exception is made for short-term liabilities, where the time factor is immaterial, which are stated at collected amount.
Financial liabilities, or parts of such liabilities, are derecognised when they are extinguished, that is when the obligation is discharged or cancelled or expires. Such assets are also derecognised when they are repurchased on the market. Derecognition is based on the fair value of the component issued and the component repurchased at the purchase date. Any gains or losses deriving from the transaction, depending on whether the recognised amount of the repurchased component is greater or less than the purchase price, are recognised through the income statement. If a security is then placed again, this transaction is treated as a new issue and is recognised at the new placement price.

14 – Financial liabilities held for trading

Liabilities held for trading are represented by derivative financial instruments held for trading that present a negative fair value and have not been designated hedging instruments in a hedging relationship as defined by IAS 39. All liabilities held for trading are designated at fair value through the income statement.

15 – Financial liabilities designated at fair value

This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

16 – Foreign-currency transactions

Foreign-currency transactions are initially recognised in the functional currency using the applicable exchange rate on the transaction date. At every subsequent balance-sheet date:

- ✓ monetary items are translated at the exchange rate prevailing at the balance-sheet date;
- ✓ non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date; and
- ✓ non-monetary items designated at fair value are translated using the exchange rate prevailing at the date the fair value was determined.

A monetary item is the right to receive, or the obligation to deliver, a fixed or determinable number of units of a currency. Conversely, the fundamental characteristic of non-monetary items is the absence of the right to receive, or the obligation to deliver, a fixed or determinable number of units of a currency. Translation differences relating to monetary items are recognised through the income statement when they arise, whereas those relating to non-monetary items are recognised through shareholders' equity or the income statement, depending on the manner in which the gains or losses that include this component are recognised. Costs and revenues in foreign currencies are measured at the exchange rate prevailing at the date of recognition or, if they have yet to accrue fully, at the exchange rate prevailing at the balance-sheet date.

17 – Insurance assets and liabilities

This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

18 – Other information

Employee termination benefits

As a result of the entry into force of the 2007 Finance Act, which advanced to 1 January 2007 the effective date of the reform of supplementary pension schemes enacted in Legislative Decree No. 252 of 5 December 2005, employee termination benefits consist solely of sums accrued through 31 December 2006.

In further detail, portions of employee termination benefits accrued from 1 January 2007 are considered "defined-contribution plans" for accounting purposes in accordance with IAS 19. The expense is limited to the contribution defined by the provisions of the Italian Civil Code, without the need to apply any actuarial approach.

Conversely, the provision for employee termination benefits accrued as at 31 December 2006 continues to be considered a defined-benefit plan for accounting purposes in accordance with IAS 19. However, the liability associated with employee termination benefits is subject to actuarial assessment without pro-rating service rendered inasmuch as the service to be assessed may be considered fully accrued.

All actuarial gains and losses on defined-benefit plans are recognised immediately through other comprehensive income. Such actuarial gains and losses arise as the result of adjustments to previous actuarial assumptions due to actual experience or the modification of those assumptions. They are allocated to a specific equity reserve.

Guarantees and commitments

Guarantees issued are initially recognised at fair value, represented by the commission received, and then measured at the higher of the estimated obligation determined in accordance with IAS 37 and the amount initially recognised, gradually reduced by the portion attributable to the period. The total nominal value, excluding any uses made of guarantees issued, is shown in the notes to the financial statements.

Commitments are recognised according to the best estimate of the obligation determined in compliance with IAS 37. The total amount of commitments assumed is disclosed in the notes to the financial statements.

Recognition of revenue and costs
Revenues arising from the use by third parties of an entity's assets that generate interest, commissions or dividends are recognised when it is probable that the economic benefits from a given transaction will flow to the entity and the amount of revenue can be determined reliably. Interest and commissions are recognised through the income statement according to the classification of the financial instrument to which they refer, whereas dividends are recognised when shareholders become entitled to receive payment. Other commissions are recorded on an accrual basis.
Costs are recognised when they are incurred by following the principle of the correlation of costs and revenue that arise directly and jointly from the same transactions or events. If costs and revenue may only be correlated generically and indirectly, the costs are recognised over multiple periods according to a systematic allocation approach. When costs may not be associated with revenue, they are immediately recognised through the income statement.

Use of estimates and assumptions in preparing the annual financial statements
In preparing the annual financial statements, use has been made of estimates and assumptions that could have an impact on the amounts recognised in the balance sheet and the income statement and disclosed in the notes. Specifically, the greatest use of subjective assessments by management is required in the following cases:

- ✓ determining the amount of impairment losses for financial assets, especially loans and receivables;
- ✓ determining the fair values of financial instruments to be used for disclosure purposes and using valuation models to determine the fair values of financial instruments not quoted in active markets;
- ✓ assessing the appropriateness of the value of goodwill;
- ✓ determining the amounts of staff provisions and provisions for other risks and charges; and
- ✓ preparing estimates and assumptions relating to the recoverability of deferred tax assets.

Reasonable estimates and assumptions to be used in accounting for management transactions are formulated through subjective assessments founded upon the use of all available information and past experience.

Determining the fair value of financial instruments
The introduction of IFRS 13 modified the definition of fair value with respect to that provided in IAS 39, taking a more market-based approach.
IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) on the primary market (or the most advantageous market), regardless of whether that price is directly observable or estimated through a valuation technique. Fair value is applied individually to all financial assets or financial liabilities. Exceptionally, it may be estimated at the portfolio level if the management and risk monitoring strategy so allow and are adequately documented.
For the details of techniques for measuring (on a recurring and non-recurring basis) the fair value of financial instruments, as well as the classification of such instruments in fair value hierarchy levels, refer to section A.4 of the notes.

Determining amortised cost
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and less any reduction for impairment.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or until the repricing date. To calculate present value, the effective interest rate is applied to the future cash payments or receipts over the entire useful life of the financial asset or financial liability – or a shorter period if certain conditions have been met (for example, the revision of market rates).
After initial recognition, amortised cost allows the revenues and costs deducted from or added to the instrument to be allocated over that instrument's entire expected life through the amortisation process. Amortised cost is determined differently depending on whether the financial asset or financial liability to be measured is fixed-rate or floating-rate and, in the latter case, whether the range of rate fluctuation is known in advance. For instruments with fixed rates or fixed rates by time bands, future cash flows are quantified according to the known interest rate (single or floating) over the life of the loan. For floating-rate financial assets or financial liabilities, the range of fluctuation of which is not known in advance (for example, because it is linked to an index), cash flows are determined according to the most recent known rate. Whenever the rate

is revised, the repayment schedule and effective interest rate are recalculated over the entire useful life of the instrument, i.e. through its maturity date. The adjustment is recognised as income or expense in the income statement.

Loans, financial assets held to maturity, amounts due to customers and banks and debt securities issued are measured at amortised cost.

Financial assets and financial liabilities traded at arm's length conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid, including directly attributable transaction costs and commissions in the case of instruments measured at amortised cost.

Transaction costs are internal or external marginal costs and income attributable to the issuance, acquisition or disposal of a financial instrument that may not be charged back to the customer. Such commissions, which must be directly attributable to the individual financial asset or financial liability concerned, affect the original effective return and result in a difference between the effective interest rate associated with the transaction and the contractual interest rate. Transaction costs do not include costs or income associated with several transactions without distinction and components associated with events that may occur during the life of the financial instrument, but are not uncertain upon initial definition, such as give-up commissions, commitment fees and prepayment fees.

Hedged financial assets and financial liabilities are not measured at amortised cost. Rather, changes in fair value associated with the hedged risk are recognised in the income statement (as limited to the hedged risk). However, measurement of such financial instruments at amortised cost resumes if the hedge ceases to exist, at which time all previously recognised changes in fair value are amortised, calculating a new effective interest rate that contemplates the value of the loan, adjusted for the fair value of the hedged portion, through the originally expected maturity of the hedge. In addition, as discussed above in the section concerning the measurement of loans, amounts due to banks and customers and debt securities issued, measurement at amortised cost does not apply either to financial assets and financial liabilities whose brief duration leads to the belief that the economic effect of discounting would be negligible, or to loans without a fixed maturity date and demand loans.

Determining impairment losses

At each reporting date, financial assets not classified as financial assets held for trading and financial assets designated at fair value are tested for impairment in order to determine whether there is objective evidence that the carrying amount of the assets may not be fully recoverable.

An asset has become impaired if there is objective evidence of a reduction in future cash flows compared to original estimates as a result of specific events. The loss must be able to be determined reliably and must be correlated with actual and not merely expected events.

Impairment testing is conducted on a separate basis for financial assets that present specific evidence of impairment losses and on a collective basis for financial assets for which separate testing is not required or for which separate testing does not indicate that impairment had occurred. Collective testing is based on grouping financial assets into homogeneous risk classes in reference to the characteristics of the debtor/issuer, business sector, geographical area, collateral and other relevant factors.

For information regarding loans to customers and loans to banks, the reader is referred to the section concerning loans.

The impairment testing process for available-for-sale assets involves verifying whether there are any indicators that the assets may have become impaired and then determining the amount of any such losses.

Impairment indicators may essentially be divided into two categories: indicators deriving from internal factors relating to the company being valued, and therefore of a qualitative nature, and, for equities, external indicators of a quantitative nature deriving from the market values of the company.

The following factors are considered relevant in the first category of indicators: the reporting of a net loss or a significant divergence from budget targets or targets set in long-term plans disclosed to the market, the announcement or commencement of bankruptcy procedures or restructuring plans and downgrading by a rating agency by more than two classes. In the second category, a significant or extended reduction in fair value below the amount at initial recognition is relevant. In further detail, a reduction in fair value is considered significant if it amounts to more than 30% and extended if it persists for a consecutive period of more than 24 months. If one of the above thresholds has been exceeded, an impairment loss is recognised on the security. If neither of the above thresholds has been exceeded, but there are other indicators of impairment, the impairment loss must also be corroborated by the results of specific analyses of the security and the investment.

The amount of an impairment loss is determined in reference to the fair value of the financial asset.

For information concerning the methods used to determine fair value, the reader is referred to the relevant section.

Forborne exposures

Forborne exposures – performing

Certain individual on-balance sheet performing loans are identified and classified as forborne exposures when, as a result of the deterioration of the borrower's financial condition (the borrower is experiencing "financial difficulty"), the Bank agrees to an amendment of the original contractual conditions or total/partial refinancing of a contract that would not have been approved if the borrower had not been experiencing such a situation of difficulty. Such exposures do not constitute a separate category, but represent a common attribute to the various categories of assets, and are recognised on each individual position subject to such measures.

Consequently, the exposures subject to such measures – performing forborne exposures – are thus identified among performing loans (regular or past due by less than 90 days). Since these exposures are subject to such forbearance measures, they have not been classified among non-performing positions.

Moreover, a position ceases to be considered a forborne exposure if:

1. an observation period of at least two years has elapsed from the date on which forbearance status was granted (or from the date on which the non-performing forborne exposure was reclassified as performing);
2. regular payments of significant amounts of principal or interest have been made for at least half of the observation period; and
3. at the end of the observation period, none of the borrower's exposures is past due by more than 30 days.

Forborne exposures – non-performing

The Bank also identifies non-performing loans subject to forbearance measures ("non-performing forborne exposures"). These are individual on-balance sheet exposures belonging to the categories mentioned above that meet the requirements for forbearance, as defined above. Such exposures do not constitute a separate category of non-performing assets, but represent an attribute, as appropriate in each case, of the categories of non-performing assets in which they are included. Cases in which a credit exposure is restructured with the intent of settling the position, to be classified as non-performing, are also included among forborne exposures.

A position ceases to be regarded as a non-performing forborne exposure and is reclassified as a performing forborne exposure if all of the following conditions have been met:

1. designating the position forborne does not entail the recognition of write-downs or losses;
2. one year has elapsed from the application of forbearance measures to the exposure;
3. no past-due exposures or elements in conflict with full repayment of the exposure in accordance with the conditions envisaged by the forbearance measures adopted have been recognised following classification as forborne. The absence of conflicting elements is determined through a thorough assessment of the borrower's financial situation. No conflicting elements may be considered to exist if the borrower has repaid an amount, according to the schedule laid down in the repayment or restructuring plan, equal to the sum that had previously been declared past due (if there were past-due exposures), or to the sum that was reclassified as a loss in the context of the forbearance measures adopted, or, alternatively, if the borrower has already demonstrated its ability to satisfy the post-forbearance conditions through other actions.

A.3 – TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

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

In 2014 the Group did not undertake transfers between portfolios of financial assets, as envisaged in IAS 39. The following table presents the disclosure of the residual carrying amounts of assets reclassified in previous years at 31 December 2014, the fair values of those assets, the income components registered during the period and the effects on the income statement that would have occurred if the assets had not been transferred.

Type of financial instrument	Previous portfolio (2)	New portfolio (3)	Book value at 31.12.2014 (4)	Fair value at 31.12.2014 (5)	Income components in case of no transfer (before tax)		Annual income components (before tax)	
					Valuation (6)	Other (7)	Valuation (8)	Other (9)
Debt securities	HFT	LOANS	3.000	3.000	-	-	-	-
	Total		**3.000**	**3.000**	**-**	**-**	**-**	**-**

Chapter A.4 – INFORMATION ABOUT FAIR VALUE

QUALITATIVE DISCLOSURES

This section includes a disclosure regarding the method of determining fair value adopted by the Banca Popolare di Cividale Banking Group through the approval of a specific policy, as well as of the methods of classifying instruments designated at fair value (on a recurring and non-recurring basis) within the fair-value hierarchy in accordance with IFRS 13.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) on the primary market (or the most advantageous market), regardless of whether that price is directly observable or estimated through a valuation technique.

The fair value of financial instruments, including derivatives, is determined:

- through the use of prices obtained from financial markets for instruments quoted in active markets; and
- through the use of internal valuation models for other financial instruments.

Instruments are assigned to a fair value level in accordance with IFRSs on the basis of this distinction, as illustrated below:

1. Level 1: The instruments are quoted on markets considered active. The definition of an active market is provided below.
2. Level 2: Fair value is determined according to universally recognised valuation models, based on directly or indirectly observable market inputs.
3. Level 3: A significant portion of the inputs used to determine fair value do not meet observability requirements.

The definition of an “active market” is based on the indications provided in IFRS 13, which states that an instrument is listed on an active market if its prices are:

- ✓ quoted;
- ✓ readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency; and
- ✓ represent actual, regularly occurring market transactions on an arm's length basis.

IFRS 13 thus does not provide a precise definition of an “active market” and does not explain how to determine whether a market is active. The following interpretations that we have prepared are thus plausible:

- ✓ quoted: the quoting process must meet the condition of effective exchange on the markets;
- ✓ readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency: the frequency and updating of prices must be defined on the basis of the individual type of financial instrument;
- ✓ representative of current, regularly occurring market transactions on an arm's length basis: the price must be defined under normal transaction conditions (excluding, for example, compulsory liquidation); to this end, it may be useful to consider parameters such as:
  - o the frequency and volumes of daily trading;
  - o *the bid-ask spread;*
  - o volatility;
  - o the number of transaction participants: the number must be such that an individual operator does not have a significant impact on the instrument’s price;
  - o the volume of individual trades executed;

- the frequency of quotations;
- the location of the market;
- the existence of futures/forward markets for contracts;
- settlement conditions; and
- market quality.

It is also helpful to consider the following when determining whether a market is active:

- ✓ the definition of an "active market" is a process that is developed internally by each entity in accordance with the indications provided in IFRSs and its own internal policies;
- ✓ the various markets and different instrument types must be analysed separately;
- ✓ the presence of brokers and trading systems, and each entity's ability to interface with such brokers and systems, must be considered for each market;
- ✓ the analysis must consider all activities performed on the market;
- ✓ the time required to close a transaction must also be considered;
- ✓ the data employed must be credible and verifiable.

On the basis of the foregoing considerations, the Bank has developed a framework for identifying active markets specific to the various types of financial instruments.
In addition, the Bank uses the bid prices of assets and the ask prices of liabilities as the fair values of financial instruments listed on active markets.

Bonds and securitisations
A market is considered active in the following three cases, presented in hierarchical order:

1. Listing on the MOT, EUROMOT, MTS, EUROMTS, TLX, or EUROTLX circuits;
2. The info-provider Bloomberg quotes CBBT prices (executable prices):
   - there must be at least 3 bid and ask contributors;
   - the prices of fixed-rate securities may not remain the same for more than 3 days; and
   - the prices of floating-rate securities may not remain the same for more than 20 days.
3. Executable prices are quoted on alternative platforms (e.g. Markit):
   - there must be at least 3 bid and ask contributors for bonds and convertible bonds and at least five contributors for securitisations;
   - the prices of fixed-rate securities may not remain the same for more than 3 days; and
   - the prices of floating-rate securities may not remain the same for more than 20 days.

Equities
The official market or the exchange on which a security is listed is considered an active market.

CIUs, hedge funds, ETFs and ETCs
The exchange of listing on which the prices of ETFs and ETCs are published are considered an active market.

Quoted derivatives
The exchange of quotation is considered an active market. Spot exchange transactions are also considered quoted on an active market.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used
<u>*Financial instruments measured at fair value on a recurring basis*</u>
If, for a given financial instrument, the conditions for identifying an active market have not been satisfied and it thus is not possible to classify it to level 1 of the fair value hierarchy and apply the mark-to-market approach, it will be necessary to make use of a valuation technique (mark-to-model), by which is meant a process that permits the identification of the price at which the instrument could be exchanged between independent parties in balanced bargaining conditions.
If this valuation technique is based on observable market inputs, the instrument is classified as level 2 and a comparable approach is applied.
More specifically, with respect to the adoption of a valuation model (mark-to-model), in order for an instrument to be classified to level 2, all model input data that have a substantive effect on the overall measurement of the instrument must be able to be obtained or derived from the market and represent all risk factors that affect the valuation of the instrument concerned (interest rates, exchange rates, credit spreads, market volatility, etc.). Input data may refer to the instrument concerned or, where such data is unavailable, to instruments deemed comparable (under the comparable approach). For certain instrument types (e.g. shares),

the comparable approach also includes recent relevant transactions involving the instrument or similar products.
On the other hand, where the instrument is not quoted, or is quoted on a market not considered active, and the adoption of a valuation model (mark-to-model) is thus required, the instrument is classified to fair value level 3 if at least one of the model inputs (with a material impact on the instrument's overall valuation) may not be obtained or derived from the market, but rather must be estimated by the valuer (e.g., application of methods for estimating projected future cash flow, repayment schedules or correlations between underlying for options or structured products).

Financial instruments measured at fair value on a non-recurring basis
In the case of financial assets other than debt securities, equity securities, shares of UCIs and derivative contracts, i.e. in the case of financial and operating receivables classified in the portfolios due from banks and due from customers, fair value is determined, and hierarchical classification established, as follows:

- ✓ medium- and long-term assets and liabilities are primarily measured through the discounting of future cash flows, taking account of the risk level of the portfolio in question (classification to level 3 of the fair value hierarchy);
- ✓ in the case of demand or short-term assets and liabilities, the carrying amount upon initial recognition, net of portfolio or individual impairment, represents a good approximation of fair value (classification to level 3 of the fair value hierarchy);
- ✓ in the case of non-performing loans (bad debt, substandard, past-due and restructured positions), book value is believed to be a reasonable approximation of fair value (classification to level 3 of the fair value hierarchy);
- ✓ in the case of floating-rate securities and short-term fixed rate securities, the carrying amount upon initial recognition is deemed a reasonable approximation of fair value, given that it reflects both the change in rates and the assessment of the issuer's creditworthiness (classification to level 2 of the fair value hierarchy).

A.4.2 Valuation processes and sensitivity

In cases of recurring fair value measurement of assets classified to level 3 of the fair value hierarchy, IFRS 13 requires that a narrative description be provided of the sensitivity of the fair value measurement to changes in unobservable inputs, where a change in such inputs entails a significantly higher or lower fair value measurement.
In this regard, it bears noting that this did not occur for L3 financial instruments classified to the AFS portfolio. Unobservable inputs capable of influencing the measurement of instruments classified as level 3 primarily consist of estimates and assumptions underlying the models used to measure investments in equities and CIUs. For such investments, no quantitative analysis of the sensitivity of fair value to changes in unobservable inputs was conducted inasmuch as fair value is the result of a model the inputs for which are specific to the entity being measured (for example, asset and liability values of companies for which it is not reasonable to envisage alternative values).

A.4.3 Fair-value hierarchy

Building on IFRS 7, IFRS 13 requires that entities that apply international accounting standards in the preparation of their financial statements provide adequate disclosure of the fair value measurements used for each class of financial instruments, and in further detail:

- ✓ the level of the fair value hierarchy to which the measurements belong, separating instruments belonging to different categories;
- ✓ significant transfers from level 1 to level 2 during the year;
- ✓ for instruments measured at level 3, a reconciliation of opening and closing balances with an indication of changes due to profits and losses (in the income statement or equity), purchases and sales and transfers out of the category L3 due to the use of market data.

In this regard, it bears remarking that transfers between levels are undertaken with regard to the value at the end of the reporting period of reference (semi-annual or annual) and in an independent manner, and generally enter into effect at the beginning of the year concerned.
Transfers to and from L3 are infrequent and primarily relate to the occurrence of situations of default, in which the Bank's subjective assessment of the recoverability of the position takes on primary importance.

A.4.4 Other information

The circumstances envisaged in IFRS 13 §§ 51, 93 (i) and 96 do not apply.

QUANTITATIVE DISCLOSURES

A.4.5 Fair-value hierarchy

The following tables show the breakdown of portfolios of assets and liabilities measured at fair value into the aforementioned levels and annual changes in assets and liabilities of this kind classified to level 3.

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

	31/12/2014			31/12/2013		
Financial assets / liabilities at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets held for trading	223	1.450	-	18	2.623	-
2. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
3. Financial assets available for sale	961.925	100	71.814	1.376.716	20.250	75.167
4. Hedging derivatives	-	-	-	-	-	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**962.149**	**1.550**	**71.814**	**1.376.735**	**22.873**	**75.148**
1. Financial liabilities held for trading	-	1.036	-	-	965	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	**1.036**	-	-	**965**	-

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

A.4.5.2 Annual changes in financial assets measured at fair value (level 3)

	FINANCIAL ASSETS					
	Held for trading	Designated at fair value through profit or loss	Available for sale	For hedging purposes	Property and equipment	Intangible assets
1. Opening balance	**-**	**-**	**75.167**	**-**	**-**	**-**
2. Increasese	**-**	**-**	**7.680**	**-**	**-**	**-**
2.1. Purchases	-	-	7.677	-	-	-
2.2. Gains recognised in:	-	-	-	-	-	-
2.2.1.Income statement	-	-	-	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2. Shareholders' equity	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	-	-	3	-	-	-
3. Decreases	**-**	**-**	**11.033**	**-**	**-**	**-**
3.1. Sales	-	-	6.204	-	-	-
3.2. Redemptions	-	-	-	-	-	-
3.3 Losses recognized in:	-	-	-	-	-	-
3.3.1. Income statement	-	-	-	-	-	-
- of which capital losses	-	-	1.977	-	-	-
3.3.2. Shareholders' equity	X	X	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	2.852	-	-	-
4. Closing balance	**-**	**-**	**71.814**	**-**	**-**	**-**

A.4.5.3 Annual changes in financial liabilities measured at fair value (level 3)

None of the items in the table, provided for by the Bank of Italy, A.4.5.3 "Annual changes in financial assets designated at fair value (level 3)" presents values.

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

VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31/12/2014				31/12/2013			
	BV	**L1**	**L2**	**L3**	**BV**	**L1**	**L2**	**L3**
1. HTM financial assets	64.697	64.697	-	-	105.413	105.413	-	-
2. Loans to banks	159.347	-	9.031	150.316	163.750	-	33.870	129.880
3. Loans to customers	2.360.814	-	-	2.771.202	3.113.834	-	-	3.113.834
4. Property and equipment held as investments	2.770	-	-	2.770	9.555	-	-	9.555
5. Non-current assets available for sale	-	-	-	-	-	-	-	-
Total	**2.587.627**	**64.697**	**9.031**	**2.924.287**	**3.392.552**	**105.413**	**33.870**	**3.253.269**
1. Due to banks	1.121.823	-	-	1.121.823	1.010.863	-	-	1.010.863
2. Due to customers	2.013.174	-	-	2.013.174	2.968.412	-	-	2.968.412
3. Securities issued	689.006	-	638.158	50.847	730.284	-	650.295	79.989
4. Liabilities associated to assets held for sale	-	-	-	-	-	-	-	-
Total	**3.824.003**	-	**638.158**	**3.185.844**	**4.709.559**	-	**650.295**	**4.059.264**

Key: BV = book value; FV = fair value; L1 = Level 1; L2 = Level 2; L3 = Level 3

A.5 – DAY-ONE PROFIT/LOSS

Considering the composition of the financial instruments portfolio and the results of the analyses performed, no significant amounts of day-one profit were identified ("day-one profit" is defined as the difference, upon initial recognition, not immediately recognised in the income statement pursuant to IAS 39 AG 76 and AG 76A, between the transaction price and value obtained through the use of valuation techniques based on non-market inputs).

Chapter B – NOTES TO THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 – Cash and cash equivalents – item 10

1.1 Cash and cash equivalents: composition

	31/12/2014	31/12/2013	%
a) Cash	18.487	20.021	-7,7%
b) Free deposits with central banks	-	-	-
Total	**18.487**	**20.021**	**-7,7%**

Section 2 – Financial assets held for trading – item 20

2.1 Financial assets held for trading: composition by type

	31/12/2014			31/12/2013			%
	L1	L2	L3	L1	L2	L3	
A. Cash assets							
1. Debt securities	1	1.450	-	1	2.623	-	-44,7%
1.1 structured securities	-	-	-	-	-	-	-
1.2 other debt securities	1	1.450	-	1	2.623	-	-44,7%
2. Equities	222	-	-	18	-	-	1168,1%
3. Quotas of UCI	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-
4.1 reverse repurchase agreements	-	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-	-
Total A	**223**	**1.450**	**-**	**18**	**2.623**	**-**	**-36,6%**
B. Derivatives	-	-	-	-	-	-	-
1. Financial derivatives	591	-	768	-	871	-	56,0%
1.1 trading	591	-	768	-	871	-	56,0%
1.2 fair value option	-	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-	-
2.2 fair value option	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-
Total	**591**	**-**	**768**	**-**	**871**	**-**	**56,0%**
TOTAL (A+B)	**814**	**1.450**	**768**	**18**	**3.494**	**-**	**-13,7%**

2.2 Financial assets held for trading: composition by borrower/issuer

	31/12/2014	31/12/2013	%
A. ON-BALANCE-SHEET FINANCIAL ASSETS			
1. Debt securities	**1.451**	**2.624**	**-44,7%**
a) Governments and central banks	-	-	-
b) Other government agencies	-	-	-
c) Banks	917	377	142,8%
d) Other issuers	535	2.247	-76,2%
2. Equity securities	**222**	**18**	**1168,1%**
a) Banks	222	-	-
b) Other issuers	-	18	-100,0%
- insurance undertakings	-	-	-
- financial companies	-	-	-
- non-financial companies	-	18	-100,0%
- other	-	-	-
3. Units in collective investment undertakings	-	-	-
4. Loans	-	-	-
a) Governments and central banks	-	-	-
b) Other government agencies	-	-	-
c) Banks	-	-	-
d) Other	-	-	-
Total (A)	**1.674**	**2.642**	**-36,6%**
B. DERIVATIVES	**1.358**	**871**	**56,0%**
a) Banks	526	155	238,5%
'- fair value	-	155	-100,0%
b) Customers	833	715	16,4%
'- fair value	-	715	-100,0%
Total (B)	**1.358**	**871**	**56,0%**
Total (A + B)	**3.032**	**3.512**	**-13,7%**

2.3 Financial assets held for trading: annual changes in on-balance sheet assets

	Debt securities	Equity securities	Units in collective investment undertakings	Loans	Total 31/12/14
A. Opening balance	2.624	18	-	-	2.642
B. Increases	112.008	2.743	3.027	-	117.778
B1. Purchases	111.619	2.307	3.005	-	116.931
of which: business combinations	-	-	-	-	-
B2.Fair value gains	8	3	-	-	11
B3. Other changes	381	433	22	-	836
C. Decreases	113.181	2.539	3.027	-	118.747
C1. Sales	111.387	2.217	3.016	-	116.620
of which: business combinations	-	-	-	-	-
C2. Redemptions	1.667	-	-	-	1.667
C3. Fair value losses	48	6	-	-	54
C4. Transfers to other portfolios	-	-	-	-	-
C5. Other changes	79	316	11	-	406
D. Closing balance	1.451	222	-	-	1.673

Section 3 – Financial assets measured at fair value – item 30

This section does not apply to the Banca Popolare di Cividale S.c.p.A. Group.

Section 4 – Financial assets available for sale – item 40

4.1 Financial assets available for sale: composition by type

	31/12/2014			31/12/2013			%
	L1	L2	L3	L1	L2	L3	
1. Debt securities	961.733	100	-	1.376.433	20.250	-	-31,1%
1.1 Structured securities	-	-	-	-	-	-	-
1.2 Other debt securities	961.733	100	-	1.376.433	20.250	-	-31,1%
2. Equities	192	-	55.744	254	-	58.627	-5,0%
2.1 Measured at fair value	192	-	55.744	254	-	58.627	-5,0%
2.2 Measured at cost	-	-	-	-	-	-	-
3. Units in collective investment undei	-	-	16.069	27	-	16.541	-3,0%
4. Loans	-	-	-	-	-	-	-
TOTAL	**961.925**	**100**	**71.814**	**1.376.714**	**20.250**	**75.167**	**-29,8%**

Unquoted equities the fair value of which may not be determined in a reliable or verifiable manner are carried at cost, adjusted to account for impairment losses. The following is a detailed list of equities.

Composition of financial assets available for sale (equities)

	Financial assets available for sale	% holding	Number of share or units	Nominal value	Book value
Banca Popolare di Cividale Scpa	KB 1909 SPA	1,60%	185.430	603	497
Banca Popolare di Cividale Scpa	SIA SPA	0,01%	15.179	2	8
Banca Popolare di Cividale Scpa	UNIONE FIDUCIARIA SPA	0,10%	1.080	6	7
Banca Popolare di Cividale Scpa	FRIULIA SPA	0,62%	1.717.290	1.717	4.474
Banca Popolare di Cividale Scpa	PROMO CORMONS COLLIO SRL-IN LIQUIDAZIONE	8,08%	2	5	-
Banca Popolare di Cividale Scpa	TORRE-NATISONE GAL SCARL	5,39%	2.392	1	1
Banca Popolare di Cividale Scpa	C.A.T.A.S SPA	9,00%	9.031	90	319
Banca Popolare di Cividale Scpa	BANK FOR BUSINESS	4,62%	1.318	520	233
Banca Popolare di Cividale Scpa	DEZELNA BANKA DD	5,57%	228.289	953	2.788
Banca Popolare di Cividale Scpa	CONFART.UD SERV.SRL	10,00%	288	150	150
Banca Popolare di Cividale Scpa	C.F.P. CIVIDALE SRL	9,10%	410	21	21
Banca Popolare di Cividale Scpa	MEDIO FRIULI ORD	2,27%	2.565.320	2.565	4.165
Banca Popolare di Cividale Scpa	ICBPI SPA	5,14%	729.577	2.189	34.203
Banca Popolare di Cividale Scpa	BCA VALSABBINA SCRL	0,29%	105.357	316	1.896
Banca Popolare di Cividale Scpa	BANKADATI SERV. INF.	2,00%	10.000	50	70
Banca Popolare di Cividale Scpa	CONSULTING SPA	1,32%	1.975	2	3
Banca Popolare di Cividale Scpa	AGENZIA SVILUPPO DISTRETTO IND DELLA SEDIA SPA	1,00%	4	2	2
Banca Popolare di Cividale Scpa	SIPI INVESTIMENTI SPA	2,97%	29.700	30	315
Banca Popolare di Cividale Scpa	VIVABIOCELL SPA -B-	17,85%	147.801	148	275
Banca Popolare di Cividale Scpa	FRIULI NEWS SPA	5,66%	5.660	6	13
Banca Popolare di Cividale Scpa	CR FERRARA SPA	0,72%	303.432	1.566	952
Banca Popolare di Cividale Scpa	SWIFT	0,01%	8	1	6
Banca Popolare di Cividale Scpa	CR BOLZANO ORD.	0,07%	3.000	231	585
Banca Popolare di Cividale Scpa	S.A.A.V. SPA	0,98%	5.930.723	1.542	4.745
Banca Popolare di Cividale Scpa	BANCA ETRURIA SCRL	0,24%	496.420	1.012	192
Civileasing Spa	BANKADATI SERV. INF.	0,50%	2.500	13	18
					55.936

4.2 Financial assets available for sale: composition by borrower/issuer

	31/12/2014	31/12/2013	%
1.Debt securities	**961.833**	**1.396.685**	**-31,1%**
a) Governments and central banks	932.843	1.373.915	-32,1%
b) Other governments agencies	100	100	0,0%
c) Banks	17.729	22.670	-21,8%
d) Other issuers	11.162	-	-
2. Equity securities	**55.936**	**58.878**	**-5,0%**
a) Banks	45.014	46.534	-3,3%
b) Other issuers	10.923	12.344	-11,5%
- insurance undertakings	-	-	-
- financial companies	7	7	0,5%
- non financial companies	10.916	12.337	-11,5%
- other	-	-	-
3. Units in collective investment undertakings	**16.069**	**16.568**	**-3,0%**
4. Loans	-	-	-
a) Governments and central banks	-	-	-
b) Other governments agencies	-	-	-
c) Banks	-	-	-
d) Other	-	-	-
Total	**1.033.839**	**1.472.131**	**-29,8%**

Bonds issued by governments and central banks consist essentially of Italian government bonds.

4.4 Financial assets available for sale: annual changes

	Debt securities	Equity securities	Units in collective investment undertakings	Loans	Total
A. Opening balance	**1.396.685**	**58.879**	**16.568**	-	**1.472.132**
B. Increases	**2.838.426**	**10.508**	**2.176**	-	**2.851.110**
B1. Purchases	2.767.902	10.508	2.168	-	2.780.578
B2. Fair value gains	19.553	-	3	-	19.556
B3. Writebacks	-	-	-	-	-
- recognised through income statement	-	-	-	-	-
- recognised through equity	-	X	-	-	-
B4. Transfers from other portfolios	-	-	-	-	-
B5. Other changes	50.971	-	5	-	50.976
C. Decreases	**3.273.278**	**13.451**	**2.675**	-	**3.289.404**
C1. Sales	3.232.916	9.746	1.457	-	3.244.119
C2. Redemptions	3.500	-	33	-	3.533
C3. Fair value losses	19	1.029	1.135	-	2.183
C4. Writedowns for impairment	-	1.989	50	-	2.039
- recognised through income statement	-	1.989	50	-	2.039
- recognised through equity	-	-	-	-	-
C5. Transfers to other portfolios	-	-	-	-	-
C6. Other changes	36.843	687	-	-	37.530
D. Closing balance	**961.833**	**55.936**	**16.069**	-	**1.033.838**

Impairment testing of financial assets available for sale

As required by IFRSs, financial assets available for sale are tested for impairment to determine whether there is objective evidence that the carrying amounts of such assets may not be fully recoverable. The impairment testing process involves verifying whether there are any indicators that the assets may have become impaired and then determining the amount of any such losses. Impairment indicators may essentially be divided into two categories: indicators deriving from internal factors relating to the entity being assessed, and therefore of a qualitative nature, and external indicators deriving from the market values of the company (for quoted equity securities only). An impairment loss is recognised when there is an indication of impairment or the quoted price falls more than 30% below the initial recognition amount or remains below that amount for a period of more than 24 months. In all other cases, the recognition of impairment must be confirmed by the outcome of specific assessments as regards the security and the investment. The testing conducted indicated the need to adjust the values of assets with an effect on the income statement of €2,039 thousand.

Section 5 – Financial assets held to maturity – item 50

5.1 Financial assets held to maturity: composition by type

	31/12/2014				31/12/2013			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Debt securities	64.697	64.697	-	-	105.413	105.413	-	-
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	64.697	64.697	-	-	105.413	105.413	-	-
2. Loans	-	-	-	-	-	-	-	-
Total	**64.697**	**64.697**	**-**	**-**	**105.413**	**105.413**	**-**	**-**

5.2 Financial assets held to maturity: composition by borrower/issuer

	31/12/2014	31/12/2013
1. Debt securities	64.697	105.413
a) Governments and central banks	54.260	88.921
b) Other government agencies	-	-
c) Banks	10.437	16.492
d) Other issuers	-	-
2. Loans	-	-
a) Governments and central banks	-	-
b) Other governments agencies	-	-
c) Banks	-	-
d) Other	-	-
Total	**64.697**	**105.413**
Total fair value	**64.697**	**105.413**

5.4 Financial assets held to maturity: annual changes

	Debt securities	Loans	Totale 31/12/2014
A. Opening balance	**105.413**	-	**105.413**
B. Increases	**3.116**	-	3.116
B1. Purchases	-	-	-
B2. Writebacks	-	-	-
B3. Transfers from other portfolios	-	-	-
B4. Other changes	3.116	-	3.116
C. Decreases	**43.832**	-	**43.832**
C1. Sales	-	-	-
C2. Redemptions	41.000	-	41.000
C3. Writedowns for impairment	-	-	-
C4. Transfers to other portfolios	-	-	-
C5. Other changes	2.832	-	2.832
D. Closing balance	**64.697**	-	**64.697**

Item B4 “Other changes” represents the interest collected during the year. Item C5 refers to the portion of such interest recognised through the income statement.

Section 6 – Due from banks – item 60

6.1 Due from banks: composition by type

	31/12/2014				31/12/2013				%
	BV	L1	L2	L3	BV	L1	L2	VF	
A. Claims on central banks	**3.789**	-	-	-	**5.272**	-	-	-	-28,1%
1. Time deposits	-	X	X	X	-	X	X	X	-
2. Reserve requirement	3.789	X	X	X	5.272	X	X	X	-28,1%
3. Repurchase agreements	-	X	X	X	-	X	X	X	-
4. Other	-	X	X	X	-	X	X	X	-
B. Due from banks	**155.558**	-	-	-	**158.478**	-	-	-	-1,8%
1. Loans	142.474	-	-	-	124.554	-	-	-	14,4%
1.1 Current accounts and deposits	32.807	X	X	X	21.741	-	-	-	50,9%
1.2 Time deposits	2.064	X	X	X	2.039	X	X	X	1,2%
1.3 Other loans	107.603	-	-	-	100.774	-	-	-	6,8%
- Reserve repurchase agreements	49.753	X	X	X	45.453	X	X	X	9,5%
- Financial leases	-	X	X	X	-	X	X	X	-
- Other	57.850	X	X	X	55.320	X	X	X	4,6%
2. Debt securities	13.083	-	-	-	33.924	-	-	-	-61,4%
2.1 Structured	-	X	X	X	-	-	-	-	-
2.2 Other	13.083	X	X	X	33.924	X	X	X	-61,4%
Total	**159.347**	**-**	**9.031**	**150.316**	**163.750**	**-**	**33.870**	**128.988**	**-2,7%**

Section 7 – Loans to customers – item 70

7.1 Loans to customers: composition by type

	31/12/2014			Fair value			31/12/2013			Fair value			%
	Performing	Non - performing					Performing	Non - performing					
		Purchased	Other	L1	L2	L3		Purchased	Other	L1	L2	L3	
Loans	2.360.814	-	374.436				2.751.535	-	362.299	-	-	-	-12,2%
1. Current accounts	126.772	-	80.516	X	X	X	429.620	-	80.288	X	X	X	-59,3%
2. Repurchase agreements	-	-	-	X	X	X	102.916	-	-	X	X	X	-100,0%
3. Mortgage loans	1.762.613	-	221.023	X	X	X	1.597.255	-	200.662	X	X	X	10,3%
4. Credit cards, personal loans and loans repaid by automatic deductions from wages	47.358	-	1.717	X	X	X	45.259	-	1.704	X	X	X	4,5%
5. Finance leases	244.655	-	56.521	X	X	X	256.118	-	63.705	X	X	X	-5,8%
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X	-
7. Other	179.417	-	14.658	X	X	X	320.366	-	15.939	X	X	X	-42,3%
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-
8. Structured	-	-	-	X	X	X	-	-	-	X	X	X	-
9. Other debt securities	-	-	-	X	X	X	-	-	-	X	X	X	-
Total	**2.360.814**	**-**	**374.436**	**-**	**-**	**2.771.202**	**2.751.535**	**-**	**362.299**	**-**	**-**	**3.172.523**	**-12,2%**

7.2 Loans to customers: composition by borrower/issuer

	31/12/2014			31/12/2013			%
	Performing	Non - performing		Performing	Non - performing		
		Purchased	Other		Purchased	Other	
1. Securities:	-	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-	-
- insurance undertakings	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
2. Loans to:	**2.360.814**	**-**	**374.436**	**2.751.535**	**-**	**362.299**	**-14,2%**
a) Governments	1	-	-	24	-	0	-96,1%
b) Other government agencies	7.285	-	-	7.657	-	-	-4,9%
c) Other	2.353.528	-	374.436	2.743.854	-	362.299	-12,2%
- non-financial companies	1.162.544	-	311.851	1.353.817	-	231.211	-7,0%
- financial companies	312.586	-	5.653	533.504	-	6.194	-41,0%
- insurance undertakings	13.250	-	-	13.292	-	-	-0,3%
- other	865.148	-	56.932	843.241	-	124.894	-4,8%
Total	**2.360.814**	**-**	**374.436**	**2.751.535**	**-**	**362.299**	**-12,2%**

7.4 Finance leases

	Totale 31/12/2014						Totale 31/12/2013					
	Non - performing	Minimum lease payments			Gross investment		Non performing	Minimum lease payments			Gross investment	
		Capital		Interest		of which unguaranteed residual value		Capital		Interest		of which unguaranteed residual value
			of which guaranteed residual value						of which guaranteed residual value			
On demand	4.254	13.134	-	94	13.228	-	5.862	20.767	-	105	20.872	-
Up to 3 months	30.226	6.768	-	2.704	9.472	-	16.598	6.988	-	2.839	9.827	-
Between 3 and 12 months	1.624	18.462	-	7.596	26.058	-	12.923	19.440	-	7.972	27.412	-
Between 1 and 5 years	22.022	76.737	-	31.429	108.166	-	30.268	79.448	-	32.896	112.344	-
Over 5 years	-	123.050	-	35.127	158.177	-	-	121.946	-	37.442	159.388	-
Gross total	58.126	238.151	-	76.950	315.101	-	65.651	248.589	-	81.254	329.843	-

Section 8 – Hedging derivatives – item 80

Not applicable.

Section 9 – Change in fair value of macro fair value hedge portfolios – item 90

Not applicable.

Section 10 – Equity investments – item 100

10.1 Equity investments: information on investments

	Registered office	Headquarters	Type of relationship	Equity investment		% of votes	Book
				Investor	% holding		value
B. Companies under significant influence							
1 Acileasing S.p.A.	Udine - Via Crispi n. 3	Udine - Via Crispi n. 3	2	Banca Popolare di Cividale ScpA	30,00%		1.408
2 Acrent S.p.A.	Udine - Via Crispi n. 17	Udine - Via Crispi n. 17	2	Banca Popolare di Cividale ScpA	30,00%		669
3 Itas Assicurazioni S.p.A.	Trento - Piazza delle Donne Lavoratrici n. 2	Trento - Piazza delle Donne Lavoratrici n. 2	2	Banca Popolare di Cividale ScpA	25,00%		2.199
4 Help line S.p.A.	Cividale del Friuli (UD) - Via G. Pelizzo n. 8	Cividale del Friuli (UD) - Via G. Pelizzo n. 8	2	Banca Popolare di Cividale ScpA	30,01%		3.500
Total							7.776

10.2 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Net impairment/write backs on property, plant and equipment and intangible assets	Income (loss) after tax from continuing operations	Income (loss) after tax from discontinued operations	Net income (loss) (1)	Other comprehensive income (net of tax) (2)	consolidated comprehensive income (3) = (1) + (2)
B. Companies under significant influence													
1 Acileasing S.p.A. *	x	-	24.040	-	24.040	10.925	x	x	(43.853)	-	(43.853)	-	(43.853)
2 Acirent S.p.A. *	x	-	3.701	-	3.701	2.949	x	x	9.993	-	9.993	-	9.993
3 Itas Assicurazioni S.p.A.	x	-	18.776	-	18.776	1.332	x	x	148	-	148	-	148
4 Help line S.p.A.	x	-	28.065	-	28.065	37.956	x	x	823	-	823	(309)	514

10.4 Equity investments: annual changes

	31/12/2014	31/12/2013
A. Opening balance	**7.529**	**8.635**
B. Increases	**247**	**281**
B.1 Purchases	-	-
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other changes	247	281
C. Decreases	-	**1.387**
C.1 Sales	-	-
C.2 Writedowns	-	1.051
C.3 Other changes	-	336
D. Closing balance	**7.776**	**7.529**
E. Total revaluations	-	-
F. Total writedowns	-	-

10.6 Commitments regarding equity investments in joint ventures

No commitments have been recognised in respect of equity investments in joint ventures, as shown in the list of equity investments provided in the foregoing table 10.1.

Section 11 – Reinsurers' share of technical reserves – item 110

This section does not apply to the Banca Popolare di Cividale S.c.p.A. Group.

Section 12 – Property, plant and equipment – item 120

12.1 Property, plant and equipment: composition of assets measured at cost

	31/12/2014	31/12/2013	%
1.1 owned	**81.852**	**77.443**	**5,7%**
a) land	4.933	4.933	0,0%
b) buildings	70.782	68.889	2,7%
c) movables	5.159	1.885	173,7%
d) electrical plant	20	18	15,0%
e) other	957	1.719	-44,3%
1.2 acquired under finance leases	-	-	-
a) land	-	-	-
b) buildings	-	-	-
c) movables	-	-	-
d) electrical plant	-	-	-
e) other	-	-	-
Total	**81.852**	**77.443**	**5,7%**

The following are the estimated useful lives of depreciable items of property, plant and equipment by asset class:

- ✓ land: indefinite;
- ✓ works of art: indefinite;
- ✓ buildings – 2% – 50 years;
- ✓ furniture – 12% – 9 years;
- ✓ plant – 15% – 7 years;
- ✓ plant – 30% – 4 years;
- ✓ plant – 7.5% – 14 years;
- ✓ fixtures – 15% – 7 years; and
- ✓ electronic machines – 20% – 5 years.

12.2 Investment property: composition of assets measured at cost

	31/12/2014				31/12/2013				%
		Fair value				Fair value			
	BV	L1	L2	L3	BV	L1	L2	L3	
2.1 owned	**2.770**	-	-	**2.770**	**9.555**	-	-	**9.555**	-71,0%
a) land	2.770	-	-	2.770	4.346	-	-	4.346	-36,3%
b) buildings	-	-	-	-	5.209	-	-	5.209	-100,0%
2.2 acquired under finance lease	-	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-	-
Total	**2.770**	-	-	**2.770**	**9.555**	-	-	**9.555**	**-71,0%**

The item refers to the investment property held by the subsidiary Tabogan S.r.l.

12.5 Operating property, plant and equipment: annual changes

	Land	Buildings	Furniture	Electrical plant	Other	Total
A. Opening gross balance	**4.933**	**82.548**	**9.103**	**11.692**	**32**	**108.308**
A.1 Total net writedowns	-	13.665	7.208	10.922	25	31.820
A.2 Opening net balance	4.933	68.883	1.895	770	7	76.488
B. Increases	-	4.053	3.557	523	656	8.790
B.1 Purchases	-	3.038	3.089	486	656	7.269
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Fair value gains recognised in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	1.015	469	37	-	1.521
C. Decreases	14.799	162.559	34.404	36.284	96	248.142
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	131	1	4	-	136
C.3 Writedowns for impairment recognised in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Fair value losses recognised in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to	4.933	81.214	11.468	12.093	32	109.740
a) investment property	4.933	67.048	3.805	985	7	76.778
b) discontinuing operations	-	14.166	7.663	11.108	25	32.962
C.7 Other changes	4.933	-	11.468	12.093	32	28.526
D. Closing net balance	- 9.866	- 89.622	- 28.952	- 34.990	567	- 162.864
D.1 Total net writedowns	-	13.796	7.209	10.926	25	31.956
D.2 Closing gross balance	- 9.866	- 75.826	- 21.743	- 24.064	592	- 130.908
E. Measurement at cost	-	-	-	-	-	-

12.6 Investment property: annual changes

	Land	Buildings
A. Opening balance	**4.346**	**5.209**
B. Increases	-	-
B.1 Purchases	-	-
B.2 Capitalised improvement costs	-	-
B.3 Writebacks	-	-
B.4 Fair value gains recognised in	-	-
B.5 Positive exchange rate differences	-	-
B.6 Transfers from investment property	-	-
B.7 Other changes	-	-
C. Decreases	1.576	5.209
C.1 Sales	-	5.184
C.2 Depreciation	-	-
C.3 Writedowns for impairment recognised in	-	-
C.4 Fair value losses recognised in	1.576	-
C.5 Negative exchange rate differences	-	-
C.6 Transfers to	-	-
a) investment property	-	-
b) discontinuing operations	-	-
C.7 Other changes	-	25
D. Closing net balance	2.770	-
E. Measurement at fair value	-	-

Section 13 – Intangible assets – item 130

13.1 Intangible assets: composition by category

	31/12/2014		31/12/2013		
	Finite life	Indefinite life	Finite life	Indefinite life	%
A.1 Goodwill	X	19.136	X	19.136	0,0%
A.1.1 Group	X	19.136	X	19.136	0,0%
A.1.2 minority interests	X	-	X	-	-
A.2 Other intangible assets	214	-	243	-	-11,9%
A.2.1 Assets carried at cost	214	-	243	-	-11,9%
a) internally-generated intangible assets	-	-	-	-	-
b) other assets	214	-	243	-	-11,9%
A.2.2 Assets carried at fair value	-	-	-	-	-
a) internally-generated intangible assets	-	-	-	-	-
b) other assets	-	-	-	-	-
Total	**214**	**19.136**	**243**	**19.136**	**-0,1%**

13.2 Intangible assets: annual changes

	Goodwill	Other internally-generated intangible assets		Other intangible assets: other		Total
		Fin	Indefin	Fin	Indefin	
A. Opening balance	19.136	-	-	1.149	-	20.045
A.1 Total net writedowns	-	-	-	906	-	906
A.2 Opening net balance	19.136	-	-	243	-	19.379
B. Increases	-	-	-	15	-	15
B.1 Purchases	-	-	-	15	-	15
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Writebacks	X	-	-	-	-	-
B.4 Fair value gains	X	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive exchange rate differences	X	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	44	-	44
C.1 Sales	-	-	-	-	-	-
C.2 Writedowns	-	-	-	44	-	44
- Amortization	X	-	-	44	-	44
- Impairment	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Fair value losses	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to discontinuing operations	X	-	-	-	-	-
C.5 Negative exchange rate differences	X	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Closing balance	19.136	-	-	214	-	19.350
D.1 Total net writedowns	-	-	-	950	-	950
E. Closing gross balance	19.136	-	-	1.164	-	20.300
F. Measurement at cost	-	-	-	-	-	-

Key DEF: definite-term INDEF: indefinite-term

Goodwill is related to:
1. the acquisition of the banking arm of the former Banca Agricola di Gorizia; and
2. the acquisition of a bank branch from third parties.

Impairment testing of goodwill

Goodwill is initially measured at cost, which derives from the amount by which the consideration paid exceeds the net assets and liabilities acquired. If the amount of consideration is less than the fair value of the acquiree's net assets, the difference is recognised through the income statement.

After initial recognition, goodwill is measured at cost less any cumulative impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination must be allocated at the acquisition date to each cash-generating unit of the entity that is expected to benefit from the combination, irrespective of whether the acquiree's assets or liabilities are assigned to those units.

Goodwill is tested for impairment at least once a year (at 31 December) and more frequently where circumstances indicate that the carrying amount may have become impaired.

Allocation of goodwill to cash-generating units (CGUs)
With respect to the definition of "cash-generating unit (CGU)", it should first be noted that following the corporate reorganisation undertaken in 2013 the Group has identified its operating segments as coinciding with the individual legal entities that comprise the Group:

- ***Retail and Corporate Bank***, which includes Banca Popolare di Cividale S.c.p.A.; and
- ***Leasing***, which includes Civileasing S.p.A.

In continuity with the approach adopted for the purposes of previous impairment tests, the cash-generating unit to which recognised goodwill has been allocated is the Retail and Corporate Bank GGU, coinciding with the legal entity Banca Popolare di Cividale, which represents the "smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets".

Estimating cash flows to determine the value in use of a CGU
The accounting principles of reference require that impairment testing be conducted by comparing the carrying amount and recoverable amount of each CGU. Where the recoverable amount is less than the carrying amount, an impairment loss must be recognised. The recoverable amount of a CGU is the greater of its fair value and value in use. The recoverable amount of the Bank's CGUs is represented by its value in use, determined on the basis of the future cash flows generated by each CGU to which goodwill has been allocated. Such cash flows have been estimated on the basis of:

- the strategic plan for the period 2014–2016, approved by the Parent Company's Board of Directors in March 2014;
- updated macroeconomic scenarios; and
- economic projections for the period 2015–2019.

Projections of future results have been extended through 2019 with the aim of obtaining an assessment of the Bank's income-generating capacity and the ability to create value over time, which is independent of the current macroeconomic scenario.
Value in use has been determined by the management, with the methodological support of an authoritative external expert, by applying Excess Capital variant of the Dividend Discount Model ("DDM"). This approach is used to determine the value of a company or business unit according to the dividend flows that it is estimated it may generate on a prospective basis, while maintaining a minimum capitalisation level consistent with the instructions provided in this regard by supervisory authorities and in a manner consistent with expected business trends.
This method is widely adopted in well-established current valuation practice and is supported by the foremost academic theory regarding business valuation, particularly as regards entities operating in the banking sector.
The application of the Dividend Discount Model involved the use of expected profitability estimates and financial parameters to discount flows. In further detail, value in use was calculated on the basis of the following assumptions and elements:

- **Cash flows:** an explicit period of 2014–2019, estimated on the basis of: i) the 2014–2016 Strategic Plan and subsequent update approved by the Board of Directors; and ii) the minimum level of capitalisation (minimum capital) required to ensure operation of banking activity.
- **Terminal value**, estimated as a function of: i) long-term expected net income; and ii) the sustainable growth rate, equal to long-term expected inflation.
- **Minimum capital**: the target capitalisation requirement was assumed as a function of a tier 1 ratio of 9.5%, in line with the targets of major quoted Italian banks, in light of international practice. When determining capital requirements, the above ratio was applied to the prospective RWAs (risk-weighted assets) of Banca Popolare di Cividale, estimated and based on capital requirements inclusive of the benefits provided for in supervisory regulations for banks belonging to banking groups.
- **Discounting rate (Ke)**: future cash flows have been discounted by using a cost of equity capital (Ke) determined as the sum of the nominal rate of return on risk-free assets and a specific risk premium that reflects the risk level of the industry of reference and the specific risks associated with the Bank's operations. In further detail, the cost of equity capital has been estimated as **8.51%** as the result of:
  - **R_f:** the rate of return on risk-free assets, identified on the basis of the gross annual return on the ten-year Italian benchmark BTP, one-month average surveyed on 31 December 2014 (source: Market Information Provider) at 2.87%;

- **β:** the beta coefficient, which indicates the risk level of a specific equity with respect to the equity market at large, estimated on the basis of the historical average two-year betas of a sample of quoted Italian banks (source: Market Information Provider) surveyed on 31 December 2014 at 1.13;
- **R_m – R_f:** the premium, or difference in return, requested by investors for an investment in equities rather than a risk-free investment; this premium was determined at 5.0%, in line with professional practice; and
- **g-rate:** the long-term growth rate expected to apply after the express forecasting period, corresponding to expected inflation in 2017 (source: EIU), equal to 2.0%.

Sensitivity analysis

Since valuation is rendered especially complex by the macroeconomic and market scenario currently affecting the financial sector as a whole, as well as by the ensuing difficulty in formulating projections concerning long-term future profitability, and in order to comply with the provisions of IAS 36, a sensitivity analysis was conducted of the parameters used in the assessment aimed at determining the change in recoverable amount, assuming a change in parameters used in the impairment testing procedure. In particular, that analysis was conducted as a function of a positive and negative change of 50 basis points in the Ke with respect to 8.51%.
An additional sensitivity analysis was conducted on the discounted rate used (Ke) to render the recoverable amount of the CGU equal to its carrying amount. The target cost of capital that results in the CGU's value in use and carrying amount being equal, is 8.61%.

The results of the impairment test

The impairment test, conducted in accordance with international accounting principles, as well as the indications contained in Bank of Italy/Consob/ISVAP Document No. 4 of 3 March 2010, did not indicate the need to proceed with the impairment of the goodwill carried as at 31 December 2014.
In addition, it should be emphasised that the parameters and information used to test recoverable amount (particularly the expected cash flows for the CGU identified, as well as the discounting rates applied) have been significantly influenced by the macroeconomic and market scenario, which could undergo abrupt changes currently not subject to prediction. The effect that such changes could have on the estimate of the CGU's cash flows, as well as on the main assumptions adopted, could thus yield results significantly different from those presented in these financial statements in the financial statements of future years.

Section 14 – Tax assets and tax liabilities – item 140 of assets and item 80 of liabilities

14.1 Deferred tax assets: composition

Deferred tax assets, all of which pertained to the banking group, came to €54,800 thousand and may be broken down as follows:

	31/12/2014	31/12/2013
Recorded in equity	**688**	**469**
Tax effect on AFS reserve	537	469
Employee termination benefits	151	-
Through profit and loss	**54.112**	**56.063**
Loans	51.061	51.028
Staff costs	349	625
Goodwill	381	438
Other	2.321	3.972
Total	**54.800**	**56.532**

14.2 Deferred tax liabilities: composition

Deferred tax liabilities, all of which pertained to the banking group, came to €11,148 thousand and may be broken down as follows:

	31/12/2014	31/12/2013
Recorded in equity	**6.463**	**3.010**
Tax effect on AFS reserve	6.463	2.997
Employee termination benefits	-	13
Through profit and loss	**4.684**	**4.111**
Goodwill	4.195	3.588
Other	489	523
Total	**11.148**	**7.121**

14.3 Changes in deferred tax assets (through the income statement)

	31/12/2014	31/12/2013
1. Importo iniziale	**56.063**	**30.422**
2.Aumenti	**5.780**	**31.434**
2.1 Imposte anticipate rilevate nell'esercizio	5.780	31.425
a) relative a precedenti esercizi	-	-
b) dovute al mutamento di criteri contabili	-	-
c) riprese di valore	-	-
d) altre	5.780	31.425
2.2 Nuove imposte o incrementi di aliquote fiscali	-	-
2.3 Altri aumenti	-	9
3. Diminuzioni	**7.731**	**5.793**
3.1 Imposte anticipate annullate nell'esercizio	482	159
a) rigiri	-	159
b) svalutazioni per sopravvenuta irrecuperabilità	-	-
c) mutamento di criteri contabili	-	-
d) altre	482	
3.2 Riduzioni di aliquote fiscali	-	-
3.3 Altre diminuzioni	7.248	5.634
a) Trasformazione in crediti d'imposta di cui alla L. 214/20	5.580	937
b) altre	1.668	4.697
4. Importo finale	**54.113**	**56.063**

14.3.1 Changes in deferred tax assets eligible for transformation into tax credits pursuant to Law No. 214/2011 (through the income statement)

	31/12/2014	31/12/2013
1. Opening balance	**48.719**	**21.828**
2.Increases	**8.834**	**30.384**
3. Decreases	**(6.917)**	**(3.493)**
3.1 Reversals	-	-
3.2 Transformation into tax credits	(5.580)	(937)
a) from losses for the year	(5.580)	(937)
b) from fiscal losses	-	-
3.3 Other decreases	(1.337)	(2.556)
4.Closing balance	**50.636**	**48.719**

14.4 Changes in deferred tax liabilities (through the income statement)

	31/12/2014	31/12/2013
1.Opening balance	**4.111**	**3.659**
2. Increases	**573**	**633**
2.1 Deferred tax liabilities recognised during the year	573	633
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	573	633
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**182**
3.1 Deferred tax liabilities derecognised during the year	-	182
a) reversals	-	182
b) due to change in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**4.684**	**4.111**

14.5 Changes in deferred tax assets (through equity)

	31/12/2014	31/12/2013
1.Opening balance	**469**	**1.058**
2. Increases	**688**	**201**
2.1 Deferred tax assets recognised during the year	688	201
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	688	201
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**469**	**790**
3.1 Deferred tax assets derecognised during the year	469	790
a) reversals	469	790
b) writedowns for supervening non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4.Closing balance	**688**	**469**

14.6 Changes in deferred tax liabilities (through equity)

	31/12/2014	31/12/2013
1.Opening balance	**3.010**	**8.205**
2. Increases	**6.463**	**1.390**
2.1 Deferred tax liabilities recognised during the year	6.463	1.305
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	6.463	1.305
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	85
3. Decreases	**3.010**	**6.585**
3.1 Deferred tax liabilities derecognised during the ye	3.010	3.048
a) reversals	3.010	3.048
b) due to change in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	3.537
4. Closing balance	**6.464**	**3.010**

14.7 Other information

Transformation of deferred tax assets into tax credits

Article 2 of Law Decree No. 225 of 29 December 2010 (the "Thousand Extensions Decree"), enacted, with amendments, as Law No. 10 of 26 February 2011, allows deferred tax assets recognised in connection with impairment losses on loans by banks and financial companies, goodwill and other intangible assets to be transformed into tax credits in certain situations. The provision was most recently amended by Law No. 147 of 27 December 2013 (the 2014 Stability Act), which extended the rules to include deferred tax assets (DTAs), in connection with the same items as above, recognised with respect to regional production tax, as well as the losses on loans of banks and financial companies, considering that the tax treatment of such losses was also modified by the Stability Act, to bring it into line with that of impairment losses, as illustrated above.

In extremely short form, the rules that allow the transformation of deferred tax assets state that:

- ✓ DTAs are transformed into tax credits upon the occurrence of operating losses presented in the separate financial statements. The transformation applies to an amount corresponding to the share of the loss for the year, corresponding to the relationship between DTAs and the sum of share capital and reserves;
- ✓ any share of such DTAs that contributes to the formation of a tax loss for the purposes of corporate income tax or a negative value of production for the purposes of regional production tax is converted into a tax credit, with the concurrent de-activation of the recoverability limits envisaged for tax losses;
- ✓ tax credits do not generate interest. They may be used, without limits of amount, for offsetting against other taxes payable (including those deriving from withholding agent activity) and social-security contributions payable by a single bank or corporate tax consolidation programme. Such tax credits may also be transferred at nominal value according to the procedure governed by Art. 43-ter of Presidential Decree No. 602/1973 and may be submitted for a refund of the remainder after offsetting.

In this regard, due to the losses recognised in the 2013, the Group converted DTAs of €5,580 thousand into tax credits.

Probability test on deferred taxes

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

- ✓ temporary taxable differences: a deferred tax liability must be recognised for all taxable temporary differences;
- ✓ deductible temporary differences: a deferred tax asset is to be recognised for all deductible temporary differences if it is probable that sufficient taxable income will be earned in order to use the deductible temporary difference. Deferred tax assets not recognised in a given year – inasmuch as the conditions for their recognition had not been satisfied – are to be recognised in the year in which those requirements are met.

Accordingly, the amount of the deferred tax assets recognised must be tested each year in order to determine whether it is reasonably certain that taxable income will be earned in the future and thus that the deferred tax assets may be recovered.

For the 2013 financial statements, as in previous years, an analysis has been conducted with the aim of verifying whether projections of future profitability are sufficient to ensure the re-absorption of deferred tax assets and therefore justify their recognition and retention in the financial statements (a process known as the "probability test").

In conducting the probability test on the deferred tax assets recognised in the Group's financial statements at 31 December 2014, as for the 2013 financial statements, deferred tax assets deriving from deductible temporary differences were considered separately. In this regard, it is relevant that effective the tax period ended 31 December 2011 the law permits the conversion into tax credits of deferred tax assets recognised in financial statements to account for tax losses arising from the deferred deduction of qualified temporary differences (Article 2, paragraph 56-bis, of Law Decree No. 225/2010, introduced by Article 9 of Law Decree No. 201/2011, converted into Law No. 214/2011), in addition to that already provided for where the separate financial statements present a loss (Article 2, paragraphs 55 and 56, of Law Decree No. 225/2010). Such convertibility has introduced an additional, supplementary method of recovery that is appropriate to ensuring the recovery of qualified deferred tax assets in all situations, regardless of an enterprise's future profitability. In fact, if qualified temporary differences exceed taxable income in a given year, the recovery of deferred tax assets does not take the form of a reduction of current taxes, but rather of the recognition of deferred tax assets on the tax loss, convertible into tax credits pursuant to Article 2, paragraph 56-bis, of Law Decree No. 225/2010.

The convertibility of deferred tax assets on tax losses resulting from qualified temporary differences is therefore a sufficient condition for the recognition of deferred tax assets in the financial statements, thereby ensuring that the associated probability test is implicitly passed.
This arrangement is also borne out in the joint Bank of Italy, Consob and ISVAP document no. 5 of 15 May 2012 (issued in the framework of the IAS/IFRS Application Coordination Board) concerning the Accounting Treatment of Deferred Tax Assets Deriving from Law 214/2011 and in the subsequent Italian Banking Association IAS document no. 112 of 31 May 2012 (Tax Credits Deriving from the Transformation of Deferred Tax Assets: Clarification from the Bank of Italy, Consob and ISVAP Regarding the Application of IAS/IFRS).
On this basis, the test consisted of the following steps in particular:

a) identifying deferred tax assets other than those associated with impairment losses on loans, goodwill and other intangible assets with indefinite useful lives ("non-qualified deferred tax assets") recognised in the consolidated financial statements; b) analysing such non-qualified deferred tax assets and the deferred tax assets recognised in the consolidated financial statements, distinguishing them by type of origin and thus by foreseeable timing of recovery; and
b) forecasting the Company's future profitability with the aim of verifying the ability to absorb the deferred tax assets set forth in point a) above.

The test conducted indicated that taxable income was sufficient and able to absorb the deferred tax assets recognised in the financial statements at 31 December 2014.

Section 15 – Non-current assets held for sale and discontinued operations and associated liabilities – item 150 of assets and item 90 of liabilities
Not applicable.

Section 16 – Other assets – item 160
16.1 Other assets: composition

	31/12/2014	31/12/2013	%
Amounts due from the tax authorities	846	842	0,6%
Ammounts due from the tax authorities for withholdings on interest paid to customers and other amounts due	8.423	6.421	31,2%
Cheques drawn on the bank to be settled	5.447	4.721	15,4%
Counterparts for securities ad coupon payments to be received	1.909	132	ns
Soundry items to be debited to customers and banks	4.308	4.525	-4,8%
Value date differences on portfolio transactions	3	-	-
Costs and advances pending financial allocation	75	70	7,5%
Transit items	23	203	-88,4%
Items finalized but not allocable to other items	6.084	13.829	-56,0%
Amounts related to payment for the supply of goods and services	-	-	-
Other	1.143	55	ns
Total	**28.261**	**30.797**	**-8,2%**

Among the various items, mention should be made of other assets for the determination of accruals of €3,247 thousand and costs attributable to future years of €3,598 thousand.

LIABILITIES
Section 1 – Due to banks – item 10
1.1 Due to banks: composition by type

	31/12/2014	31/12/2013	%
1. Due to central banks	971.605	851.281	14,1%
2. Due to banks	150.218	159.582	-5,9%
2.1 Current accounts and demand deposits	59.346	66.655	-11,0%
2.2 Time deposits	436	520	-16,1%
2.3 Borrowings	90.338	92.321	-2,1%
2.3.1 Repurchase agreements	-	-	-
2.3.2 other	90.338	92.321	-2,1%
2.4 Liabilities in respect of commitments to repurchase own equity ins	-	-	-
2.5 Other payables	98	87	12,0%
Total	**1.121.823**	**1.010.863**	**11,0%**
Fair value - L1	-	-	-
Fair value - L2	-	-	-
Fair value - L3	**1.121.823**	**1.010.863**	**11,0%**
Fair value	**1.121.823**	**1.010.863**	**11,0%**

Item 2.3.2 Loans – Other primarily includes financing received from the European Investment Bank for investments.

Section 2 – Due to customers – item 20
2.1 Due to customers: composition by type

	31/12/2014	31/12/2013	%
1. Current accounts and demand deposits	1.523.934	1.378.360	10,6%
2. Time deposits	333.369	282.466	18,0%
3. Borrowings	120.231	1.268.021	-90,5%
3.1 Repurchase agreements	111.659	1.257.498	-91,1%
3.2 Other	8.571	10.524	-18,6%
4. Liabilities in respect of commitments to repurchase own equity	-	-	-
5. Other payables	35.491	39.564	-10,3%
Total	**2.013.024**	**2.968.412**	-32,2%
Fair value - L1	-	-	-
Fair value - L2	-	-	-
Fair value - L3	2.013.174	**2.957.656**	-31,9%
Fair value	**2.013.174**	**2.957.656**	-31,9%

Section 3 – Debt securities issued – item 30
3.1 Debt securities issued: composition by type

	31/12/2014				31/12/2013				
	Book value	Fair value			Book value	Fair value			
		L1	L2	L3		L1	L2	L3	%
A. Securities									
1. Bonds	638.158	-	638.158	-	650.295	-	650.295	-	-1,9%
1.1 structured	-	-	-	-	14.936	-	14.936	-	-100,0%
1.2 other	638.158	-	638.158	-	635.358	-	635.358	-	0,4%
2. Other	50.847	-	-	50.847	79.989	-	-	79.989	-36,4%
2.1 structured	-	-	-	-	-	-	-	-	-
2.2 other	50.847	-	-	50.847	79.989	-	-	79.989	-36,4%
Total	**689.006**	**-**	**638.158**	**50.847**	**730.284**	**-**	**650.295**	**79.989**	**-5,7%**

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

3.2 Breakdown of item 30 "Debt securities issued": subordinated securities (applicable legislation)

The amount included under "Debt securities issued" came to €48.5 million. The item refers to the following bond issues:

a) A subordinated bond with an original nominal value of €15 million issued on 7 April 2008 having the following characteristics:
   - ✓ interest rate: first coupon of 4.81% per annum, gross, payable on 7 July 2009; subsequent coupons: for the first five years, monthly average of the 3-month Euribor for the month before the date of each

coupon, plus 0.25%; for the next five years of the term of the bond, i.e., starting from the coupon payable on 7 April 2013, interest will be equal to the same weighted average plus a rising spread of: 0.35% for coupons payable during the sixth year; 0.45% for coupons payable during the seventh year; 0.55% for coupons payable during the eighth year; 0.65% for coupons payable during the ninth year; and 0.75% for coupons payable during the tenth year;

- ✓ amortisation schedule: principal is to be repaid in five equal instalments of 20% of principal starting on 7 April 2014;
- ✓ maturity: 7 April 2018;
- ✓ early redemption clause: the Bank reserves the right to redeem the bond early, provided that at least five years have elapsed since the date of issue, with the prior consent of the Bank of Italy, and with at least one month's notice;
- ✓ no provisions exist for conversion into share capital.

b) Subordinated bond with an original nominal value of €40 million issued on 13 August 2007 having the following characteristics:

- ✓ interest rate: first coupon of 4.6% per annum, gross, payable on 13/11/2007; subsequent coupons: for the first five years, monthly average of the 3-month Euribor for the month before the date of each coupon, plus 0.25%; for the next five years of the term of the bond, i.e., starting from the coupon payable on 13 August 2012, interest will be equal to the same weighted average plus a rising spread of: 0.35% for coupons payable during the sixth year; 0.45% for coupons payable during the seventh year; 0.55% for coupons payable during the eighth year; 0.65% for coupons payable during the ninth year; and 0.75% for coupons payable during the tenth year;
- ✓ amortisation schedule: principal is to be repaid in five equal instalments of 20% of principal starting on 13 August 2013;
- ✓ maturity: 13 August 2017;
- ✓ early redemption clause: the Bank reserves the right to redeem the bond early, provided that at least five years have elapsed since the date of issue, with the prior consent of the Bank of Italy, and with at least one month's notice;
- ✓ subordination clause: if the Bank is wound up, the bonds shall only be repaid all other creditors not equally subordinated have been satisfied;
- ✓ no provisions exist for conversion into share capital.

c) Subordinated bond of an original nominal value of €15 million issued on 10 December 2013 having the following characteristics:

- ✓ interest rate: half-yearly coupons equal to the 6-month Euribor rate plus a spread of 430 bps;
- ✓ amortisation schedule: principal is to be repaid in five equal instalments of 20% of principal starting on 10 December 2014;
- ✓ maturity: 10 December 2018;
- ✓ no early redemption clause has been provided for;
- ✓ subordination clause: if the Bank is wound up, the bonds shall only be repaid all other creditors not equally subordinated have been satisfied;
- ✓ no provisions exist for conversion into share capital.

Finally, it should be noted a subordinated convertible bond with payment date of 19 December 2014 having the following characteristics was in the process of being placed on 31 December 2014:

- ✓ interest rate: fixed annual coupons of 2.75%;
- ✓ bullet repayment at maturity;
- ✓ maturity: 19 December 2019;
- ✓ no early redemption clause has been provided for;
- ✓ subordination clause: if the Bank is wound up, the bonds shall only be repaid all other creditors not equally subordinated have been satisfied;
- ✓ no provisions exist for conversion into share capital.

A nominal amount of €630,000 had been placed at 31 December 2014.

3.3 Breakdown of item 30 "Debt securities issued": specifically hedged securities

Hedge accounting was discontinued in 2013.

Section 4 – Financial liabilities held for trading – item 40

4.1 Financial liabilities held for trading: composition by type

	31/12/2014					31/12/2013					%
		FV					FV				
	NV	L1	L2	L3	FV*	NV	L1	L2	L3	FV*	
A. On-balance-sheet 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	-	-	1.036	-	-	965	-	965	-	-	0,0%
1.1 trading	X	-	1.036	-	X	X	-	965	-	X	7,4%
1.2 associated with fair value option	X	-	-	-	X	X	-	-	-	X	-
1.3 other	X	-	-	-	X	X	-	-	-	X	-
2 Credit derivatives	-	-	-	-	-	-	-	-	-	-	-
2.1 trading	X	-	-	-	X	X	-	-	-	X	-
2.2 associated with fair value option	X	-	-	-	X	X	-	-	-	X	-
2.3 other	X	-	-	-	X	X	-	-	-	X	-
Total B	**X**	**-**	**1.036**	**-**	**X**	**X**	**-**	**965**	**-**	**X**	**7,4%**
Total (A+B)	**-**	**-**	**1.036**	**-**	**-**	**-**	**-**	**965**	**-**	**-**	**7,4%**

Key: FV = fair value calculated by excluding the changes in value due to the change in the issuer's credit rating since the issue date. NV = nominal or notional value. L1 = Level 1; L2 = Level 2; L3 = Level 3

Section 5 – Financial liabilities designated at fair value – item 50

This section does not apply to the Banca Popolare di Cividale Group.

Section 6 – Hedging derivatives – item 60

This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

Section 7 – Change in fair value of financial liabilities in macro fair value hedge portfolios – item 70

This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

Section 8 – Tax liabilities – item 80

For information on this section, please see Section 14 under Assets.

Section 9 – Liabilities associated with discontinued operations – item 90

Not applicable.

Section 10 – Other liabilities – item 100

10.1 Other liabilities – composition

	31/12/2014	31/12/2013	%
Amounts due to the tax authorities for indirect tax	48	811	-94,1%
Amounts due to social security and welfare institutions	1.533	1.550	-1,1%
Amouns due to public entities on behalf of third parties	4.074	4.228	-3,7%
Sundry items to be debited to customers and banks	461	608	-24,2%
Amounts available to customers	2.855	3.686	-22,5%
Amounts payable to employees	2.617	2.553	2,5%
Value date differences on portfolio transactions	19.659	17.726	10,9%
Sundry items to be debited to customers	4.991	7.059	-29,3%
Intems in transit between branches	1	145	-99,1%
Accruals other than those capitalised	636	516	23,2%
Guaratees given	1.532	830	84,6%
Payables related to the supply of goods and services	4.027	8.003	-49,7%
Sundry and residual items	46.789	41.562	12,6%
Total	**89.221**	**89.276**	**-0,1%**

The various items include:

- amounts due to the vehicle for securitised mortgage loans (€26,394 thousand); and
- third-party funds for agricultural loans (€6,653 thousand);
- stamp duty payable of €3,919 thousand;

- leasing direct debits to be collected of €3,082 thousand.

Section 11 – Employee termination benefits – item 110

11.1 Employee termination benefits: annual changes

	31/12/2014	31/12/2013	%
A. Opening balance	**5.658**	**5.647**	**0,2%**
B. Increases	**1.626**	**1.792**	**-9,3%**
B.1 Provision for the year	1.623	1.792	-9,5%
B.2 Other increases	3	-	-
C. Decreases	**1.244**	**1.781**	**-30,1%**
C.1 Severance payments	420	396	5,9%
C.2 Other decreases	825	1.385	-40,4%
D. Closing balance	**6.040**	**5.658**	**6,7%**
Total	**6.040**	**5.658**	**6,7%**

Item C.2 “Other decreases” refers to the amounts transferred to the pension fund and INPS Treasury Fund.

Under international accounting principles, employee termination benefits are considered post-employment benefits of the defined-benefit type. Accordingly, for accounting purposes, their value is determined through actuarial approaches based on a technical procedure known in actuarial literature as the “MAGIS” method. This method, based on a stochastic simulation of the Montecarlo type, allows projections to be prepared for the compensation costs for each employee, considering the demographic and compensation figures associated with each position, without aggregating those positions or introducing average values. The calculations were performed for the number of years necessary for all workers currently in service to leave service.
In accordance with IAS 19, the actuarial assessments have been conducted according to the accrued benefit method by using the Projected United Credit Method.
Technical assessments were conducted according to the following parameters:

- ✓ annual technical discount rate: 1.49%;
- ✓ annual inflation rate: 1.5%;
- ✓ annual rate of termination benefit increase: 2.5%.

As required by ESMA, the actuarial assessment was repeated while leaving all other hypotheses unchanged but considering a discounting rate equal to the index for the Eurozone, Iboxx Corporate AA, with a duration of 10+ years, in a manner consistent with the average financial duration of prospective divestments tied to departures from the category subject to assessment.

Section 12 – Provisions for risks and charges – item 120

12.1 Provisions for risks and charges: composition

	31/12/2014	31/12/2013	%
1. Company pension plans	-	-	-
2. Other provisions	3.690	3.436	7,4%
2.1 legal disputes	1.360	940	44,7%
2.2 staff costs	-	-	-
2.3 other	2.330	2.496	-6,7%
Total	**3.690**	**3.436**	**7,4%**

12.2 Provisions for risks and charges: annual changes

	Pension plans	Other provisions	Total
A. Opening balance	-	**3.436**	**3.436**
B. Increases	-	**1.340**	**1.340**
B.1 Provision for the year	-	1.340	1.340
B.2 Changes due to passage of time	-	-	-
B.3 Changes due to changes in discount rate	-	-	-
B.4 Other increases	-	-	-
C. Decreases	-	**1.086**	**1.086**
C.1 Use during the year	-	1.032	1.032
C.2 Changes due the changes in discount rate	-	-	-
C.3 Other decreases	-	54	54
D. Closing balance	-	**3.690**	**3.690**

The item “Provisions for risks and charges” increased by €1,340 thousand due to accruals to account for revocatory actions, complaints and civil litigation. The decreases were due to draw-downs of €1,032 thousand as a result of the closure of customer complaints and write-backs of €54 thousand.

12.3 Defined-benefit company pension funds

This item is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

12.4 Provisions for risks and charges – other

Provisions for risks and charges consist of the following:

Provision for revocatory actions

This provision stood at €1,020 thousand as at 31 December 2014 and represents the estimated amount of expected liabilities, calculated specifically with the support of the Bank’s legal counsel, in respect of judicial and extra-judicial actions in which the Bank is a defendant.

Provision for unexpected liabilities

The amount of the provision at 31 December 2014, €2,670 thousand, consists chiefly of the estimate of the expense that the Bank will incur in relation to customers' complaints, civil suits and legal disputes with former employees.

Section 13 – Technical reserves – item 130

This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

Section 14 – Redeemable shares – item 150

This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

Section 15 – Shareholders’ equity – items 140, 160, 170, 180, 190, 200 and 220

15.1 Share capital and treasury shares: composition

Shareholders’ equity is defined by international accounting standards as “the residual value of an entity’s assets after all liabilities have been deducted”. From a financial standpoint, equity represents the monetary extent of the resources contributed by the owners or generated by the entity.

Capital management is the set of policies and decisions required to determine the capitalisation level, as well as the optimal combination of the various alternative capitalisation instruments aimed at ensuring that the Banca di Cividale Group’s capital and capital ratios are consistent with the risk profile assumed, in full accordance with supervisory requirements.

In further detail, the capital policy adopted by the Group is founded upon the three following approaches:

- ✓ full compliance with regulatory requirements (regulatory approach);
- ✓ appropriate monitoring of risks associated with banking operations (management approach); and
- ✓ support for company development projects (strategic approach).

At 31 December 2014, Banca Popolare di Cividale had fully subscribed and paid-in share capital of €50,913 thousand, divided into 16,971,085 ordinary shares without par value.

	31/12/2014	31/12/2013	%
1. Share capital	50.913	51.068	-0,3%
2. Share premiums	167.022	198.570	-15,9%
3. Reserves	37.054	38.920	-4,8%
4. (Treasury shares)	-	(7)	100,0%
5. Valuation reserves	11.124	8.552	30,1%
6. Capital instruments	-	-	-
7. Net income (loss) for the period pertaining to the Group	10.065	(35.793)	128,1%
Total	**276.177**	**261.310**	**5,7%**

	31/12/2014	31/12/2013	%
Legal reserve	19.208	19.208	0,00%
Statutory reserve	22.279	29.142	-23,55%
Other reserves	(368)	(5.365)	93,14%
Merger deficit - surplis	(4.065)	(4.065)	0,00%
Total	**37.054**	**38.920**	**-4,79%**

15.2 Share capital – number of parent company shares: annual changes

	Ordinary	Other
A. Shares at start of year	**17.022.649**	-
- fully paid	17.022.352	-
- partly paid	-	-
A.1 Treasury stock (-)	(297)	-
A.2 Shares in circulation: opening balance	-	-
B. Increases	-	-
B.1 New issues	-	-
- paid issues:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**51.564**	-
C.1 Cancellation	51.564	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**16.971.085**	-
D.1 Treasury stock (+)	-	-
D.2 Shares at end of the year	16.971.085	-
- fully paid	16.971.085	-
- partly paid	-	-

15.3 Share capital: other information

Share capital consists of 16,971,085 ordinary shares with a par value of €3.00 each, for an aggregate total of €50,913 thousand.

Section 16 – Minority interests – item 210

This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

OTHER INFORMATION

1. Guarantees issued and commitments

	31/12/2014	31/12/2013	%
1) Financial guarantees issued	32.615	39.722	-17,9%
a) Banks	3.342	3.062	9,1%
b) Customers	29.272	36.660	-20,2%
2) Commercial guarantees issued	51.747	61.620	-16,0%
a) Banks	435	1.010	-56,9%
b) Customers	51.311	60.610	-15,3%
3) Irrevocable commitments to disburse funds	1.205	8.358	-85,6%
a) Banks	-	-	-
i) certain use	-	-	-
ii) uncertain use	-	-	-
b) Customers	1.205	8.358	-85,6%
i) certain use	223	168	33,1%
ii) uncertain use	982	8.191	-88,0%
4) Commitments underlying credit derivatives: sales of protection	-	-	-
5) Assets pledged as collateral for third-party debts	-	-	-
6) Other commitments	-	-	-
Total	**85.567**	**109.700**	**-22,0%**

2. Assets pledged as collateral for liabilities and commitments

	31/12/2014	31/12/2013	%
1. Financial assets held for trading	-	-	-
2. Financial assets recognized at fair value	-	-	-
3. Financial assets available for sale	940.566	1.327.460	-29,1%
4. Financial assets held to maturity	64.697	105.369	-38,6%
5. Loans to banks	-	-	-
6. Loans to customers	7.030	555.748	-98,7%
7. Property, plant and equipment	-	-	-

In addition, the Bank has committed off-balance sheet securities with a value of €557 million as collateral, of which €196 million associated with notes issued by BPC and fully repurchased, representative of liabilities guaranteed by the Italian government pursuant to Art. 8 of Law Decree 201 of 6 December 2011, converted into Law 214 of 22 December 2011, used as collateral for refinancing transactions with the European Central Bank.

4. Management and intermediation services

	31/12/2014	31/12/2013	%
1. Trading in financial instruments on behalf of third parties	-	-	-
a) Purchases	-	-	-
1. settled	-	-	-
2. not yet settled	-	-	-
b) Sales	-	-	-
1. settled	-	-	-
2. not yet settled	-	-	-
2. Asset management	**224.057**	**230.738**	**-2,9%**
a) individual	224.057	230.738	-2,9%
b) collective	-	-	-
3. Custody and administration of securities	**4.546.474**	**5.949.437**	**-23,6%**
a) third-party securities held as part of depository bank services (excluding portfolio management)	-	-	-
1.securities issued by reporting entity	-	-	-
2. other	-	-	-
b) other third-party securities on deposit (excluding portfolio man	871.406	1.087.277	-19,9%
1. securities issued by reporting entity	481.413	-	-
2. other	389.993	1.087.277	-64,1%
c) third-party securities deposited with third parties	862.590	1.074.431	-19,7%
d) securities owned by bank deposited with third parties	2.812.478	3.787.729	-25,7%
4. Other	-	-	-

5 – 6. Financial assets and liabilities presented on a net basis, subject to master netting agreements or similar agreements

IFRS 7 requires that specific disclosure be provided for financial instruments that are set off in the balance sheet pursuant to IAS 32 or that are partially eligible for offsetting, upon the occurrence of certain conditions, in that they are governed by master netting agreements or similar agreements that do not comply with the criteria established by IAS 32 for offsetting in the financial statements.

For the Banca Popolare di Cividale Group, there were no outstanding netting agreements for which balances are to be offset in the balance sheet pursuant to IAS 32.

The financial instruments potentially eligible for offsetting in the tables below are governed by the following agreements:

- ✓ for derivative instruments: an ISDA master agreement and clearing house netting agreements;
- ✓ for repurchase and reverse repurchase agreements: Global Master Repurchase Agreements (GMRAs);
- ✓ for securities lending: the Global Master Securities Lending Agreement (GMSLA).

Technical forms	Gross amount of (a)financial assets	Amount of financial liabilities offset in the financial (b)statemenst	Net amount of financial assets shown in the financial = satements (c (a-b	Related amounts not offset in the financial statements		Net amount (f=c-d-e) 31/12/2014	Net amount 31/12/2013
				Financial (d)instruments	Cash deposits received ass (e)collateral		
1. Derivatives	46	-	46	-	-	46	101
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2014	**46**	-	**46**	-	-	**46**	**X**
Total 31/12/2013	**120**	**0**	**120**	**19**	-	**X**	**101**

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statement (b)	Net amount of financial assets shown in the financial satements (c = a-b)	Related amounts not offset in the financial statements		Net amount (f=c-d-e) 31/12/2014	Net amount 31/12/2013
				Financial instruments (d)	Cash deposits received ass collateral (e)		
1. Derivatives	1.148	-	1.148	352	-	796	-
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2014	**1.148**	-	**1.148**	**352**	-	**796**	**X**
Total 31/12/2013	**773**	-	**773**	**343**	-	**X**	**430**

Chapter C – NOTES TO THE CONSOLIDATED INCOME STATEMENT
Section 1 – Interest – items 10 and 20

1.1 Interest income and similar revenues: composition

Technical forms	Debt securities	Loans	Other transactions	31/12/2014	31/12/2013	%
1. Financial assets held for trading	112	-	-	112	346	-67,8%
2. Financial assets measured at fair value	-	-	-	-	-	0,0%
3. Financial assets available for sale	23.074	-	-	23.074	30.510	-24,4%
4. Financial assets held to maturity	3.116	-	-	3.116	4.137	-24,7%
5. Due from banks	620	596	-	1.216	5.117	-76,2%
6. Loans to customers	-	90.485	-	90.485	99.939	-9,5%
7. Hedging derivatives	X	X	-	-	66	-100,0%
8. Other assets	X	X	1	1	4	-75,3%
Total	**26.923**	**91.081**	**1**	**118.004**	**140.119**	**-15,8%**

1.2 Interest income and similar revenues: differentials on hedging transactions

As provided for in Bank of Italy Circular No. 262, this table is only compiled if the balance of the negative and positive differentials accrued on hedging derivatives is positive. Since the balance was negative during the year, table 1.5 was instead compiled.

1.3 Interest income and similar revenues: other information

1.3.1 Interest income on foreign-currency financial assets

	31/12/2014	31/12/2013	%
Interest income on foreign-currency financial assets - customers	-	-	-
Interest income on foreign-currency financial assets - securities	116	112	4,12%
Interest income on foreign-currency financial assets - banks	-	-	-
Total	**116**	**112**	**4,12%**

1.4 Interest expense and similar charges: composition

	Debt	Securities	Other liabilities	31/12/2014	31/12/2013	%
1. Due to Central banks	4.957	X	-	4.957	4.725	4,9%
2. Due to banks	3.245	X	-	3.245	2.165	49,9%
3. Due to customers	22.616	X	-	22.616	27.426	-17,5%
4. Securities issued	X	17.671	-	17.671	23.344	-24,3%
5. Financial liabilities held for trading	-	-	-	-	-	-
6. Financial liabilities at fair value	-	-	-	-	-	-
7. Other liabilities and allowances	X	X	-	-	-	-
8. Hedging derivatives	X	X	-	-	-	-
Total	**30.817**	**17.671**	**-**	**48.488**	**57.660**	**-15,9%**

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on foreign-currency financial liabilities

	31/12/2014	31/12/2013	%
Interest expense on foreign-currency financial assets - customers	-	(301)	-100,00%
Interest expense on foreign-currency financial assets - securities	-	-	-
Interest expense on foreign-currency financial assets - banks	-	(2)	-100,00%
Totale	**-**	**(303)**	**-100,00%**

Section 2 – Commissions – items 40 and 50

2.1 Commission income: composition

	31/12/2014	31/12/2013	%
a) guarantees issued	944	1.138	-17,1%
b) credit derivatives	-	-	-
c) management, intermediation and advisory services:	7.848	7.566	3,7%
1. trading in financial instruments	-	-	-
2. foreign exchange	535	586	-8,8%
3. asset management	1.803	1.794	0,5%
3.1 individual	1.803	1.794	0,5%
3.2 collective	-	-	-
4. securities custody and administration	245	395	-38,0%
5. depository services	-	-	-
6. securities placement	3.958	3.495	13,2%
7. reception and transmission of orders	674	640	5,3%
8. advisory services	-	-	-
8.1. on investments	-	-	-
8.2. on financial structure	-	-	-
9. distribution of third-party services	633	655	-3,3%
9.1 asset management	-	-	-
9.1.1 individual	-	-	-
9.1.2 collective	-	-	-
9.2 insurance products	633	655	-3,3%
9.3 other	-	-	-
d) collection and payment services	7.785	7.266	7,1%
e) servicing activities for securitizations	-	-	-
f) services for factoring transactions	-	-	-
g) tax collection services	-	-	-
h) management of multilateral trading facilities	-	-	-
i) management of current accounts	6.041	6.356	-5,0%
h) other	5.982	6.715	-10,9%
Total	**28.599**	**29.041**	**-1,5%**

The commission income included under "j) Other services" refers primarily to commissions on credit facilities of €4,560 thousand.

2.2 Commission expenses: composition

	31/12/2014	31/12/2013	%
a) guarantees received	37	7	402,6%
b) credit derivatives	-	-	-
c) management and intermediation services:	22	43	-48,8%
1. trading in financial instruments	19	26	-27,2%
2. foreign exchange	-	-	-
3. asset management	-	-	-
3.1 own portfolio	-	-	-
3.2 third-party portfolio	-	-	-
4. securities custody and administration	-	-	-
5. placement of financial instruments	3	17	-81,8%
6. off-premises distribution of securities, products and servic	-	-	-
d) collection and payment services	2.411	2.292	5,2%
e) other services	4.388	4.411	-0,5%
Total	**6.858**	**6.754**	**1,5%**

The item "e) Other services" refers primarily to commissions paid to the Italian government on bank bonds issued by the Bank and fully repurchased with the aim of obtaining financing from the ECB of €4,070 thousand.

Section 3 – Dividends and similar income – item 70

3.1 Dividends and similar income: composition

	31/12/2014		31/12/2013		%
	Dividends	Income from units in collective investment undertakings	Dividends	Income from units in collective investment undertakings	
A. Financial assets held for trading	10	-	13	-	-25,5%
B. Financial assets available for sale	917	-	983	-	-6,7%
C. Financial assets recognised at fair value	-	-	-	-	0,0%
D. Equity investments	-	X	-	X	0,0%
Total	**927**	**-**	**996**	**-**	**-6,9%**

Section 4 – Net trading income or loss – item 80

4.1 Net trading income or loss: composition

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading	**11**	**401**	**54**	**132**	**225**
1.1 Debt securities	11	401	54	-	357
1.2 Equity securities	-	-	-	132	(132)
1.3 Units in collective investment undertakings	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.2 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	9
4. Derivatives	6.851	769	6.856	750	471
4.1 Financial derivatives	6.851	769	6.856	750	471
– on debt securities and interest rates	6.851	769	6.856	750	14
– on equity securities and equity indices	-	-	-	-	-
– on foreign currencies and gold	X	X	X	X	457
– other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**6.862**	**1.170**	**6.911**	**882**	**705**

Section 5 – Net fair value changes in hedge accounting – item 90

5.1 Net fair value changes in hedge accounting: composition

	31/12/2014	31/12/2013	%
A. Income on:			
A.1 Fair value hedges	-	5.184	-100,0%
A.2 Hedged financial assets (fair value)	-	-	-
A.3 Hedged financial liabilities (fair value)	-	-	-
A.4 Cash flow hedges	-	-	-
A.5 Assets and liabilities in foreign currencies	-	-	-
Total income on hedging activities (A)	-	5.184	-100,0%
B. Expense on:			-
B.1 Fair value hedges	-	5.238	-100,0%
B.2 Hedged financial assets (fair value)	-	-	-
B.3 Hedged financial liabilities (fair value)	-	-	-
B.4 Cash flow hedges	-	-	-
B.5 Assets and liabilities in foreign currencies	-	-	-
Total expense on hedging activities (B)	-	5.238	-100,0%
C. Net gain (loss) on hedging activities (A-B)	-	(54)	100,0%

Section 6 – Profit (loss) on disposal or repurchase – item 100

	Total 31/12/2014			Total 31/12/2013		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Loans to banks	-	-	-	1.082	1	1.081
2. Loans to customers	41	214	(173)	56	285	(229)
3. Financial assets available for sale	36.720	2.164	34.556	55.356	3.769	51.587
3.1 Debt securities	36.692	1.476	35.216	55.356	3.769	51.587
3.2 Equity securities	-	688	(688)	-	-	-
3.3 Units in collective investment undertakings	28	-	28	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**36.761**	**2.378**	**34.383**	**56.494**	**4.055**	**52.439**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	1.453	916	537	151	1.957	(1.806)
Total liabilities	**1.453**	**916**	**537**	**151**	**1.957**	**(1.806)**

Gains on financial assets available for sale refer largely to the disposal of Italian government bonds.

Section 7 – Profit (loss) on financial assets and liabilities designated at fair value – item 110

This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

Section 8 – Charges/write-backs on impairment – item 130

8.1 Charges/write-backs on impairment of loans: composition

	Writedowns (1)			Writebacks (2)				31/12/2014	31/12/2013
	Specific			Specific		Portfolio			
	Write offs	Other		A	B	A	B		
A. Loans to banks	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-
B. Loans to customers	1.083	38.247	1.625	270	4.365	-	111	(36.209)	(118.911)
Non performing loans purchas	-	-	-	-	-	-	-	-	-
- Loans	-	-	X	-	-	X	X	-	-
- Debt securities	-	-	X	-	-	X	X	-	-
Other	1.083	38.247	1.625	270	4.365	-	111	(36.209)	(118.911)
- Loans	1.083	38.247	1.625	270	4.365	-	111	(36.209)	(118.911)
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**1.083**	**38.247**	**1.625**	**270**	**4.365**	**-**	**111**	**(36.209)**	**(118.911)**

Key: A = interest; B = other write-backs

8.2 Charges/write-backs on impairment of financial assets available for sale: composition

	Writedowns (1)			Writebacks (2)		31/12/2014 (3)	31/12/2013	%
	Specific			Specific				
	Write offs		Other	A	B			
A. Debt securities	-		-	-	-	-	-	-
B. Equity securities	-	-	1.989	X	X	(1.989)	(7.792)	74,5%
C. Units in collective investme	-	-	50	X	-	(50)	(1.489)	96,6%
D. Loans to banks	-		-	-	-	-	-	-
E. Loans to customers	-		-	-	-	-	-	-
F. Total	**-**		**(2.039)**	**-**	**-**	**(2.039)**	**(9.281)**	**78,0%**

Key: A = interest; B = other write-backs

Impairment losses are recognised in cases of prolonged or significant decreases in the fair value of equity instruments to less than their initial carrying amounts.

Impairment losses of €1,989 thousand were recognised through the income statement on equity instruments during the reporting year. Such losses may be broken down as follows:

- ✓ Cassa di Risparmio di Ferrara S.c.p.A.: €1,303 thousand;
- ✓ Dezelna Banka Slovenije: €277 thousand;
- ✓ Torre Natisone Gal: €2 thousand;
- ✓ Banca Etruria S.c.r.l.: €62 thousand;
- ✓ Sipi Investimenti S.p.A.: €304 thousand;
- ✓ Consulting S.p.A.: €2 thousand;
- ✓ Vivabiocell S.p.A.: €39 thousand.

The impairment losses on interests in CIUs refer to the shares of the Aladinn Ventures Fund.

8.3 Charges/write-backs on impairment of financial assets held to maturity: composition

Not applicable.

8.4 Charges/write-backs on impairment of other financial transactions: composition

	Writedowns (1)			Writebacks (2)				31/12/2014	31/12/2013	%
	Specific			Specific		Portfolio				
	Writeoffs	Other	Portfolio	A	B	A	B			
A. Guarantees issued	-	-	(823)	-	2	-	119	(702)	42	N.S.
B. Credit derivatives	-	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-	-
E. Total	**-**	**-**	**(823)**	**-**	**2**	**-**	**119**	**(702)**	**42**	**N.S.**

Section 9 – Net premiums – item 150

This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

Section 10 – Balance of other income and expenses from insurance operations – item 160

This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

Section 11 – G&A expenses – item 180

11.1 Personnel expenses: composition

	31/12/2014	31/12/2013	%
1) Employees	38.583	39.578	-2,5%
a) wages and salaries	26.310	27.174	-3,2%
b) social security contributions	7.357	7.258	1,4%
c) severance benefits	76	12	535,2%
d) pensions	21	25	-16,0%
e) allocation to employee severance benefit provision	1.725	2.067	-16,6%
f) allocation to provision for pensions and similar liabilities	-	-	-
- defined contribution	-	-	-
- defined benefit	-	-	-
g) payments to external pension funds	1.193	1.220	-2,2%
- defined contribution	1.193	1.220	-2,2%
- defined benefit	-	-	-
h) costs in respect of agreements to make payments in own equity instruments	-	-	-
i) other employee benefits	1.902	1.821	4,4%
2) Other personnel	565	513	10,2%
3) Board of Directors	706	1.119	-36,9%
4) Early retirement costs	-	-	-
5) Recovery of expenses for employees seconded to other companies	(103)	(113)	9,0%
6) Reimbursement of expenses for employees seconded to the company	127	211	-39,7%
Total	**39.879**	**41.308**	**-3,5%**

11.2 Average number of employees by category: banking group

	2014	2013
Employees		
a) Senior management	9	9
b) Middle management	234	230
of which Grade III and IV	115	107
c) Other personnel	340	354
Total	**583**	**593**

11.3 Defined-benefit pension plans: total costs

Not applicable.

11.4 Other employee benefits

Other employee benefits include €558 thousand in meal vouchers and €652 thousand in insurance policies.

11.5 Other administrative expenses: composition

	31/12/2014	31/12/2013	%
Compensation for professional and consultancy services	2.981	4.595	-35,1%
Insurance	316	243	29,8%
Advertising	808	742	9,0%
Telephone, postal and data transmission	603	789	-23,5%
Office supplies and printing	447	489	-8,7%
Maintenance and repairs	1.243	916	35,8%
Electricity, heating and shared property service charges	1.223	919	33,1%
Services provided by third parties	9.369	10.160	-7,8%
Cleaning	660	566	16,4%
Travel expenses	1.127	1.273	-11,5%
Security and transport of valuables	144	195	-26,5%
Membership fees	520	521	-0,4%
Commercial information	1.055	1.106	-4,6%
Magazine and newspaper subscriptions	72	69	4,4%
Rent payable	2.527	2.615	-3,3%
Entertaining expenses	209	192	9,0%
Taxes and duties	6.874	6.129	12,2%
Other expenses	1.323	1.182	11,9%
Total	**31.501**	**32.702**	**-3,7%**

For information concerning the fees paid to the independent auditors, refer to the appendix to the financial statements (Article 2427, paragraph 1, 16-bis, of the Italian Civil Code).

Section 12 – Net provisions for risks and charges – item 190

12.1 Net provisions for risks and charges: composition

	31/12/2014	31/12/2013	%
customer disputes	(707)	(1.731)	59,2%
provision for legal disputes	(129)	(529)	75,6%
revocatory actions	(450)	(150)	-200,0%
Total	**(1.286)**	**(2.410)**	**46,6%**

Section 13 – Charges/write-backs on impairment of property, plant and equipment – item 200

13.1 Charges/write-backs on impairment of property, plant and equipment: composition

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c) 2014
A. Property, plant and equipment				
A.1 owned	(1.852)	(1.576)	-	(3.429)
- operating assets	(1.852)	-	-	(1.852)
- investment property	-	(1.576)	-	(1.576)
A.2 acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
Total	**(1.852)**	**(1.576)**	-	**(3.429)**

Section 14 – Charges/write-backs on impairment of intangible assets – item 210

14.1 Charges/write-backs on impairment of intangible assets: composition

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c) 2014
A. Intangible assets				
A.1 Owned	(44)	-	-	(44)
- generated internally by the Bank	-	-	-	-
- other	(44)	-	-	-
A.2 Acquired under finance leases	-	-	-	-
Total	**(44)**	-	-	**(44)**

Section 15 – Other operating income/expenses – item 220

15.1 Other operating expenses: composition

	31/12/2014	31/12/2013	%
- impairment losses on non-current assets under finance leases	-	-	-
- losses on disposal of property, securities held as non-current assets, equity investments, other assets	-	-	-
- out-of-period expenses and reductions in assets	(1.005)	(721)	-39,4%
- other	(313)	(310)	-1,0%
Total	**(1.318)**	**(1.031)**	**27,9%**

15.2 Other operating income: composition

	31/12/2014	31/12/2013	%
a) merchant banking	-	-	-
b) premiums received for options	-	-	-
c) other income - rentals and fees	65	90	-27,8%
d) expenses charged to others - recovery of taxes	5.796	5.377	7,8%
e) expenses charged to others - customer insurance premiums	-	-	-
f) expenses charged to others on deposits and current accounts	530	283	86,9%
g) expenses charged to others - intercompany services	-	-	-
h) expenses charged to others - other	1.851	1.267	46,1%
i) gains on disposal of property, securities held as non-current assets, equity investments, other assets	-	-	-
l) out-of-period income and reductions in liabilities	2.691	607	343,5%
Total	**10.933**	**7.625**	**43,4%**

Section 16 – Profit (loss) on equity investments – item 240

16.1 Profit (loss) on equity investments: composition

	31/12/2014	31/12/2013	%
1) Joint ventures			-
A. Gains	-	-	-
1. Revaluations	-	-	-
2. Gains on disposals	-	-	-
3. Writebacks	-	-	-
4. Other increases	-	-	-
B. Losses	-	-	-
1. Writedowns	-	-	-
2. Impairments	-	-	-
3. Losses on disposals	-	-	-
4. Other decreases	-	-	-
Net gain (loss)	-	-	-
2) Companies subject to significant influence	-	-	-
A. Gains	247	282	-12,41%
1. Revaluations	-	-	-
2. Gains on disposals	-	-	-
3. Writebacks	-	-	-
4. Other increases	247	282	-12,41%
B. Losses	-	1.051	-100,00%
1. Writedowns	-	1.051	-100,00%
2. Impairments	-	-	-
3. Losses on disposals	-	-	-
4. Other decreases	-	-	-
Net gain (loss)	247	(769)	132,12%
Total	247	(769)	132,12%

Section 17 – Net adjustment to the fair value of property, plant and equipment and intangible assets – item 250

This section is not applicable to the Banca Popolare di Cividale S.c.p.A. Group.

Section 18 – Goodwill impairment – item 260

Not applicable.

Section 19 – Profit (loss) on disposal of investments – item 270

Not applicable.

Section 20 – Taxes on income from continuing operations – item 290

20.1 Taxes on income from continuing operations: composition

	31/12/2014	31/12/2013	%
1. Current taxes (-)	(17.348)	(18.823)	7,8%
2. Changes in current taxes from previous periods (+/-)	-	-	-
3. Reduction of current taxes for the period (+)	-	-	-
3bis. Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	5.580	937	495,5%
4. Change in deferred tax assets (+/-)	(207)	25.918	-100,8%
5. Change in deferred tax liabilities (+/-)	(543)	(452)	-20,1%
6. Taxes for the period (-) (-1+/-2+3+/-4+/-5)	(12.517)	7.581	-265,1%

20.2 Reconciliation of theoretical tax liability and actual tax liability recognised

	2014	2013
Income (loss) before tax from continuing operations	22.580	(43.375)
Income (loss) before tax on assets held for sale	-	-
Taxable income	22.580	(43.375)
Theoretical tax expense - Ires	(6.210)	11.928
Effect of non-deductible negative components of income	(1.387)	159
Effect of non-taxable positive components of income	(1.882)	(4.103)
Actual tax expense - Ires	(9.478)	7.984
Income (loss) before tax from continuing operations	22.580	(43.375)
Income (loss) before tax on assets held for sale	-	-
Taxable income	22.580	(43.375)
Theoretical tax expense - Irap	(1.050)	2.017
Effect of non-deductible negative components of income	(234)	27
Effect of non-taxable positive components of income	(1.754)	(2.447)
Actual tax expense - Irap	(3.038)	(403)

Section 21 – Income (loss) after tax from discontinued operations – item 310

Not applicable.

Section 22 – Minority interest – item 330

Not applicable.

Section 23 – Other information

There is no additional information to report beyond that provided in the previous sections.

Section 24 – Earnings per share

24.1 Average number of ordinary shares (fully diluted)

The methods of calculating basic earnings per share and diluted earnings per share are defined by IAS 33 *Earnings per Share*. Basic earnings per share is defined as the relationship between the net income attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period. The following table presents basic earnings per share and the details of the calculation.

Basic Earning per share	31/12/2014	31/12/2013
Adjusted attributable profit	10.065	(35.793)
Weighted average number of shares	16.634.078	16.634.078
Basic Earning per share	**0,605**	**(2,152)**

Diluted earnings per share reflects the dilutive effects of the conversion of potential ordinary shares, defined as financial instruments that grant their holders the right to obtain ordinary shares. Accordingly, when calculating diluted earnings per share, the numerator and denominator of the ratio are adjusted to account for the effects of the additional shares that would need to be issued if all potential ordinary shares with dilutive effects were converted.

Banca Popolare di Cividale has not issued financial instruments that grant their holders the right to obtain ordinary shares.

Chapter D – CONSOLIDATED COMPREHENSIVE INCOME
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		31/12/2014	31/12/2013
10	**Net profit for the year**	**10.065**	**(35.793)**
	Other income net of income taxes without transfer to profit and loss account		
40	Actuarial gains (losses) from defined benefit plans	(351)	185
100	AFS financial assets	6.188	(10.646)
130	**Total other income, net of income taxes**	**5.837**	**(10.461)**
140	**Comprehensive income (10 + 130)**	**15.902**	**(46.253)**
160	**Consolidated comprehensive income attributable to the Parent Com**	**15.902**	**(46.253)**

Chapter E – RISKS AND HEDGING POLICIES

Identifying the risks to which the Group is potentially exposed is crucial for assuming such risks in an informed manner and managing them effectively, using the appropriate tools and techniques to mitigate those risks.

Its internal rules, operating procedures and monitoring structures designed to protect against business risks have been developed according to a model that integrates monitoring methods at various levels, all converging with the goals of ensuring the efficiency and effectiveness of operating processes, preserving the company's assets, protecting it from losses, ensuring the reliability and integrity of information and verifying the proper conduct of operations in accordance with internal and external regulations.

In 2014 the Banca Popolare Group completely revised its risk management process to comply with the new provisions concerning the internal control system (Bank of Italy Circular 263/2007, 15th update of 2 July 2013, which entered into force on 1 July 2014). Among the main changes, the following are especially worthy of mention:

- ✓ the active role attributed to company governance bodies in the decision-making and risk-monitoring process, through the establishment of the business model and the Risk Appetite Framework (RAF);
- ✓ the formulation and implementation of an integrated internal control system;
- ✓ the consolidation and enhancement of the powers attributed to the risk control function;
- ✓ the provisions regarding outsourcing and the extension of the responsibility of the Compliance function;
- ✓ the introduction of specific rules concerning ICT organisation and governance, management of ICT outsourcing and operating continuity.

The management and monitoring of risks within the Banca Popolare di Cividale Group are founded upon the following basic principles:

- ✓ identifying responsibilities for assuming risks;
- ✓ adopting consistent, adequate measurement and control systems in formal and substantial terms in light of the extent of the risks to be monitored; and
- ✓ organisational separation of functions responsible for management and functions responsible for control.

These principles are formally stated and illustrated in specific policies and the related rules and procedures concerning risks identified as significant. These documents, which are submitted for the approval of the Parent Company's Board of Directors, govern the set of regulated risks, significant and periodically monitored indicators, observation thresholds and operating limits, breach management methods, stress tests applied and the company's organisational structure, bodies and functions charged with performing the activities concerned, in keeping with the roles and responsibilities assigned to them.

In this process, which takes place at various levels of the organisational structure, a fundamental role is played, in accordance with prudential regulations, by the Parent Company's Board of Directors, which is responsible for establishing directives and strategic guidelines concerning the assumption of risk, approving strategic and operational limits (RAF) and drawing up the related guidelines.

The Risk Appetite Framework (RAF) thus represents the general architecture within which the risks assumed by the Group are managed, through the establishment of general principles concerning maximum risk tolerance and the ensuing structure for oversight of the Group's overall risk profile and major specific risks. The process requires a high degree of consistency and reconciliation of the strategic plan, RAF, ICAAP, budget and internal control system.

In accordance with the new supervisory rules (Bank of Italy Circular No. 263/2007, 15th update of 2 July 2013), the organisational structure of the Parent Company, Banca Popolare di Cividale, identifies the Risk Management Service and Compliance Service, which are to report directly to the Board of Directors, as the second-level control functions. This is also assured for the Auditing Department, a level-three control function that is independent of the other company units. The three functions (Risk Management, Compliance and Internal Auditing) are part of the internal control system, governed by prudential supervisory regulations, the internal document Internal Control System Guidelines, and the Rules and Procedures for the Coordination of Control Functions.

Risk Management Service

It performs a risk control function, as prescribed by the specific supervisory rules. It is divided into two units: the Credit Risk Management Office, which focuses on credit and concentration risk, and the Operational and Financial Risks Office, which focuses specifically on “financial risks” (liquidity, market and interest rate risk) and other risks (operational, strategic, and reputation risk). The Risk Management Service pursues the objective of monitoring the actual risk assumed by the Bank, as well as observance of operating limits, and contributes to defining the Risk Appetite Framework (RAF). In pursuit of this goal, it proposes the most appropriate quantitative and qualitative parameters and verifies the efficacy of the measures assumed to remedy the deficiencies observed in the risk management process, periodically reporting to company bodies on the activities it performs. It is also tasked with formulating advance opinions on the consistency of major transactions with the RAF, and with analysing the risks of new products and services and the risks arising from entry into new operating and market segments. It coordinates the preparation of the ICAAP report and monitors the performance of capital ratios, proposing policies aimed at ensuring that the capital base is consistent with the overall degree of risk assumed.

Compliance Service

Legal compliance is the responsibility of an independent function that supervises management of non-compliance risk at the Group level, according to a risk-based approach, for all company activity, ensuring that internal procedures are adequate to prevent that risk. The Compliance function reports to the Compliance Service and is also responsible for supervising legal compliance for financial intermediation and complaints handling services. The Anti-Money Laundering function also reports to the Compliance Service and pursues the objective of preventing and managing the risk of non-compliance with laws governing money-laundering and financing for terrorism. The Head of the Compliance Service acts as the head of both functions for supervisory purposes, in addition to serving as the party responsible for reporting suspect transactions pursuant to Legislative Decree No. 231/07.

According to the Group’s organisational model, a Group Management Committee and an Asset and Liability Committee have been instituted, with the additional aim of ensuring an effective exchange of information regarding exposure to such risks between the various segments and maximising the efficacy of the overall control of those risks. The Group’s Management Committee, the members of which also include the heads of control functions, supports the general management in operational coordination of the guidelines established with the Strategic Plan and periodically compares company results with the objectives established in the Plan. The ALCo (Assets and Liabilities Committee), of which the Risk Manager is a member, is charged with proposing the Group’s strategic decisions in financial matters to the Board of Directors, through the General Manager, as well as with coordinating management policies for assets, liabilities and the associated risks, in light of market scenarios and the guidelines established in the current Strategic Plan.

In accordance with the regulatory provisions governing the prudential control process, the Group has implemented specific company rules, approved by the Parent Company's Board of Directors and periodically updated, that regulate the internal capital adequacy assessment process (ICAAP). The supervisory regulations require that ICAAP be based on appropriate company risk-management systems and presuppose adequate corporate governance mechanisms, an organisational structure with clearly defined lines of responsibility and an effective internal-control system. The corporate boards are responsible for the process and enjoy full autonomy in defining its structure and organisation to the extent of their respective expertise and prerogatives. They implement and promote updates to ICAAP with the aim of ensuring that it constantly adheres to the Group's operational characteristics and strategic context. The process must be formalised, documented, internally audited and approved by the corporate boards. In detail, the process aims to:

- ✓ identify capital requirements on the basis of actual risk and the strategic guidelines set by the Group, in accordance with the Risk Appetite Framework (RAF);
- ✓ ensure that capital is constantly adequate to current and prospective needs;
- ✓ keep all major risks under observation;
- ✓ ensure that regular attention is devoted to risk-measurement and -management processes, developing an increasingly strong “risk culture”; and
- ✓ define approaches, tools, methods, and organisational and control systems for risks and capital commensurate to the Group's strategies, characteristics, scope and complexity, with a view towards constant, gradual refinement.

In April of each year, at the conclusion of the process described above, the Parent Company’s Board of Directors approves the ICAAP Report at 31 December of the previous year, which represents both the point of convergence and end result of financial planning, risk management and capital management, and a tool to be used in strategic evaluation and implementation of business decisions.

ICAAP is aimed at expressing an assessment that total capital is essentially currently and prospectively adequate to cover the relevant risks to which the Group is exposed, support the company’s growth plans and maintain suitable market standing.

The disclosure obligations imposed by prudential regulations (Bank of Italy Circular 285/2013 and the CRR, Regulation EU No. 575/2013) are discharged at the Group level through preparation of the Disclosure by Institutions document published in the specific Investor Relations section of the company's website, www.civibank.it. The document contains a disclosure for market operators of information concerning capital adequacy, risk exposure and the general characteristics of management systems and the oversight thereof. The information, which is both qualitative and quantitative in nature, is provided through concise overviews, thus fostering the transparency and comparability of the data.

SECTION 1 – RISKS OF THE BANKING GROUP
1.1 CREDIT RISK
QUALITATIVE DISCLOSURES

1. General aspects

Lending is an essential component of the Banca Popolare di Cividale Group's core business.
The objectives of its lending policies and loan approval and management rules are directed towards:

- ✓ supporting business development in the Group's area of operation, while focusing on assistance for and relationships with small and medium enterprises and families;
- ✓ diversifying the portfolio, by limiting the concentration of exposures to individual counterparties/groups and individual sectors of the economy;
- ✓ efficiently selecting groups and companies to which to lend through a thorough analysis of creditworthiness aimed at limiting the risk of default;
- ✓ constantly monitoring relationships, through both automatic procedures and systematic surveillance of positions, in order to identify any signs of imbalance in a timely manner and then launch the corrective measures aimed at preventing the relationship from deteriorating.

The quality of the loan portfolio is constantly monitored in accordance with precise operating rules throughout all phases of the management of loan positions.

2. Credit risk management policies

2.1 Organisational aspects

Within the organisational structure adopted by the Parent Company, management of credit risk is entrusted to the following organisational units, to varying extents, in accordance with the mission and activities assigned to each under specific internal rules and procedures:

- ✓ Loan Department: it is tasked with overseeing the process of assuming all types of risks associated with lending for the Banca Popolare di Cividale Group, with the support of the Head of the Loan Service. Through the general management, after having obtained the opinion of the Risk Management function, it proposes credit management policies to the Board of Directors. It is responsible for ensuring that the lending process is compliant with the provisions of the law, supervisory authority, Articles of Association and internal rules and procedures, and it constantly updates the technical procedures for loan application review, assessment and disbursement and the associated internal rules;
- ✓ Loan Service (an operating unit of the Loan Department): it is charged with managing and verifying the process of assuming all types of risks associated with lending for the Banca Popolare di Cividale Group: the Loan Application Review Office, Loan Register Office and Mortgage Administration Office are all part of the Loan Service;
- ✓ Group Loan Monitoring Office (an operating unit of the Loan Department): it is responsible for ordering the appropriate checks of the regular performance of loans granted by Group companies, as well as for authorising the appropriate measures to restore positions to regular status and verifying that network units take action within the required terms. It also provides operating guidelines to area personnel;
- ✓ Anomalous Loan and Pre-dispute Office (an operating unit of the Loan Department): it manages the portfolio of loans classified as substandard, from the extra-judicial phase to assessment of whether to proceed to enforced recovery of the position or reclassification as performing. It is also tasked with promoting a problem loan management culture among all network staff. It proposes the amount of provisions to the competent bodies during the financial statement preparation process;
- ✓ Legal and Dispute Service/Dispute Office: it manages legal aspects of positions classified as bad debts, and in particular is responsible for taking legal measures and actions aimed at recovering the amounts concerned. It is also tasked with conducting assessments of loss projections for individual disputed positions and proposing the necessary provisions;
- ✓ Risk Management Service/Credit Risk Management Office: it identifies, assesses and conducts systematic, integrated management of the credit risk assumed by Group companies, in addition to ensuring an adequate system for reporting to company bodies and the responsible production units. It collaborates in setting the RAF, drafting the credit policy with regard to the assumption of credit and concentration risks and establishing the related operating limits;
- ✓ Finance Service/Treasury & Funding Office: in the context of its specific operations, it is tasked with ensuring the compliance of financial assets with the prescriptions of the rules and procedures for credit

risk as regards credit limits for borrowers (monitoring of the system of limits imposed by the regulations).

In early 2015, the introduction of a new management system for monitoring loans also entailed changes at the level of the organisational structure, involving the designation of a new unit as responsible for managing anomalous positions. In particular, when the Loan Monitoring Procedure has been fully implemented into the production process, the Loan Monitoring Office and Problem Loan Office will be merged into the newly formed Anomalous Loan and Pre-dispute Office within the Loan Department. The credit quality managers (local managers) will continue to provide their current supervision of their local areas following their integration into the above operating unit.

The organisational structure of the subsidiary Civileasing, which is simpler than that of the Parent Company, focuses on reviewing loan applications and managing loan performance.

2.2 Management, measurement and control systems

The risk profile of the Group's loan portfolio is monitored throughout all phases of the process, beginning with application review and assessment of the borrower's satisfaction of reliability requirements, through verification of the borrower's creditworthiness, the transaction's risk level, the appropriateness of the return and the current and prospective sustainability of the credit risk.

The power to approve loans is delegated by the network to central offices and company bodies, according to a system governed by the Lending Process Rules and Procedures, which provide for specific loan authorisation powers assigned according to various criteria including the amount of the credit facility, weighted by risk type, the rating class, the primary reason for applying for the loan, the classification of the counterparty as non-performing or a change of risk level, and specific cases falling within the exclusive purview of the Board of Directors.

The credit decision-making process is supported by internal procedures (the Electronic Lending Procedure and Rating Procedure), which allow management of all phases of the lending process (from contact with the customer to application review, disbursement and management and final closure), as well as of the rating assignment process. All applications are automatically assigned to the competent level according to the rules and limits of amount laid down in the Lending Process Rules and Procedures.

Creditworthiness is analysed according to elements of a quantitative nature (income components, financial statement analysis, and internal and systemic performance data) and of a qualitative nature (a thorough understanding of the customer, the competitive climate in which the customer operates, an analysis of the sector, shareholder composition, adverse entries, and so forth), with the use of specific data providers (in particular, CRIF for individual customers, CERVED for company chamber of commerce certificates and adverse entries, CEBI for financial statements, and so forth).

In keeping with the strategic objectives identified in its 2014–2016 Strategic Plan, the Banca Popolare di Cividale Group is embarking on a process of adjusting its rating system, used in the lending process for non-regulatory purposes.

The new rating models developed by the Creval Group, an external provider to the Banca Popolare di Cividale Group, were introduced in the second half of 2014. The rating system calls for the establishment of a new rating assignment process involving the introduction of a rating procedure (part of a specific larger procedure, integrated into the loan application review phase) aimed at analysing quantitative and qualitative information concerning the borrower to be used to calculate the online rating or acceptance rating. The scope of application of the rating system extends to borrowers in the credit risk segments Corporate, Corporate SMEs, Small Retail, Micro Retail and Individual Retail. This specific segmentation has been created for the purposes of managing risk (credit risk segmentation), and is associated with the use of the appropriate rating model.

The ratings assigned online (by the rating procedure) are subject to a monthly monitoring process aimed at identifying signs of significant deterioration of the risk profile, through automatic mass calculation of "monitoring" ratings with monthly frequency, using all up-to-date quantitative information that may be drawn from the systems (register, consolidated exposures at the end of the month, financial statement data and performance data) and the most recent qualitative questionnaire completed.

In order to ensure continuity with the previous rating system, for enterprise segments (Corporate, Corporate SMEs, Retail SMEs and Micro Retail), the external provider has set up a master scale of nine classes of creditworthiness for performing borrowers, plus one class for defaulting borrowers. For the Individuals segment, for which the model has been introduced and applied for the first time, five rating classes have been established for performing countries, in addition to one class for defaulting counterparties. Each rating class in each segment is associated with a probability of default, estimated by the external supplier on the basis of the average default rates observed in recent periods (calibration on seven years) in the pertinent portfolio, updated annually.

In accordance with the Group's internal rules and procedures, the rating system is subject to periodic review at the overall level by the Risk Management Service, as part of validation activity for models used for non-regulatory purposes.

After a loan is approved and disbursed, the position is assessed over time (on a fixed date or at defined intervals), initially by the branches, which are responsible for specific daily and monthly activities, as well as by the geographical areas. These are also home to specialised professionals known as credit quality managers, who support the areas in all activities relating to promotion, prevention and monitoring of credit quality. Further assessments may be launched in response to reports or initiatives of dedicated units, foremost among which is the Anomalous Loan and Pre-dispute Office, which is responsible for loan performance control, conducted through IT procedures aimed at identifying potentially anomalous situations, broken down into two main phases:

- ✓ daily monitoring of anomalies on the basis of information obtained through managing the relationship with the customer; and
- ✓ systematic surveillance with the use of automated systems with the aim of identifying in a timely manner positions that present signs of deterioration of the risk profile in order to include them in a specific process for managing anomalous positions.

In the second half of 2014, new measures were launched relating to the performance management and monitoring and debt recovery process. In further detail:

- ✓ more detailed classification of performing positions through the introduction of new management statuses, associated with specific actions aimed at preventing the deterioration of positions; the new management statuses have been defined on the basis of consecutive days past due/number of unpaid instalments and of specific events/position risk indicators;
- ✓ testing of phone collection action, outsourced to a specialised company for customers in the Individuals and Retail categories.

In addition, plans call for the introduction of a new management model in the first half of 2015. Under this model, positions belonging to the various credit risks segments (Corporate, Corporate SME, Retail and Individuals) attributed to the various management statuses are assigned to portfolios through the application of a new procedure known as the Monitoring Procedure.

In accordance with the new prudential regulations and the Group's organisational structure, internal control of credit risk is assigned to the Credit Risk Management Office, which through specific periodic reports pursues the objective of monitoring and measuring the level of credit risk associated with the Group’s loan portfolio. The information base consists of the data provided by the Central Risks Database, the general records database and the economic groups database.

Quarterly reports, which are presented to company bodies in accordance with the internal rules and procedures of the internal control system, include in particular:

- ✓ an analysis of the composition and performance of the loans portfolio, with an emphasis on credit quality, including a breakdown of loans into performing and non-performing (restructured, past-due, substandard and bad debts) and a comparison with the industry benchmark; the analysis also includes the transition matrices and the calculation of default rates;
- ✓ a qualitative analysis of risk profiles from a “strategic” standpoint;
- ✓ the application of stress tests on the risk level of the loan portfolio, including in terms of capital requirements;
- ✓ an analysis of concentration risk for single names and associated groups and an analysis of concentration risk by geographical area and sector, with a calculation of capital requirements as well in both ordinary and stress conditions.

Additional information is available concerning online control instruments, which allow all management units involved in implementing credit policies to maintain adequate oversight. In particular, analyses of the following are available:

- ✓ the performance of various classes of risk: composition, changes and comparisons by category and area;
- ✓ the ratings assigned to companies and individuals; portfolio composition; distribution by use; changes of class (deterioration/improvement);
- ✓ the primary exposures by risk class; and
- ✓ uses by sector (ATECO or SAE codes).

In order to comply with the new supervisory regulations that entered into force on 1 July 2014 concerning the internal control system and risk monitoring, the Group also launched specific project initiatives aimed at introducing a second-level credit risk control system. The main activities for which the Credit Risk Management Office is responsible include verifying that the performances of individual credit exposures, and non-performing exposures in particular, are properly monitored, and assessing the consistency of classifications, the appropriateness of provisions and the adequacy of the recovery process at the central and peripheral level.

2.3 Credit risk mitigation techniques

Guarantees are a secondary consideration in the loan approval process. Loan approval continues to be based on the borrower's effective ability to repay the amount of the loan.

Operating procedures for the proper acquisition, use and management of guarantees have been established in specific internal rules with the aim of ensuring consistent, uniform operations.

Guarantees are acquired through an operational procedure that ensures an assessment of the formal and substantive validity of documentation that includes ascertaining the legal capacity to contract required to provide the guarantee in question. Checks are supplemented at the central level, where securities are held and contracts managed. In the case of pledges, only specified, easily liquidated assets are eligible for acquisition and valuation under the procedure. In cases of mortgages, assets are valued by independent appraisers, except in special, low-value cases, in accordance with the Italian Banking Association Property Appraisal Guidelines, adopted by the Group.

The guarantees acquired that comply with the generic and specific suitability criteria established by supervisory legislation for the mitigation of credit exposures are also used to determine capital requirements. In the case of property guarantees in particular, the Group has entered into a specific agreement with an external provider for the periodic updating of the market value of properties provided as collateral or subject to finance lease, on statistical bases, in order to ensure “property supervision”. For exposures of more than €3 million, the Group has the appraisals revised by an independent expert each year.

Before personal guarantees are accepted, checks are usually made at the competent register of deeds to ascertain the guarantor’s actual real-estate portfolio, bearing in mind the possibility of a rapid, unexpected depletion of the asset base.

2.4 Non-performing financial assets

In accordance with supervisory provisions, anomalous loans are classified as loans past due by more than 90 days, restructured loans, substandard positions and bad debts (classification in place until December 2014). With effect from 1 January 2014, the new definition of "default by a debtor" introduced by European regulations provides that when determining defaulted exposures the overall exposure to a debtor is to be considered (known as the "individual debtor approach"), with the possibility of referring to individual lines of credit (known as the "individual transaction approach") for retail exposures only. In application of the new regulations in effect from 1 January 2014, Banca Popolare di Cividale has adopted by the individual debtor approach for all of the Bank's exposures.

Monitoring substandard and bad debt positions is the responsibility of the Anomalous Loan and Pre-dispute Office and the Legal and Dispute Service, respectively.

Classification of individual positions as substandard is decided by the competent bodies, usually on the recommendation of the Anomalous Loan and Pre-dispute Office, and also according to supervisory criteria for identifying what are known as “objective substandard positions”. The amount of provisions to be recognised is also determined during the decision-making process. Likewise, the competent bodies also decide whether to remove substandard status and reclassify the loan among ordinary positions.

Once a loan is classified as substandard, the decision-making powers of individual loan officers are suspended and any further decision on extending loans rests solely with collegial bodies. Substandard loans are systematically monitored by the Anomalous Loan and Pre-dispute Office, which provides ongoing support to individual branches concerning methods of handling positions and the steps to be taken to restore the positions to performing status.

The procedure for classifying a position as a bad debt is analogous to that used for managing substandard loans. Decisions concerning the amounts of individual provisions, as well as any changes, are made by the competent bodies upon the recommendation of the Legal Department.

The Banca Popolare di Cividale Group has planned various activities relating to the lending process for 2015, foremost among which is the launch of a new process known as the Monitoring Procedure, which will require

the establishment of a new organisational unit, with the aim of introducing the new classification of non-performing assets provided for in the new supervisory regulations.
Substandard loans above a certain exposure threshold laid down in the Internal Rules and Procedures for Classifying Positions and Assessing Non-Performing Exposures, restructured loans and bad debt positions are subject to individual assessment with the aim of investigating the true situation of the borrower and the guarantees securing the loan. The indications included in the specific internal rules and procedures differ depending on whether the positions are subject to insolvency procedures. The Anomalous Loan and Pre-dispute Office is responsible for conducting individual assessments of substandard and restructured positions, whereas the Dispute Office is responsible for assessments aimed at estimating the potential losses attributed to positions classified as non-performing.
Write-downs of substandard positions of amounts below the threshold established by the internal rules and procedures and exposures past due by more than 90 days are determined according to a statistical approach, through the use of the bank's historical data. The two models (for substandard and past-due positions) include calculation parameters subject to periodic updates.
Write-downs of substandard positions of amounts below the threshold established by the internal rules and procedures and exposures past due by more than 90 days are determined according to a statistical approach, through the use of the bank's historical data. The two models (for substandard and past-due positions) include calculation parameters subject to periodic updates.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 NON-PERFORMING AND PERFORMING POSITIONS: AMOUNTS, WRITE-DOWNS, CHANGES AND DISTRIBUTION BY SECTOR AND GEOGRAPHICAL AREA

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amounts)

	Banking Group						Other companies		Total
	Bad debts	Substandard loans	Restructured positions	Non performing, expired loans	Performing, expired loans	Other assets	Non performing	Other assets	
1. Financial assets held for trading	-	-	-	-	-	2.810	-	-	2.810
2. Financial assets available for sale	-	-	-	-	-	961.833	-	-	961.833
3. Financial assets held to maturity	-	-	-	-	-	64.697	-	-	64.697
4. Due from banks	-	-	-	-	-	159.347	-	-	159.347
5. Loans to customers	180.187	155.014	9.727	29.508	261.064	2.099.749	-	-	2.735.250
6. Financial assets recognized at fair value	-	-	-	-	-	-	-	-	-
7. Financial assets being divested	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-	-
Total 31/12/2014	**180.187**	**155.014**	**9.727**	**29.508**	**261.064**	**3.288.436**	-	-	**3.923.937**
Total 31/12/2013	**158.856**	**148.158**	**11.165**	**44.119**	-	**4.135.497**	-	-	**4.783.194**

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

	Impaired assets			Other assets			
	Gross exposure	Specific writedowns	Net exposure	Gross exposure	Portfolio writedowns	Net exposure	Total net exposure
A. Banking Group							
1. Financial assets held for trading	-	-	-	X	X	2.810	2.810
2. Financial assets available for sale	-	-	-	961.833	-	961.833	961.833
3. Financial assets held to maturity	-	-	-	64.697	-	64.697	64.697
4. Due from banks	-	-	-	159.347	-	159.347	159.347
5. Loans to customers	665.289	290.852	374.436	2.379.740	18.926	2.360.814	2.735.250
6. Financial assets measured at fair value	-	-	-	X	X	-	-
7. Financial assets being divested	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total A.	**665.289**	**290.852**	**374.436**	**3.565.617**	**18.926**	**3.549.500**	**3.923.937**
B. Other consolidated companies	-	-	-	-	-	-	-
1. Financial assets held for trading	-	-	-	X	X	-	-
2. Financial assets available for sale	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	-	-	-	-
5. Loans to customers	-	-	-	-	-	-	-
6. Financial assets measured at fair value	-	-	-	X	X	-	-
7. Financial assets being divested	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total B.	-	-	-	-	-	-	-
Total 31.12.2014	**665.289**	**290.852**	**374.436**	**3.565.617**	**18.926**	**3.549.500**	**3.923.937**
Total 31.12.2013	**654.593**	**- 292.295**	**362.299**	**4.435.495**	**- 18.112**	**4.420.895**	**4.783.194**

Past-due performing exposures

The accounting standard IFRS 7 requires that for all financial assets not subject to impairment losses, entities must disclose the age of the past-due exposure that results when the counterparty fails to make payment on the contractually required due dates.
It bears remarking that:

- ✓ for exposures subject to repayment in instalments with at least one instalment past due, the entire amount of the exposure as carried is reported as “past due”; and

- ✓ for "revocable" credit facilities where the established credit limit has been exceeded (even where due to the compounding of interest), the entire amount of the exposure is reported.

Accordingly, the figures presented in the following table primarily refer to shares of loans that have not yet come due, in accordance with the figures presented in the column "Performing past-due exposures" of the table "A.1.1 – Distribution of loan exposures by portfolio and credit quality (book values)".

Exposures renegotiated as part of collective agreements refer to the following collective agreements and systemic initiatives:

- ✓ the Solidarity Fund for the Suspension of Mortgages for the Purchase of First Homes, which allows households experiencing difficulty as a result of the crisis to suspend repayment of their mortgages;
- ✓ the 2013 Credit Agreement signed by Italy's Ministry for the Economy and Finance, Italian Banking Association and business associations, allowing the suspension or extension of loans to SMEs;
- ✓ measures in support of residents of areas affected by natural disasters.

It should be noted that the provisions provided by the Bank of Italy call for renegotiation to result in a freeze of the calculation of days of inclusion in the past-due category for the entire period of effectiveness of the suspension.

Positions for which the Bank has agreed to renegotiation with the customer due to financial difficulties experienced by the customer may consist of:

- ✓ a change of the previous contractual terms and conditions, inasmuch as the borrower is unable to pay due to financial difficulties, where such a change would not have been permitted if the borrower were not experiencing financial difficulties; or
- ✓ partial or total refinancing of the borrower, which would not have been granted if the borrower was not experiencing financial difficulties, where "refinancing" means a new contract that allows the original contract to be repaid in whole or in part.

This category differs from the renegotiation of credit positions not due to financial difficulties experienced by the borrower, granted by the Bank with respect to performing loans to customers, which in substance is similar to the opening of a new position, when it is essentially done for commercial reasons, provided that the interest rate applied is a market rate at the renegotiation date.

The following table presents a breakdown of past-due exposures by portfolio and time past due:

	Up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year	Total net exposure
Renegotiated exposures under collective agreements	3.662	-	-	-	3.662
Other exposures	221.136	11.803	6.138	404	239.482
Forbearance Performing	16.384	1.447	89	-	17.920

Simplified composition with creditors and composition with creditors on a going-concern basis

In its letter of 10 February 2014, the Bank of Italy required that adequate disclosure be provided concerning the extent and performance of exposures subject to simplified composition with creditors and composition with creditors on a going-concern basis. In further detail, borrowers may apply for simplified composition with creditors by filing only their financial statements for the past three years and a list of their creditors, while reserving the option of filing the proposal, plan and additional documentation at a later date, within a term set by the judge of between 60 and 120 days (in justified cases, the term may be extended for an additional 60 days). Within that term, the borrower may also apply to the judge for approval of a debt-restructuring agreement. On the other hand, composition with creditors on a going-concern basis allows debtors in a state of crisis to submit a composition plan according to one of the three following scenarios: i) continuing operation of the company by the debtor; ii) disposal of the company as a going concern; and iii) contribution of the company to one or more firms, including newly incorporated firms.

The amendments (Law No. 134/2012, enacting Law Decree No. 83/2012, the "Development Decree," and Law No. 98/2013, enacting Law Decree No. 69/2013) were introduced with the aim of promoting the early emergence of difficulty for an entrepreneur in meeting his obligations, as well as fostering the continuation of operation where certain requirements have been met.

With respect to the Bank's situation, it should be remarked that the portfolio of loans to customers includes gross exposures subject to simplified composition and composition on a going-concern basis classified as bad debt non-performing exposures of €711 thousand, as substandard non-performing exposures of €35,666 thousand, and as performing exposures of €164 thousand.

A.1.3 On- and off-balance sheet exposures to banks: gross and net values

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad loans	-	-	X	-
b) Substandard loans	-	-	X	-
c) Restructured positions	-	-	X	-
d) Past due positions	-	-	X	-
e) Other assets	188.955	X	-	188.955
TOTAL A	**188.955**	-	-	**188.955**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	-	-	X	-
b) Other	4.526	X	-	4.526
TOTAL B	**4.526**	-	-	**4.526**
TOTAL A + B	**193.481**	-	-	**193.481**

A.1.6 On- and off-balance sheet exposures to customers: gross and net values

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad loans	409.289	229.102	X	180.187
b) Substandard loans	210.519	55.505	X	155.014
c) Restructured positions	13.241	3.514	X	9.727
d) Past due positions	32.240	2.731	X	29.508
e) Other assets	3.379.472	X	18.926	3.360.546
TOTAL A	**4.044.760**	**290.852**	**18.926**	**3.734.982**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	5.544	867	X	4.677
b) Other	77.029	X	665	76.364
TOTAL B	**82.572**	**867**	**665**	**81.041**
TOTAL A + B	**4.127.333**	**291.719**	**19.591**	**3.816.023**

A.1.7 On-balance sheet exposures to customers: changes in gross impaired positions

	Bad debts	Substandard loans	Restructured positions	Past due positions
A. Opening gross exposure	**379.049**	**212.258**	**13.545**	**49.741**
- of which: exposures assigned but not derecognized	-	-	-	-
B. Increases	**82.926**	**75.762**	**1.534**	**18.788**
B.1 from performing positions	13.082	55.883	1.047	18.609
B.2 transfers from other categories of impaired positions	65.483	15.360	220	50
B.3 other increases	4.361	4.519	267	129
C. Decreases	**52.686**	**77.501**	**1.838**	**36.289**
C.1 to performing positions	-	2.913	191	11.817
C.2 writeoffs	40.014	-	-	-
C.3 collections	12.672	12.446	464	6.653
C.4 assignments	-	-	-	-
C.5 transfers to other categories of impaired positions	-	62.142	1.152	17.819
C.6 other decreases	-	-	31	-
D. Closing gross exposure	**409.289**	**210.519**	**13.241**	**32.240**
- of which: exposures assigned but not derecognized				

A.1.8 On-balance sheet exposures to customers: changes in total adjustments

	Bad debts	Substandard loans	Restructured positions	Past due positions
A. Total opening adjustments	**220.193**	**64.100**	**2.380**	**5.622**
- of which: exposures assigned but not derecognized	-	-	-	-
B. Increases	**53.500**	**22.522**	**1.537**	**2.186**
B.1. writedowns	24.028	19.457	1.444	1.963
B.1bis losses on disposal	-	-	-	-
B.2. transfers from other categories of impaired positions	26.122	2.719	85	11
B.3. other increases	3.350	346	8	212
C. Decreases	**44.591**	**31.117**	**403**	**5.077**
C.1. writebacks from valuations	5.050	3.688	103	1.197
C.2. writebacks from collection	880	1.695	-	977
C.3. writeoffs	38.661	-	-	-
C.4. transfers to other categories of impaired positions	-	25.734	300	2.903
C.5. other decreases	-	-	-	-
D. Total closing adjustments	**229.102**	**55.505**	**3.514**	**2.731**
- of which: exposures assigned but not derecognized	-	-	-	-

A.2 CLASSIFICATION OF EXPOSURES ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

A.2.1 – Distribution of on- and off-balance sheet exposures by external rating grades

Under the Bank of Italy preparation rules, the table in question has not been compiled since the Group does not rely on external ratings issued by authorised ratings agencies (ECAIs) for on- and off-balance sheet exposures to customers.

A.2.2 – Distribution of on- and off-balance sheet exposures by internal rating grades

This table has not been compiled since rating models are not used for regulatory purposes. However, they are used as a management tool for classifying and analysing customers for risk management purposes.

A.3 DISTRIBUTION OF SECURED EXPOSURES BY TYPE OF GUARANTEE

A.3.1 – Secured on-balance sheet exposures to banks

		Collateralsi (1)				Guarantees (2)									
						Credit derivatives					Signature Loans (loans guarantees)				
							Other credit derivatives								
	Net exposures	Property		Securities	Other assets	CLN	Goverments and Central Banks	Other public entities	Banks	Other entities	Goverments and Central Banks	Other public entities	Banks	Other entities	Total (1)+(2)
1. Secured exposures to banks	49.753	-		48.987	-	-	-	-	-	-	-	-	-	-	**48.987**
1.1. fully secured	49.753	-		48.987	-	-	-	-	-	-	-	-	-	-	48.987
- of which nonperforming	-	-		-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially secured	-	-		-	-	-	-	-	-	-	-	-	-	-	-
- of which nonperforming	-	-		-	-	-	-	-	-	-	-	-	-	-	-
2. Secured exposures to customers	-	-		-	-	-	-	-	-	-	-	-	-	-	-
2.1. fully secured	-	-		-	-	-	-	-	-	-	-	-	-	-	-
- of which nonperforming	-	-		-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially secured	-	-		-	-	-	-	-	-	-	-	-	-	-	-
- of which nonperforming	-	-		-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Secured exposures to customers

		Collateralsi (1)				Guarantees (2)									
						Credit derivatives					Signature Loans (loans guarantees)				
							Other credit derivatives								
	Net exposures	Property		Securities	Other assets	CLN	Goverments and Central Banks	Other public entities	Banks	Other entities	Goverments and Central Banks	Other public enti	Banks	Other entities	Total (1)+(2)
1. Secured balance sheet credit exposures:															
1.1. totally secured	2.188.907	5.063.017		23.227	19.664	-	-	-	-	-	-	10.037	268	214.153	5.631.540
- of which impaired	333.196	1.032.403		2.276	2.350	-	-	-	-	-	-	211	7	27.917	1.121.685
1.2. partially secured	61.298	5.316		4.752	3.396	-	-	-	-	-	-	4.371	9	24.161	42.005
- of which impaired	8.580	5.209		179	62	-	-	-	-	-	-	101	6	5.119	10.675
2. Secured off balance sheet credit exposures:	-	-		-	-	-	-	-	-	-	-	-	-	-	-
2.1. totally secured	19.610	243		3.262	3.226	-	-	-	-	-	-	24	-	13.391	20.146
- of which impaired	2.052	-		107	1.148	-	-	-	-	-	-	-	-	949	2.204
2.2. partially secured	9.125	-		1.457	997	-	-	-	-	-	-	-	-	2.283	4.737
- of which impaired	454	-		-	72	-	-	-	-	-	-	-	-	99	172

B. CREDIT DISTRIBUTION AND CONCENTRATION

B.1 Distribution of on- and off-balance sheet exposures to customers by business segment

	Governments and central banks			Other public entities			Financial companies			Insurance undertakings			Non-financial companies			Other		
	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns
A. On-balance-sheet exposures																		
A.1 Bad debts	-	-	X	-	-	X	1.983	1.256	X	-	-	X	135.517	190.621	X	42.687	37.225	X
A.2 Substandard loans	-	-	X	-	-	X	2.136	1.537	X	-	-	X	102.559	41.940	X	50.319	12.028	X
A.3 Restructured positions	-	-	X	-	-	X	1.529	1.640	X	-	-	X	6.747	1.857	X	1.451	17	X
A.4 Past due positions	-	-	X	-	-	X	5	1	X	-	-	X	10.117	1.795	X	19.387	935	X
A.5 Other	987.104	X	0	7.385	X	62	322.364	X	171	13.250	X	-	1.197.850	X	10.180	832.592	X	8.513
TOTAL A	987.104	-	0	7.385	-	62	328.017	4.434	171	13.250	-	-	1.452.791	236.213	10.180	946.436	50.205	8.513
B. Off-balance-sheet exposures																		
B.1 Bad debts	-	-	X	-	-	X	-	-	X	-	-	X	1.921	217	X	2	0	X
B.2 Substandard loans	-	-	X	-	-	X	-	-	X	-	-	X	2.658	649	X	23	0	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	63	1	X	11	0	X
B.4 Other	-	X	-	3.627	X	6	14.875	X	13	-	X	-	45.034	X	608	12.827	X	38
TOTAL B	-	-	-	3.627	-	6	14.875	-	13	-	-	-	49.676	866	608	12.863	1	38
TOTAL (A+B) 31/12/2014	987.104	-	0	11.012	-	68	342.892	4.434	184	13.250	-	-	1.502.467	237.079	10.787	959.299	50.206	8.552
TOTAL (A+B) 31/12/2013	1.462.860	0	0	8.254	3	61	557.046	2.741	190	13.292	-	-	1.630.788	239.749	11.970	1.026.040	49.848	6.675

B.2 Distribution of on- and off-balance sheet exposures to customers by geographical area (carrying amounts)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet exposures										
A.1 Bad debts	179.408	225.900	572	3.131	-	7	-	-	208	64
A.2 Substandard loans	154.322	54.803	679	699	-	-	12	3	-	-
A.3 Restructured positions	9.727	3.514	-	-	-	-	-	-	-	-
A.4 Past due positions	29.459	2.722	50	9	0	0	-	-	-	-
A.5 Other	3.346.627	18.813	12.931	106	319	2	558	5	111	1
TOTAL A	3.719.544	305.753	14.231	3.944	319	9	571	8	318	65
B. Off-balance-sheet exposures										
B.1 Bad debts	1.923	217	-	-	-	-	-	-	-	-
B.2 Substandard loans	2.681	649	-	-	-	-	-	-	-	-
B.3 Other impaired assets	73	1	-	-	-	-	-	-	-	-
B.4 Other	76.301	664	62	1	-	-	-	-	-	-
TOTAL B	80.978	1.531	62	1	-	-	-	-	-	-
TOTAL (A+B) 31/12/2014	**3.800.522**	**307.284**	**14.293**	**3.945**	**319**	**9**	**571**	**8**	**318**	**65**
TOTAL (A+B) 31/12/2013	**4.683.762**	**306.959**	**13.245**	**4.244**	**409**	**6**	**478**	**7**	**387**	**21**

B.3 – Distribution of on- and off-balance sheet exposures to banks by geographical location (carrying amounts)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF WORLD	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. On-balance-sheet exposures										
A.1 Bad debts	-	-	-	-	-	-	-	-	-	-
A.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
A.3 Restructured positions	-	-	-	-	-	-	-	-	-	-
A.4 Past due positions	-	-	-	-	-	-	-	-	-	-
A.5 Other	169.524	-	15.697	-	3.485	-	-	-	249	-
TOTAL	**169.524**	-	**15.697**	-	**3.485**	-	-	-	**249**	-
B. Off-balance-sheet exposures										
B.1 Bad debts	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other	3.578	-	949	-	-	-	-	-	-	-
TOTAL	**3.578**	-	**949**	-	-	-	-	-	-	-
TOTAL (A+B) 31/12/2014	**173.102**	-	**16.646**	-	**3.485**	-	-	-	**249**	-
TOTAL (A+B) 31/12/2013	**190.370**	-	**14.256**	-	**3.164**	-	-	-	**51**	-

B.4 Large exposures

In accordance with the Bank of Italy's instructions set forth in the letter dated 28 February 2011, the amount of "risk positions" that qualify as "large exposures" is disclosed on the basis of both carrying amounts and weighted value. In particular, as provided for in Regulation EU No. 575/2013, and as transposed in Italy by Bank of Italy circulars 154 and 286, the value of the exposure is presented in the financial statements, whereas the weighted value is taken as the value of the exposure after applying credit risk mitigation and the exemptions pursuant to Article 400 of the CRR.

The report prepared in accordance with the new Basel III rules, in effect from 1 January 2014, presents exposures in excess of the threshold of 10% of eligible capital, consisting of exposures to the Italian government of €948.9 thousand, exposures to Cassa Compensazione e Garanzia of €113.6 thousand, and exposures to bank and financial counterparties for the remainder.

	31/12/2014
a) amount - Book value	1.258.475
b) amount - Weighted value	161.109
c) number	7

C. SECURITISATIONS AND ASSET DISPOSALS

C.1 SECURITISATIONS

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

E. TRANSFERS

A – FINANCIAL ASSETS SOLD BUT NOT FULLY DERECOGNISED

QUANTITATIVE DISCLOSURES

E.1 Banking group – Financial assets sold but not derecognised: carrying amounts and full amounts

	Financial assets			Financial			Financial assets			Financial assets			Due from banks			Loans to			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/14	31/12/13
A. Cash asseets	-	-	-	-	-	-	54.511	-	-	53.223	-	-	-	-	-	-	-	-	107.734	-
1. Debt securities	-	-	-	-	-	-	54.511	-	-	53.223	-	-	-	-	-	-	-	-	107.734	1.222.133
2. Equities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCIS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31/12/2014	-	-	-	-	-	-	54.511	-	-	53.223	-	-	-	-	-	-	-	-	107.734	-
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2013	-	-	-	-	-	-	1.134.237	-	-	87.896	-	-	-	-	-	-	-	-	-	1.222.133
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A = financial assets sold but fully recognised (carrying amounts). B = financial assets sold but partly recognised (carrying amounts). C = financial assets sold partially recognised (full amount).

E.2 Banking group – Financial liabilities associated with financial assets sold but not derecognised: carrying amounts

	Financial assets held for trading	Financial assets measured at fair value	Financial assets available for sale	Financial assets held to maturity	Due from banks	Loans to customers	Total
1. Deposits from customers	-	-	54.482	57.177	-	-	111.659
a) relating to fully recognised assets	-	-	54.482	57.177	-	-	111.659
b) relating to partially recognised assets	-	-	-	-	-	-	-
2. Deposits from Banks	-	-	-	-	-	-	-
a) relating to fully recognised assets	-	-	-	-	-	-	-
b) relating to partially recognised assets	-	-	-	-	-	-	-
3. Debt Securities in issue							
a) relating to fully recognised assets	-	-	-	-	-	-	-
b) relating to partially recognised assets	-	-	-	-	-	-	-
Total 31/12/2014	-	-	**54.482**	**57.177**	-	-	**111.659**
Total 31/12/2013	-	-	**1.166.129**	**91.369**	-	-	**1.257.498**

F. CREDIT RISK MEASUREMENT MODELS

Please refer to the qualitative disclosures on credit risk for further information.

1.2 BANKING GROUP – MARKET RISKS

The Bank's investment policy is inspired by the goal of limiting market risk in its various forms (interest-rate risk, price risk and exchange-rate risk).

1.2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

The trading book, as defined in supervisory reporting rules, includes financial instruments subject to capital requirements for market risks.

QUALITATIVE DISCLOSURES

A. General aspects

The trading book is extremely limited in amount and consists almost entirely of bonds.
The Group does not have positions in structured credit products or derivative contracts. Likewise, there are ties whatsoever to special-purpose entities with exposures to risky financial instruments.

B. Interest-rate and price-risk management processes and measurement methods

The Group's investment policy is aimed at limiting market risk for those components of such risk that it knowingly intends to assume:

- ✓ interest-rate risk;
- ✓ price risk;
- ✓ exchange-rate risk.

The Bank does not normally assume positions that entail commodity risk.
In accordance with the mission of a group focused on retail customers, financing activity is essentially aimed at protecting the overall financial balance of the Bank and Group. Investment and trading activity is conducted in accordance with the guidelines established at the relevant Group levels and is carried out within a comprehensive system of delegated powers and specific rules setting operational restrictions in terms of instruments, amounts, investment markets, types of security and issuer, sector and rating.
The investment policies pursued by the Group resulted in the retention of a significant amount of government bonds eligible as collateral for refinancing operations with the ECB, primarily as a liquidity reserve. Most of the securities concerned have been included among assets available for sale. At the same time, the extremely limited size of the portfolios classified among assets held for trading means that the exposure to price risk associated with the securities held in those portfolios is virtually negligible.

QUANTITATIVE DISCLOSURES

1. Regulatory trading book: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and derivatives

Denominated in euro

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years to 10 years	more than 10 years	unspecified maturity
1. Assets	0	419	159	692	221	-	-	-
1.1 Debt securities	0	419	159	692	221	-	-	-
– with early redemption option	-	-	-	-	-	-	-	-
– other	0	419	159	692	221	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Derivatives	0	(13.307)	275	(137)	(145) -	0	-	-
3.1 With underlying security	-	283	-	(139) -	145	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	283	-	(139) -	145	-	-	-
+ long positions	-	776	-	2	1	-	-	-
+ short positions	-	493	-	141	146	-	-	-
3.2 Without underlying security	0	(13.590)	275	2	(0) -	0	-	-
- Options	0 -	0 -	0 -	0 -	0 -	0	-	-
+ long positions	853	1.125	1.661	2.654	17.534	11.562	2.343	-
+ short positions	853	1.125	1.661	2.654	17.534	11.562	2.343	-
- Other derivatives	-	(13.590)	275	2	-	-	-	-
+ long positions	-	2.887	9.241	2.438	2.118	2.545	1.595	-
+ short positions	-	16.477	8.966	2.435	2.118	2.545	1.595	-

Currency of denomination: other currencies

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years to 10 years	more than 10 years	unspecified maturity
1. Assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
– with early redemption option	-	-	-	-	-	-	-	-
– other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Derivatives	-	14.959	(287)	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	14.959	(287)	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	14.959	(287)	-	-	-	-	-
+ long positions	-	17.917	2.100	2.306	-	-	-	-
+ short positions	-	2.958	2.387	2.306	-	-	-	-

Regulatory trading book: distribution of exposures in equities and equity indices by main country of listing

	ITALY	Listed USA	OTHER	Unlisted
A. Equity securities				
+ long positions	-	-	222	-
+ short positions	-	-	-	-
B. Forward value equity trades				
+ long positions	-	-	-	-
+ short positions	-	-	-	-
C. Other derivatives on equity				
+ long positions	-	-	-	-
+ short positions	-	-	-	-
D. Derivatives on equity indexes				
+ long positions	-	-	-	-
+ short positions	-	-	-	-

1.2.2 INTEREST-RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

The banking book consists entirely of financial assets and liabilities not included in the trading book. The largest item consists of loans to and amounts due to banks and customers.

A. General aspects, interest rate risk and price risk management processes and measurement methods

The process of managing the interest rate risk associated with the banking book is governed by specific company regulations approved by the Parent Company's Board of Directors and subject to periodic review. Those Regulations aim to set general rules for managing interest rate risk for the assets and liabilities included within the banking book, as defined by supervisory regulations for the purposes of determining pillar two capital requirements (namely, all liabilities and assets other than those allocated to the regulatory trading book) and assign precise responsibilities and tasks to the various organisational units of the Bank and companies involved in the process.

Management of interest rate risk aims to limit the impact of unfavourable changes in the rate curve on both the economic value of assets and on the cash flows generated by line items. Containment of exposure to interest rate risk is pursued primarily by applying consistent parameters to assets and liabilities, and in particular by indexing a large portion of its assets and liabilities on money-market parameters (typically the Euribor rate), as well as the general balancing of the durations of assets and liabilities on low levels.

Measurement of the interest rate risk associated with the banking book is founded upon economic value, defined as the present value of the expected net cash flows generated by assets, liabilities and off-balance sheet positions. In particular, exposure to the interest rate risk associated with the banking book is monitored for the purposes of determining the associated capital absorption on the basis of the Bank of Italy's regulatory model, applied at both a separate and consolidated level.

Exposure to interest-rate risk is calculated by measuring the change in the economic value of the banking book resulting from hypothetical instantaneous shifts in the interest rate maturity curve.

B. Fair-value hedging

Interest-rate risk hedging activity through OTC derivative financial instruments was entirely discontinued in December 2012 and January 2013. Since then, no hedging derivative contracts have been entered into.

C. Cash-flow hedging

No cash-flow hedges have been undertaken and there are no open cash-flow hedges.

QUANTITATIVE DISCLOSURES

1. Banking book: distribution by residual duration (re-pricing date) of financial assets and liabilities

Denominated in euro

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	more than 10 years	unspecified maturity
1. Assets	566.994	1.732.428	693.376	99.324	741.081	43.151	44.786	-
1.1 Debt securities	-	48.322	370.240	31.798	589.253	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	48.322	370.240	31.798	589.253	-	-	-
1.2 Loans to banks	93.278	53.542	-	-	2.064	-	-	-
1.3 Loans to customers	473.717	1.630.564	323.136	67.527	149.764	43.151	44.786	-
- current acct.	426.865	20.355	8.314	24.179	33.232	-	-	-
- other loans	46.852	1.610.208	314.822	43.347	116.532	43.151	44.786	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	46.852	1.610.208	314.822	43.347	116.532	43.151	44.786	-
2. Liabilities	1.683.811							
2.1 Due to customers	1.537.477	100.482	91.653	56.276	203.942	-	-	-
- current acct.	1.474.513	93.482	33.929	56.276	149.459	-	-	-
- other payables	62.965	7.000	57.724	-	54.482	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	62.965	7.000	57.724	-	54.482	-	-	-
2.2 Due to banks	98.155	980.800	16.347	2.137	23.961	-	-	-
- current acct.	622	-	-	-	-	-	-	-
- other payables	97.533	980.800	16.347	2.137	23.961	31.702	1.884	-
2.3 Debt securities	48.179	125.564	101.204	135.226	278.833	-	-	-
- with early redemption option	-	4.991	40	-	-	-	-	-
- other	48.179	120.573	101.164	135.226	278.833	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- 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 transactions								
+ long positions	1.149	2.546	73	117	273	71	-	-
+ short positions	4.229	-	-	-	-	-	-	-

Denominated in other currencies

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	more than 10 years	unspecified maturity
1. Assets	7.725	1.170	383	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	6.674	-	-	-	-	-	-	-
1.3 Loans to customers	1.052	1.170	383	-	-	-	-	-
- current acct.	0	1	0	-	-	-	-	-
- other loans	1.052	1.170	383	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	1.052	1.170	383	-	-	-	-	-
2. Liabilities	23.269	140	83	-	-	-	125	-
2.1 Due to customers	22.972	140	83	-	-	-	-	-
- current acct.	22.972	140	83	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	297	-	-	-	-	-	125	-
- current acct.	228	-	-	-	-	-	-	-
- other payables	69	-	-	-	-	-	125	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	0	-	-	-	0	-
- 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 transactions								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

2. Banking book: internal models and other sensitivity analysis methods

The capital requirement for interest-rate risk on the banking book is calculated by applying the simplified model indicated in Schedule C to Part One, Title III, Chapter 1 of Bank of Italy Circular No. 285/2013, in effect from 1 January 2014.

This calculation is performed by classifying fixed-rate assets and liabilities in accordance with the supervisory model into 14 time bands on the basis of their residual lives and classifying floating-rate assets and liabilities into the various time bands according to the date of renegotiation of the interest rate. Within each band, asset and liability positions are multiplied by weighting factors and then set off against one another, resulting in a net position. Exposure to interest-rate risk for the purpose of determining the capital requirement is then calculated by measuring the change in the value of the banking book caused by hypothetical instantaneous shifts in the interest rate maturity curve in a scenario of ordinary conditions. To that end, use is made of the annual changes for each node of the interest rate structure recorded over an observation period of six years, alternatively considering the 1st percentile (downward shift) and 99th percentile (upward shift).

On the basis of the application of the Bank of Italy's regulatory model, the change in capital in both ordinary and stress conditions was always found to be positive, and thus internal capital to account for interest rate risk is equal to zero at the consolidated level.

From the income standpoint, in the event of an instant, parallel shift of the interest rate curve of -100 basis points (with the limit that nominal rates may not be negative), the change in net interest income generated by the banking book, with regard to a time horizon of 12 months, would be -€0.4 million, whereas it would be €6.8 million in the event of a shift of +100 basis points. These figures represent the effect of rate changes on the banking book, excluding changes in the composition and size of line items. It follows that they may not be regarded as predictors of the expected level of net interest income.

1.2.3 EXCHANGE-RATE RISK

QUALITATIVE DISCLOSURES

Exposure to exchange-rate risk is negligent in extent.

A. General aspects, foreign-exchange risk management processes and measurement methods

Exchange-rate risk applies to transactions with customers and banks. Operational management is centralised with Banca Popolare di Cividale, which conducts real-time monitoring of the exposure in various currencies, systematically hedging positions on the market as required to minimise the exposure to exchange-rate risk.

B. Exchange-rate risk hedging

All foreign currency positions generated by relations with Group customers are handled together by analysing open gaps (un-netted positions), which are typically kept essentially at zero through market hedging transactions.

QUANTITATIVE DISCLOSURES

1. Distribution by currency of assets and liabilities and derivatives

	Currencies					
	US dollar	Pound sterling	Yen	Canadian dollar	Swiss franc	Other
A. Financial assets	**5.273**	**1.089**	**1.898**	**550**	**185**	**284**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	0	-	-	-	-	-
A.3 Loans to banks	4.070	785	811	549	185	273
A.4 Loans to customers	1.203	304	1.087	0	-	11
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**274**	**119**	**184**	**4**	**12**	**65**
C. Financial liabilities	**20.782**	**1.194**	**746**	**546**	**196**	**152**
C.1 Due to banks	68	206	45	-	0	103
C.2 Due to customers	20.714	988	701	546	196	49
C.3 Due to customers	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	**15.833**	**5**	**(1.289)**	-	**2**	**123**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other	15.833	5	- 1.289	-	2	123
+ Long positions	22.134	5	-	-	61	124
+ Short positions	6.302	-	1.289	-	59	1
Total assets	**27.682**	**1.212**	**2.082**	**554**	**258**	**473**
Total liabilities	**27.084**	**1.194**	**2.035**	**546**	**255**	**152**
Difference (+/–)	**598**	**18**	**46**	**7**	**3**	**321**

1.2.4 DERIVATIVE FINANCIAL INSTRUMENTS
A. FINANCIAL DERIVATIVES

A.1 Regulatory trading portfolio: end-period and average notional amounts

	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	36.859	-	-	-
a) Options	23.439	-	29.099	-
b) Swaps	13.420	-	15.176	-
c) Forwards	-	-	1.051	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	29.317	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	29.317	-	25.943	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
TOTAL	**66.176**	-	**71.269**	-
AVERAGE VALUES	-	-	-	-

A.3 Financial derivatives: gross positive fair value – distribution by product

	Positive Fair value			
	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	1.358	-	-	-
a) Options	33	-	362	-
b) Interest rate swaps	735	-	431	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	591	-	78	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	**1.358**	-	**871**	-

A.4 Financial derivatives: gross negative fair value – distribution by product

	Negative Fair value			
	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	1.036	-	-	-
a) Options	33	-	156	-
b) Interest rate swaps	756	-	662	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	247	-	147	-
f) Futures	-	-	-	-
g) Others	-	-	0	-
B. Banking book - hedging	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	**1.036**	-	**965**	-

A.5 OTC financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty – contracts not based on netting arrangements

Contracts not based on netting arrangements	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	-	8.021	18.430	-	-	10.409	-
- positive fair value	-	259	33	-	-	476	-
- negative fair value	-	-	756	-	-	33	-
- future exposure	-	50	194	-	-	24	-
2. Equities and stock indices							
- notional amount	-	-	28	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Foreign exchange rates and gold							
- notional amount	-	-	23.229	-	-	4.896	1.193
- positive fair value	-	-	493	-	-	84	14
- negative fair value	-	-	109	-	-	119	19
- future exposure	-	-	-	-	-	49	12
4. Other values							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty – contracts based on netting arrangements

Not applicable.

A.8 OTC financial derivatives – banking book: notional amounts, gross positive and negative fair values by counterparty – contracts based on netting arrangements

Not applicable.

A.9 Residual maturity of OTC financial derivatives: notional amounts

	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading book	**33.674**	**10.598**	**21.904**	**66.176**
A.1 Financial derivatives on debt securities and interest rates	4.357	10.598	21.904	36.859
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign exchange rates and gold	29.317	-	-	29.317
A.4 Financial derivatives - other	-	-	-	-
B. Banking book	-	-	-	-
B.1 Financial derivatives on debt securities and interest rates	-	-	-	-
B.2 Financial derivatives on equities and stock indices	-	-	-	-
B.3 Financial derivatives on foreign exchange rates and gold	-	-	-	-
B.4 Financial derivatives - other	-	-	-	-
Total 31/12/2014	**33.674**	**10.598**	**21.904**	**66.176**
Total 31/12/2013	**34.410**	**12.836**	**24.023**	**71.269**

B. CREDIT DERIVATIVES

This section is not applicable to the Banca Popolare di Cividale Group.

C. CREDIT AND FINANCIAL DERIVATIVES

This section is not applicable to the Banca Popolare di Cividale Group.

1.3 BANKING GROUP – LIQUIDITY RISK
QUALITATIVE DISCLOSURES

A. General aspects, liquidity risk management processes and measurement methods

Liquidity risk is not attributable to specific items of the balance sheet; rather, it arises from mismatches of amount and/or date between cash inflows and outflows generated by all assets, liabilities and off-balance sheet items. It is thus a risk inherent in the Bank's operations and derives essentially from what is known as the "maturity transformation".

Liquidity risk generally manifests itself in the form of the breach of payment obligations, which may be caused by the inability to procure funds (funding liquidity risk) or the existence of limits on the liquidation of assets (market liquidity risk). Liquidity risk also includes the risk that an entity may be forced to discharge its payment obligations at non-market costs, meaning that it may be forced to bear a high cost of funding or (in some cases, concurrently) sustain capital losses when liquidating assets.

Since all core banking business processes are associated with potential liquidity risk, all Group companies are exposed to liquidity risk.

The process of containing exposure to liquidity risk, which aims to ensure the Group's solvency even in especially acute situations of tension, is primarily pursued through a complex set of management decisions and organisational measures, the most significant of which are:

- ✓ a constant focus on the financial situations of the Group with respect to a balanced structure of asset and liability maturities, especially with regard to shorter-term assets and liabilities;
- ✓ diversification of sources of funding in terms of technical forms as well as counterparties and markets. The Group intends to maintain high and very stable retail funding level in the form of both deposits and debt securities distributed directly through the branch network, thus pursuing the strategic goal of reducing dependency on market funds (interbank funding and issues intended for institutional investors);
- ✓ a portfolio of highly liquid assets eligible as collateral for financing transactions or directly disposable in situations of tensions, formed in part using securities resulting from the securitisation of the Group's assets; and
- ✓ the preparation of a Contingency Funding Plan.

Operational management of liquidity risk is the responsibility of the Finance Department, through the Finance Service, in line with the funding policy and directives of a strategic nature laid down by the ALCo, which meets with at least monthly frequency. This activity involves the use of appropriate tools for monitoring and surveying operating profiles for liquidity risk.

Through the Operating and Financial Risks Office, the Risk Management Service is responsible for structural aspects and stress analyses, as well as monitoring of the operational limits set by internal rules and the RAF.

Assessment of liquidity risk exposure aims to evaluate an entity's capacity to respond to an outflow of such resources in the light of the maturity structure of its on-balance sheet assets and liabilities. Liquidity is monitored by determining the maturity ladder, which shows the cumulative total cash balance during each of the forecasting periods. This balance is the sum of cash inflows and outflows for each maturity bracket.

Furthermore, in addition to the ordinary liquidity situation, the Bank conducts simulations of adverse stress scenarios caused by forms of tension in the financial system generally or specific significant changes in the Bank's financial aggregates. Moreover, the Group's Contingency Funding Plan (CFP) defines and formally establishes the organisational escalation procedure, goals and management mechanisms required to protect the company's assets in situations of extreme, unforeseen depletion of liquidity through the preparation of crisis management strategies and fund-raising procedures.

In 2014 the Bank began to monitor the liquidity indicators Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) on the basis of the reporting data periodically produced for supervisory purposes.

QUANTITATIVE DISCLOSURES

1. Distribution of financial assets and liabilities by residual maturity

Denominated in euro

	on demand	more than 1 day to 7 days	more than 7 days to 15	more than 15 days to 1	more than 1 month to	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	More than 5 years	Unspecified
On-balance-sheet assets	522.741	4.192	60.952	157.673	95.908	122.949	233.277	1.492.843	1.237.588	3.789
A.1 Government securities	-	-	-	-	5.809	8.865	48.642	714.527	155.000	-
A.2 Other debt securities	2.500	-	0	86	3.476	6.260	1.414	31.267	8.488	-
A.4 Units in collective investment undertakings	16.895	-	-	-	-	-	-	-	-	-
A.5 Loans	503.345	4.192	60.952	157.588	86.622	107.824	183.221	747.049	1.074.100	3.789
- banks	83.276	-	51.476	-	0	0	1	2.000	-	3.789
- customers	420.070	4.192	9.476	157.588	86.622	107.823	183.221	745.049	1.074.100	-
On-balance-sheet liabilities	1.541.866	14.185	43.259	222.097	736.020	177.232	205.461	837.830	45.901	-
B.1 Deposits	1.541.520	4.134	24.867	26.077	41.098	34.923	58.924	148.368	-	-
- banks	66.490	-	-	-	-	30	281	-	-	-
- customers	1.475.030	4.134	24.867	26.077	41.098	34.893	58.644	148.368	-	-
B.2 Debt securities	315	3.051	18.392	5.406	43.116	78.651	131.216	409.842	3.970	-
B.3 Other liabilities	31	7.000	-	190.614	651.807	63.659	15.322	279.620	41.931	-
Off-balance-sheet transactions	- 508	232	- 615	1.423	(160)	472	229	104	181	-
C.1 Financial derivatives with exchange of capital	-	234	(615)	1.423	152	375	(137)	(289)	-	-
- long positions	-	835	15.466	1.779	828	2.409	2.251	81	-	-
- short positions	-	601	16.081	357	676	2.034	2.388	370	-	-
C.2 Financial derivatives without exchange of capital	(21)	-	-	-	-	-	-	-	-	-
- long positions	3.689	-	-	-	-	-	-	-	-	-
- short positions	3.710	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	(503)	(2)	-	-	(313)	78	354	315	71	-
- long positions	3.339	-	-	-	2	148	354	315	71	-
- short positions	3.842	2	-	-	315	71	-	-	-	-
C.5 Financial guarantees given	16	-	-	0	0	20	12	78	110	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Denominated in other currencies

	on demand	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	More than 5 years	Unspecified
On-balance-sheet assets	7.706	38	33	462	647	392	-	0	-	-
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.4 Units in collective investment undertakings	-	-	-	-	-	-	-	-	-	-
A.5 Loans	7.706	38	33	462	647	392	-	0	-	-
- banks	6.674	-	-	-	-	-	-	-	-	-
- customers	1.033	38	33	462	647	392	-	0	-	-
On-balance-sheet liabilities	23.269	-	-	90	51	83	125	-	-	-
B.1 Deposits	23.200	-	-	90	51	83	125	-	-	-
- banks	228	-	-	-	-	-	125	-	-	-
- customers	22.972	-	-	90	51	83	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	69	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	100	16.473	(1.449)	(165)	(287)	-	-	-	-
C.1 Financial derivatives with exchange of capital	-	100	16.473	(1.449)	(165)	(287)	-	-	-	-
- long positions	-	378	16.473	365	700	2.100	2.306	-	-	-
- short positions	-	279	-	1.814	865	2.387	2.306	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

2. Committed on-balance sheet assets

	Committed		Non-committed		Total	Total
	BV	FV	BV	FV	31.12.2014	31.12.2013
1. Cash and cash equivalents	-	X	18.487	X	18.487	20.021
2. Debt securities	801.414	1.801.469	289.404	285.351	1.090.817	2.346.653
3. Equities	-	-	56.159	222	56.159	58.898
4. Loans	775.784	X	2.101.941	X	2.877.724	3.211.152
5. Other financial assets	-	X	54.752	X	54.752	56.666
6. Non-financial assets	-	X	193.033	X	193.033	-
Total 31.12.2014	**1.577.197**	**1.801.469**	**2.713.775**	**285.574**	**4.290.972**	**X**
Total 31.12.2013	**2.930.889**	**2.262.346**	**2.762.501**	**326.414**	**X**	**5.693.391**

Key: BV = book value; FV = fair value

3. Owned committed off-balance sheet assets

Technical forms	Tied up	Not Tied up	Total 31/12/2014	Total 31/12/2013
1. Financial assets	735.966	521.258	1.257.223	-
Securities	735.966	521.258	1.257.223	1.931.340
Other	-	-	-	-
2. Non-financial assets	-	-	-	-
Total as at 31/12/2014	**735.966**	**521.258**	**1.257.223**	**X**
Total as at 31/12/2013	**974.322**	**957.018**	**X**	**1.931.340**

Securitisation

Within the framework of the various measures aimed at enhancing coverage of exposure to liquidity risk, the Group has undertaken securitisation transactions with the goal of increasing the degree of liquidity of its assets and prudentially increasing its pool of financial instruments eligible for refinancing operations with the European Central Bank, or otherwise suited for use as collateral in funding transactions beyond the short term with institutional and market counterparties.

In accordance with these aims, the asset-backed securities issued by the vehicle companies incorporated pursuant to Law 130/99 have been fully subscribed for, for both the senior and junior tranches, by the banks that in turn sold the underlying loans without recourse (Banca Cividale S.p.A., subsequently incorporated into Banca Popolare di Cividale S.c.p.A.).

The following table provides an overview of the securitisation transactions undertaken.

Main information	
Date of transaction	May 2009
Special purpose entities	Quadrivio Finance S.r.l. (spv)
Subject matter of the transaction	mortgages
Banks/ Originator groups	Banca Popolare di Cividale Group Credito Valtellinese Group
Original aggregate amount of transferred loans and receivables	1.366 mln
of which Banca Popolare di Cividale Group	243 mln
Securities issued and subscribed by the Banca Popolare di Cividale Group and by the Credito Valtellinese Group	1.317 mln
of which senior securities a	1.093 mln
of which junior securities b	224 mln
Rating of senior securities	AAA Fitch
Securities issued and subscribed by the Banca Popolare di Cividale Group	234 mln
of which senior securities a	187 mln
of which junior securities b	47 mln
Overall residual notional amount of the securities as at 31/12/2014	102 mln
Residual values of loans and receivables as at 31/12/2014	110 mln
Rating of senior securities as at 31/12/2014	AA+ Fitch - A2 Moody's

Main information	
Date of transaction	February 2012
Special purpose entities	Civitas Spv Srl
Subject matter of the transaction	Performing residential mortgages
Banks/ Originator groups	Banca Popolare di Cividale Group
Original aggregate amount of transferred loans and receivables of Banca Popolare di Cividale Group	383 mln
Securities issued and subscribed by the Banca Popolare di Cividale Group	398 mln
of which senior securities a	310 mln
of which junior securities b	88 mln
Rating of senior securities	AA+ Standard&poor's - A1 Moody's
Overall residual notional amount of the securities as at 31/12/2014	316 mln
Residual values of loans and receivables as at 31/12/2014	310 mln
Rating of senior securities as at 31/12/2014	AA Standard&poor's - A2 Moody's

Main information	
Date of transaction	July 2012
Special purpose entities	Civitas Spv Srl
Subject matter of the transaction	commercial mortgages
Banks/ Originator groups	Banca Popolare di Cividale Group
Original aggregate amount of transferred loans and receivables of Banca Popolare di Cividale Group	410 mln
Securities issued and subscribed by the Banca Popolare di Cividale Group	418 mln
of which senior securities a	273 mln
of which junior securities b	143 mln
Rating of senior securities	A+ Standard&poor's - AL DBRS
Overall residual notional amount of the securities as at 31/12/2014	293 mln
Residual values of loans and receivables as at 31/12/2014	263 mln
Rating of senior securities as at 31/12/2014	A+ Standard&poor's - AL DBRS

Considering that the asset-backed securities currently in issue have been fully subscribed for by the originating banks, the Group has not transferred any credit risk. Accordingly, since essentially all of the risks and rewards associated with the transferred portfolio have been retained, the loans concerned have not been derecognised.
The structure of the Quadrivio Finance S.r.l. transaction makes it possible to identify the specific risk of cross-collateralisation due to the presence of the securitised loans of other banks belonging to the Credito Valtellinese Group. This multi-originator structure thus entails a risk associated with possible deterioration to a greater extent than expected of the portfolio of loans securitised by entities not belonging to the Banca Popolare di Cividale Group. However, there are no elements that would indicate a significant change in cross-collateralisation risk.

1.4 BANKING GROUP – OPERATIONAL RISKS
QUALITATIVE DISCLOSURES

A. General aspects, operational risk management processes and measurement methods

The definition adopted by the Bank, in line with supervisory regulations, identifies operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Such risks include losses resulting from fraud, human error, business disruption, system unavailability, breach of contract and natural disasters. Operational risk includes information technology risk but not strategic or reputational risk. Operational risk management activity is based on the following guiding principles:

- ✓ improving overall operational efficiency;
- ✓ preventing the occurrence or reducing the likelihood of events that could potentially generate operational losses through appropriate regulatory, organisational, procedural and training actions; attenuating the expected effects of such events;
- ✓ transferring risks that the Group does not wish to retain through insurance contracts.

The Group adopts the basic method (BIA – Basic Indicator Approach) specified by regulations to determine prudential capital requirements.

In 2014, as part of work aimed at achieving compliance with the new prudential provisions, the Group adopted internal rules and procedures for managing its operational risks, which lay down the roles, responsibilities and tasks of company bodies and the various functions and units, in addition to outlining the operational risk management process. A specific indicator for monitoring operational risk was identified as part of drawing up the Risk Appetite Framework.

Through Operational and Financial Risks Office, the Risk Management Service is responsible for measuring and assessing operational risk. It does so at a centralised level for all Group companies. The approach adopted for managing operational risk takes a combined, bottom-up view of the components identified by the prudential regulations for the advanced measurement approaches:

- ✓ internal operating loss data: the main component in the construction of an operational risk management system;
- ✓ external operating loss data: given that not all types of events indicated by international regulations are applicable to or of statistical significance for all intermediaries, consortium databases have been established at both an international and domestic level to contain reports of operating losses from participants; in Italy, at the initiative of the Italian Banking Association, the Italian Operating Loss Database was established. The Group participates in the Database as a "total group member". The data contained in the Database allow participants to monitor the performance of operating losses within the Italian banking industry by business line and sales channel, as well as to extract parameters concerning probability distributions, enjoy access to the aggregation of data by homogeneous group for benchmarking purposes and expand the data included in their historical series.

Some types of operational risk are mitigated using appropriate insurance contracts. In addition, the Group has implemented a business continuity plan that sets out the principles, establishes the objectives and describes the procedures for managing all the corrective actions for reducing losses resulting from accidents or disasters to an acceptable level.

Legal risks

Appropriate provisions are recognised in accordance with international accounting standards to account for financial risks associated with legal proceedings involving the Bank and other Group companies. The amount of such provisions is estimated on the basis of multiple factors, primarily relating to the expected outcome of the suit, and, in particular, the probability of an unfavourable outcome to the proceedings resulting in an adverse judgment for the Bank, and on the basis of factors useful in quantifying the amount that the Bank might be required to pay the counterparty in the event of an adverse judgment.

For each position, the projected outcome of the suit (risk of an adverse judgment) contemplates the legal issues at stake in the proceedings, assessed in the light of case law, the evidence produced in the course of the proceedings and the status of the trial, and, on appeal, the outcome of the proceedings of the first instance, past experience and all other useful elements, including experts' opinions, that allow the foreseeable development of the dispute to be taken adequately into account.

The amount due in the event of an adverse outcome is expressed in absolute terms and includes the value estimated on the basis of the status of the proceedings, considering the amount requested by the counterparty, the technical estimate prepared internally on the basis of accounting evidence and/or evidence brought to light during the trial and, in particular, the amounted estimated by the court-appointed technical expert, where

appointed, in addition to legal interest, calculated on the principal from the date of service of the introductory document, and any expenses to be reimbursed in the event of an adverse judgment. Where it is not possible to determine a reliable estimate (the claimant has not quantified its compensation claim, or there are legal or factual uncertainties that would render any estimate unreliable), provisions are not recognised until it is possible to predict the outcome of the trial and arrive at a reliable estimate of the amount of the loss, if any.
Most suits involve claims for compensation due to anatocism and bankruptcy claw-back, as well as indemnity claims for losses on investments in financial instruments and other types of compensation claims.

Disputes involving bond defaults

The insolvency of the Argentinean central and local governments from 2001 to 2003, as well as of major Italian companies such as Parmalat, Cirio and Giacomelli, triggered a series of disputes, including legal action, brought by customers who purchased these defaulted bonds. Banca di Cividale has always been sensitive to criteria of fairness and economy, avoiding futile, wasteful litigation and taking into account the trends in legal interpretation that have emerged over time. Within this context, the Bank has frequently engaged in settlement negotiations in response to claims brought to its attention or in parallel with judicial action. In some cases, given the special circumstances of the dispute, the Bank has decided to pursue the matter in court. In all cases, however, based on an a priori analysis of the dispute and the type of bond involved, the Bank makes the necessary provisions.

OTHER RISKS

In addition to the risks described above, the Bank is exposed to the following other material risks.

Excessive financial leverage risk

Excessive financial leverage risk is defined by prudential regulations as “the risk that a particularly high level of indebtedness with respect to equity may render the bank vulnerable, requiring the adoption of corrective measures to its industrial plan, including the sale of assets involving the recognition of losses that could also entail impairment of the remaining assets”.
Excessive financial leverage risk affects the entirety of the financial statements, exposures resulting from the use of derivatives and off-balance sheet assets and is assumed in the conduct of core business. It is closely correlated with planning and capital management activity. Prudential regulations establish that banks are to monitor the level and changes of their leverage ratios (a regulatory parameter), and the risk associated with leverage, as part of their Internal Capital Adequacy Assessment Process (ICAAP). In 2014, as part of work aimed at implementing the new prudential provisions, the financial leverage risk management process was structured and formally drawn up, in the form of rules and procedures approved by the Parent Company's Board of Directors. The risk appetite is monitored on a quarterly basis by the Risk Management Service as part of the Risk Appetite Framework (RAF).
At 31 December 2014, the financial leverage indicator was above the minimum threshold established in supervisory regulations at the consolidated level, following the application of the transitional rules provided for in Bank of Italy Circular 285/2013 and Regulation 575/2013 (CRR) of 26 June 2013.

Strategic risk

Strategic risk is defined as the current or prospective risk of a decrease in profits or capital arising from changes in the operating context or poor company decisions, the inadequate implementation of decisions, or insufficient reaction to changes in the competitive scenario. Exposure to strategic risk is not associated with specific operating activities, but rather the adequacy of the decisions made and the efficacy of implementation. The risk is particularly associated with the phases of determining and implementing company strategies represented by the formulation of the business plan, commercial planning, budgeting, management control and monitoring of the markets and competitive scenario, capital allocation and capital management. In its form as pure strategic risk, business risk and equity investment risk, strategic risk is primarily assumed by the Parent Company, which is responsible for drawing up an overarching business plan and coordinating and controlling Group companies as they implement that plan. Through the preparation, approval and monitoring of annual planning and the state of progress of its Strategic Plan, the Parent Company exercises control of a strategic nature over the development of the various areas of activity in which the Group operates and the risks associated with the activities performed. With regard to the strategic planning process, supervisory regulations underwent significant change due to the enactment of Title V, Chapter 7 of Bank of Italy Circular 263/2006 (15th update of 2 July 2013). In those regulations, mention is made of the strategic nature of the internal control system and the necessary integration of the Risk Appetite Framework (RAF), business model and strategic plan. Title IV, added to Circular 285 of 17 December 2013 in the first update of 6 May 2014, provides indications of a general nature concerning corporate governance and furnishes an overview of the context in which the strategic planning process is conducted. On the basis of these principles and regulations, in 2014 the Banca Popolare di Cividale Group update its rules and procedures concerning strategic planning and strategic risk management.

Reputation risk

Reputation risk is defined as "the current or prospective risk of a decline in operating result or capital should customers, counterparties, shareholders of the Bank, investors or supervisors take a negative view of the Bank." Due to its nature, this risk is not easily measurable. However, for management purposes, it may be subject to qualitative observation, assessment and mitigation processes. Consequently, management of this type of risk is based on a qualitative assessment aimed at directing the necessary prevention, mitigation and management actions. In addition to company bodies, all organisational units of both a business and operational support nature are involved in the process of managing reputation risk, each to the extent of its competence. The first and most fundamental safeguard against reputation risk is the shared system of values, principles and rules of conduct on which to base behaviour common to all of the Bank’s internal stakeholders (employees, directors, etc.). The system has been given explicit form in a Code of Ethics. The task of supervising compliance with the provisions of that Code is entrusted to the Legislative Decree 231/2001 Supervisory Board Control Committee. The internal rules and procedures concerning reputational risk were drawn up and approved by the Parent Company's Board of Directors as part of the activities promoted in 2014 aimed at achieving compliance with the new supervisory provisions.

Compliance risk

Compliance risk is the risk of incurring legal or administrative penalties, significant financial losses or damages to reputation due to breaches of compulsory provisions (of laws or regulations) or self-imposed rules (e.g., bylaws, codes of conduct, governance codes). Under the new supervisory provisions concerning the internal control system, the role of supervising compliance has been extended to all rules and procedures concerning company activity, though with different levels of commitment for the traditional, directly applicable areas and other specialistic areas, such as taxation, for which there are other forms of supervision and where the function is nonetheless tasked with assessing the suitability of such supervision. In 2014 the Compliance function launched various audit processes concerning forms of specialised supervision, and specifically the adequacy of supervision and procedures aimed at preventing the risk of non-compliance extended to the following areas:

- ✓ tax law (bank side and customer side);
- ✓ privacy;
- ✓ workplace health and safety;
- ✓ market abuse;
- ✓ supervisory reporting;
- ✓ Legislative Decree No. 231/01.

Considering the extent of compliance risk, the many factors that gave risk to it and its significant implications for various company processes, the Bank has a high level of exposure to this type of risk. The Compliance Service also includes the Anti-Money Laundering function, which is responsible for the anti-money laundering compliance activities provided for in the order of the supervisory authority of 10 March 2011, in addition to providing support to the head of the Anti-Money Laundering Service with the process of reviewing suspect transaction reports.

Related–party risk

Related-party risk is the risk that the proximity of certain parties to the Bank’s decision-making centres may compromise the objectivity and impartiality of decisions relating to the granting of loans and other transactions with such parties, with possible distortions of the resource-allocation process, exposure of the Bank to inadequately measured or managed risks and potential damages for depositors and shareholders. In order to safeguard objective, impartial decision-making and avoid distortions of the allocation process, the Group has adopted rigorous procedures and stricter limits than legally mandated, which are subject to regular monitoring. No cases of violation of authority limits were identified during the year.

Chapter F – CONSOLIDATED SHAREHOLDERS' EQUITY
Section 1 – CONSOLIDATED SHAREHOLDERS' EQUITY

A. Qualitative disclosures

The capital policy adopted by the Banca Popolare di Cividale Group is founded upon the following criteria:
a) compliance with regulatory requirements (regulatory approach);
b) appropriate monitoring of risks associated with banking operations (management approach); and
c) support for company development projects (strategic approach).

These approaches correspond to appropriate definitions of capital, specific objectives and particular corporate functions. From a regulatory point of view, the definition of capital is that set out in supervisory regulations for banks. Ongoing compliance with minimum capital requirements, which are monitored on a regular basis and considered a constraint during planning, is an essential precondition for operations.
From the point of view of risk management – one of the key functions in banking – capital is considered the main defence against possible unexpected losses generated by a variety of risks (credit, market and operational risks) that the Bank faces. The amount of capital is optimal if it is sufficient to absorb unexpected losses estimated for a specific confidence interval, thereby guaranteeing the continuity of operations over a specified time period.
From the corporate perspective, capital is a strategic factor of production that enables the Group to pursue its entrepreneurial vocation, while at the same time preserving financial stability. As a cooperative bank with strong local roots, the Group implements its capital policy primarily through the gradual expansion of the size and geographical spread of its shareholders.

B. Quantitative disclosures

B.1 Consolidated shareholders' equity: distribution by type of business

	Banking Group	Insurance companies	Other companies	Netting and adjustments on consolidation	Total
Share capital	50.913	-	-	-	50.913
Share premium reserve	167.022	-	-	-	167.022
Reserves	37.054	-	-	-	37.054
Equity instruments	-	-	-	-	-
(Treasury shares)	-	-	-	-	-
Valuation reserves:	11.124	-	-	-	11.124
- Financial assets available for sale	11.522	-	-	-	11.522
- Property and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
- Foreign exchange differences	-	-	-	-	-
- Non current assets held for sale	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(398)	-	-	-	(398)
- Share of valuation reserves connected with investments carried at equity	-	-	-	-	-
- Legally-required revaluations	-	-	-	-	-
Parent Company's net income (loss) and minority interest	10.065	-	-	-	10.065
Shareholders' equity	**276.176**	-	-	-	**276.176**

B.2 Valuation reserves for financial assets available for sale: composition

	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		Total 31/12/2014	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	13.618	(13)	-	-	-	-	-	-	13.618	(13)
2. Equities	-	(1.015)	-	-	-	-	-	-	-	(1.015)
3. Quotas of UCI	23	(1.091)	-	-	-	-	-	-	23	(1.091)
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2014	**13.641**	**(2.119)**	-	-	-	-	-	-	**13.641**	**(2.119)**
Total 31/12/2013	**6.325**	**(991)**	-	-	-	-	-	-	**6.325**	**(991)**

B.3 Valuation reserves for financial assets available for sale: annual changes

	Debts securities	Equities	Quotas of UCI	Loans
1. Opening balance	**5.619**	**0**	**(285)**	-
2. Positive fair value differences	**23.463**	**14**	**537**	-
2.1. Fair value increases	19.553	-	3	-
2.2 Reversal to the income statement of negative reserves	-	-	-	-
- impairment	-	-	-	-
- disposal	924	-	-	-
2.3 Other changes	2.986	14	534	-
3. Negative fair value differences	**(15.477)**	**(1.029)**	**(1.320)**	-
3.1 Fair value decreases	(19)	(1.029)	(1.135)	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to the income statement of positive reserves: disposal	(8.688)	-	(23)	-
3.4 Other changes	(6.770)	-	(162)	-
4. Closing balance	**13.605**	**(1.015)**	**(1.068)**	-

Section 2 – OWN FUNDS AND REGULATORY CAPITAL RATIOS

2.1 Scope of application of regulations

The new prudential provisions governing banks and investment companies laid down in Regulation (EU) No. 575/2013 (Capital Requirements Regulation, CRR) and Directive 2013/36/EU (Capital Requirements Directive, CRD IV), approved on 26 June 2013, transposing into the European Union the standards established by the Basel Committee on Banking Supervision (the "Basel III Framework"), entered into effect on 1 January 2014. As part of an overall process of revising and simplifying its prudential provisions for banks, the Bank of Italy published Circular 285, Prudential Supervisory Provisions for Banks, which replaced the previous Circular 263 of 27 December 2006 almost entirely, implementing the new Community provisions and introducing supervisory rules concerning unharmonised aspects at the EU level, and Circular 286, Instructions for the Preparation of Prudential Reports for Banks and Securities Brokerage Firms, which replaces the previous Circular 155 and the update to Circular 154 in their entirety.

Banking groups must observe the following minimum ratio requirements with effect from 1 January 2014:

- ✓ a CET1 ratio of 4.5%;
- ✓ a tier 1 ratio of 5.5% (6% from 2015);
- ✓ a total capital ratio of 8%.

The following CET1 reserves (buffers) are in addition to the above binding minimum levels provided for in the Regulation:

- ✓ with effect from 1 January 2014, a capital conservation buffer of 2.5%;
- ✓ with effect from 2016, the countercyclical buffer in periods of excess credit growth and the systemic risk buffer for global systemically important institutions or other systemically important institutions (G-SII or O-SII).

The sum of regulatory requirements and additional buffers yields the minimum capital conservation level required of banking groups at the consolidated level. For 2014, that level is as follows:

- ✓ CET1 of 7%;
- ✓ tier 1 of 8%;
- ✓ total capital ratio of 10.5%.

If the sum of such buffers does not satisfy the minimum requirement (combined requirement), limitations apply to the distribution of profits and a capital conservation plan must be adopted.

At 31 December 2014, own funds have been calculated by applying the new regulations mentioned above. However, those regulations provide for transitional rules, generally until 2017, under which the new regulatory framework is to be applied gradually, through a transitional period in which certain elements are deductible or eligible for inclusion in common equity tier 1 capital in a certain percentage only, whereas the residual percentage not applicable is included in or deducted from additional tier 1 capital or tier 2 capital, or considered among risk-weighted assets. This transitional system also applies to certain subordinated instruments that do not satisfy the requirements established by the new regulatory provisions, aimed at gradually excluding instruments no longer eligible from own funds (over a period of eight years).

In accordance with the supervisory instructions, the overall amount and composition of own funds differ from the amount and composition of statutory shareholders' equity. The following is a brief account of the main differences:

- ✓ own funds include only the share of profit, net of all expenses and foreseeable dividends; before reaching a formal decision to confirm the final profit or loss result for the year for the entity for the year of reference, banks may only include their annual profits in their common equity tier 1 capital if they have obtained prior permission from the competent authority. Such permission requires that profits be verified by the independent persons responsible for auditing the accounts;
- ✓ companies other than banking, financial and related firms that are fully controlled and consolidated line by line in the consolidated financial statements are consolidated according to the equity method for prudential purposes;
- ✓ goodwill is deducted from common equity tier 1 capital. Goodwill also includes the "positive equity differences" incorporated in the carrying amounts of equity investments in companies subject to significant influence and measured according to the equity method, other intangible assets and the assets of defined-benefit pension funds included in the entity's balance sheet, net of the associated deferred tax liabilities;
- ✓ unrealised gains or losses relating to exposures to central governments classified as financial assets available for sale are not included in any element of own funds. The neutralisation option provided for in Article 467 of the CRR has also been confirmed in Chapter 14 of the new Circular 285 concerning

transitional provisions governing own funds, and this treatment will apply until the Commission adopts a regulation approving the international financial reporting standard replacing IAS 39;

- ✓ At 31 December 2014 the AFS reserve relating to securities issued by the central governments of European Union Member States fully neutralises the gains of €13.1 million (compared to €5.5 million at 31 December 2013);
- ✓ significant investments in a financial sector entity, the net tax assets deriving from temporary differences and dependent on future profitability, and non-significant investments in financial sector entities are deducted from the elements of CET1 if they exceed certain CET1 levels provided for in Regulation 575/2013;
- ✓ tier 2 capital includes subordinated loans, which must have an original term to maturity of at least five years and may only be redeemed or repaid early only if the entity requests the prior authorisation of the competent authority, and no earlier than five years from the date of issuance, unless the bank replaces the instruments in question with other own funds instruments of equal or greater quality, under sustainable conditions in terms of the entity's income-generating capacity, and the bank demonstrates to the competent authority's full satisfaction that the minimum capital requirements imposed by the regulations have been observed.

2.2 Own funds

The components of own funds are:

- ✓ common equity tier 1 (CET1) capital;
- ✓ additional tier 1 (AT1) capital; and
- ✓ tier 2 (T2) capital.

CET1 and AT1 make up total tier 1 capital, which, along with tier 2 capital, comprises total own funds.

1. Common equity tier 1 (CET1) capital

Total common equity tier 1 (CET1) capital, calculated considering the net income for the year ended 31 December 2014, amounted to €232,570 thousand. There were no substantial changes in tier 1 capital compared to 31 December 2013. The changes identified are attributable to the different regulatory approach applied under Regulation (EU) No. 575/2013.

The main CET1 instruments include:

- ✓ capital instruments of €50,913 thousand;
- ✓ own common equity capital instruments, or common equity instruments for which the Bank has a real purchase obligation, of €3,771 thousand;
- ✓ share premium reserves of €167,021 thousand;
- ✓ the net income for the year of €10,065 thousand;
- ✓ other reserves of €37,054 thousand;
- ✓ other comprehensive income attributable to reserves on securities available for sale of €11,522 thousand.

Deductions include goodwill, net of the associated tax liabilities, of €15,322 thousand, other intangible assets of €214 thousand and assets of defined-benefit pension funds of €396 thousand. The significant investments in common equity tier 1 instruments of financial sector entities and tax assets derived from temporary differences and dependent on future profitability are far below the established limits. Non-significant investments in the common equity tier 1 instruments of financial sector entities exceed the limit and are deducted up to €21,813 thousand.

With respect to the transitional rules, the item in question includes the following adjustments:

- ✓ the positive filter relating to unrealised losses on available-for-sale securities of €1,179 thousand;
- ✓ the negative filter relating to the neutralisation of the AFS reserve on securities issued by the central governments of European Union Member States of €13,118 thousand;
- ✓ the positive filter relating to the deduction of non-significant investments in common equity tier 1 instruments of €8,725 thousand;
- ✓ the negative filter for other filters and deductions of €1,277 thousand.

2 Additional tier 1 (AT1) capital

At 31 December 2014, Banca Popolare di Cividale S.c.p.A. had not issued any AT1 instruments.

3. Tier 2 (T2) capital

At 31 December 2014, tier 2 capital, according to the final rules, included subordinated loans issued of €626 thousand.

Considering the effects of the transitional rules, tier 2 capital amounted to €14,158 thousand.

In particular, it should be remarked that:

- ✓ the notional amortisation of the loans was calculated daily, in accordance with the provisions of Regulation EU No. 575/2013;
- ✓ the subordinated instruments with amortisation clauses eligible for inclusion in accordance with the transitional rules issued by Banca Popolare di Cividale S.c.p.A. are subject to the grandfathering clause for capital instruments that do not constitute state aid, according to which such instruments are 80% eligible for inclusion in own funds in 2014, resulting in the amount of €24,594 thousand.

Negative elements include own common equity capital instruments or common equity capital instruments for which the bank has a real purchase obligation of €329 thousand and non-significant investments in the tier 2 capital instruments of financial sector entities that exceed the limit and are deducted up to €2,007 thousand.

With respect to the transitional rules, the item in question includes the following adjustments:

- ✓ the negative filter relating to deductions of non-significant investments in tier 2 capital of €8,725 thousand.

With specific regard to this component of regulatory capital, the following is the list of the subordinated liabilities issued by Banca Popolare di Cividale and its subsidiaries and included in tier 2 capital.

Issuer	Identification Number	Interest rate		Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital
Banca Popolare di Cividale Scpa	IT0004271059	Floating rate	euribor 3m + 0,45%	13/08/2007	13/08/2017	13/08/2013	Euro	S	40.000.000	16.753.560
Banca Popolare di Cividale Scpa	IT0004352917	Floating rate	euribor 3m + 0,35%	07/04/2008	07/04/2018	07/04/2014	Euro	S	15.000.000	7.840.088
Banca Popolare di Cividale Scpa	IT0005072852	Fixed rate	2,75%	19/12/2014	19/12/2019		Euro	N	630.000	625.860
Total									**55.630.000**	**25.219.507**

B. Quantitative disclosures

(thousands of Euro)	31/12/2014	31/12/2013 *
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**272.804**	***231.919***
of which CET1 instruments subject to transitional adjustments	-	*0*
B. Filtri prudenziali del CET1 (+/-)	-	-
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**272.804**	***231.919***
D. Items to be deducted from CET 1	**(37.744)**	***(14.184)***
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional adjustme	**(4.490)**	***0***
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**230.570**	***217.735***
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period		
of which AT1 instruments subject to transitional adjustments	-	*0*
H. Items to be deducted from AT1	-	*0*
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 subject to transitional adjustements	-	*0*
L. Total Additional Tier 1 (AT1) (G - H +/- I)	-	*0*
M. Tier 2 (T2) before items to be deducted and effects of transitional period	24.890	*64.857*
of which T2 instruments subject to transitional adjustments	24.594	*0*
N. Items to be deducted from T2	**(2.007)**	***(14.184)***
O. Transitional period - Impact on T2 (+ / -), including instruments issued by subsidiaries and included in T2 subject to transitional adjustments	**(8.725)**	**-**
P. Total Tier 2 (T2) (M - N +/- O)	**14.158**	***50.673***
Q. Total own funds (F + L + P)	**244.728**	***268.408***

The new regulations governing the calculation of own funds entered into effect on 1 January 2014. The figures from the comparative period have been restated on the basis of the tables provided for in applicable regulations.

2.3 Capital adequacy

A. Qualitative disclosures

As at 31/12/2014, the ratio of common equity tier 1 capital to risk-weighted assets stood at 10.04%, whereas the ratio of own funds to risk-weighted assets came to 10.66%. Both values comply with the limits established by the supervisory regulations cited in the previous section.

In determining its capital requirements for credit risk, the Group uses the standardised approach. This method involves separating exposures into different classes (portfolios) according to the nature of the counterparty or the technical characteristics of the transaction or the manner in which it is carried out and the application of different risk weights to each portfolio.
For the Group, the most significant segments are as follows: exposures to or guaranteed by central governments and central banks, exposures to or guaranteed by businesses, exposures guaranteed by real properties and retail exposures. In this regard, it should be noted that in accordance with Regulation (EU) No. 575/2013, different weighting coefficients are applied to each class of exposures in relation to the various levels of risk identified in supervisory regulations.
The new regulations for the prudential supervision of banks permit financial institutions to determine the weighting coefficients for calculating the capital requirement for credit risk under the standardised approach based on credit assessments by third-party rating agencies (External Credit Assessment Institutions or ECAIs) recognised by the Bank of Italy. For the Bank and Group companies, the agency DBRS was used for the following portfolios with effect from April 2013:

- ✓ exposures to or guaranteed by central governments and banks;
- ✓ exposures to or guaranteed by international organisations;
- ✓ exposures to or guaranteed by multilateral development banks.

To determine its capital requirement for market risk, the Group has elected to use the standardised approach, while the basic indicator approach has been used for operational risk.

B. Quantitative disclosures

	Unweighted amounts		Weighted amounts / requirements	
	31/12/14	31/12/2013 *	31/12/14	31/12/2013 *
A. RISK ASSETS				
A.1 CREDIT AND COUNTERPARTY RISK	**4.938.131**	***6.767.198***	**2.083.371**	***2.349.043***
1. Standard methodology	4.938.131	*6.767.198*	2.083.371	*2.349.043*
2. Methodology based on internal ratings				
2.1 Base				
2.2 Advanced				
3. Securitisations				
B. CAPITAL REQUIREMENTS			-	-
B.1 CREDIT AND COUNTERPARTY RISK			166.670	*187.923*
B.2 CREDIT VALUATION ADJUSTMENT RISK			95	-
B.3 SETTLEMENT RISK			-	-
B.4 MARKET RISK			112	*813*
1. Standard methodology			112	*813*
2. Internal models			-	-
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			-	-
1. Base methodology			16.863	*19.455*
2. Standard methodology			-	-
3. Advanced methodology			-	-
B.6 Other calculation elements			-	-
B.7 Total capital requirements			183.740	*208.191*
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2.296.744	*2.602.386*
C.2 Common Equity Tier 1 / Risk-weighted assets (CET 1 capital ratio)				
C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			10,04%	*8,37%*
C.4 Total own funds / Risk weighted assets (Total capital ratio)			10,66%	*10,31%*

The new regulations governing the calculation of risk-weighted assets and coefficients entered into effect on 1 January 2014. The figures from the comparative period have been restated according to the table provided in the applicable regulations.
At 31 December 2014, risk-weighted assets were €2,297 million, compared to €2,602 million at 31 December 2013, recalculated on the basis of the new rules laid down in Regulation (EU) No. 575/2013 (CRR) and the pertinent implementing documents.
In this regard, it should be noted that the credit value adjustment (CVA) risk began to be calculated with effect from 31 March 2014, in accordance with the new European regulations.
The total capital ratio was 10.04%, compared to 8.37% in 2013. The ratio of the Group's tier 1 capital to total risk-weighted assets (the tier 1 ratio) was 10.66%, compared to 10.31% in the previous period.

Chapter G – BUSINESS COMBINATIONS
SECTION 1 – TRANSACTIONS CONDUCTED DURING THE YEAR

1.1 Business combinations
No business combinations with parties external to the Group governed by IFRS 3 Business Combinations were undertaken during the year.

SECTION 2 – TRANSACTIONS AFTER THE BALANCE-SHEET DATE
On 18 March 2015 the Board of Directors resolved to proceed with the merger of Tabogan S.r.l. into its parent company. At 31 December 2014, Banca Popolare di Cividale S.c.p.A. held a 100% interest in the company.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS
No retrospective adjustments have been applied.

Chapter H – TRANSACTIONS WITH RELATED PARTIES
1. Information concerning the compensation of key management personnel
The following table reports the compensation of the directors, executives and other managers with strategic responsibilities of the Parent Company and other Group companies.

	2014
a) Short-term benefits *	2.303
b) Post-employement benefits	83
c) Other long-term benefits	-
d) Termination benefits	-
c) Share-based payments	-
Total	**2.386**

** The amount indicated includes the remuneration paid to directors of €551 thousand, to the Board of Statutory Auditors of €136 thousand and to the Supervisory Board of €19 thousand.*

2. Information on transactions with related parties
In accordance with IAS 24, as applied to the organisational and governance structures of Banca Popolare di Cividale S.c.p.A. and the other Group companies, the following natural persons and legal entities are considered to be related parties at the consolidated level:

- ✓ subsidiaries, i.e. companies over which the Parent Company directly or indirectly exercises control, as defined in IAS 27;
- ✓ associates, i.e. companies over which the Parent Company directly or indirectly exercises a significant influence, as defined in IAS 28;
- ✓ joint ventures, i.e. companies over which the Parent Company directly or indirectly exercises joint control, as defined in IAS 31;
- ✓ managers with strategic responsibilities and control bodies, i.e. the Directors, Statutory Auditors, General Manager and Assistant General Managers of the Parent Company;
- ✓ other related parties, including:
  - immediate family members (cohabiting partners, children, cohabiting partners' children, dependants of the person concerned or cohabiting partner) of Directors, Statutory Auditors or the General Manager of the Parent Company; and
  - subsidiaries, joint ventures and companies subject to significant influence by the Directors, Statutory Auditors, General Managers and Assistant General Managers of consolidated companies, in addition to their immediate family members, as defined above.

The effects of transactions with related parties on the balance sheet are presented in the following summary tables. The effects of transactions undertaken with subsidiaries are not presented, inasmuch as the process of line-by-line consolidation involves the elimination of intragroup balances and transactions.

	ASSOCIATED COMPANIES	EXECUTIVES AND CONTROL BODIES	OTHER RELATED PARTIES	% of
Assets				
Loans to customers	9.634	404	18.327	1,04%
Liabilities				
Due to customers	6.232	1.443	3.719	0,57%
Income statement				
Net interest income	316	(25)	579	1,25%
Net commission income	54	11	136	0,92%
Administrative expenses	-	2.367	-	7,51%
Guarantees and commitments	270	-	504	0,90%
Indirect funding	-	2.250	6.622	1,01%

Dealings and transactions between Banca Popolare di Cividale Group companies take place within an organisational model in which the Parent Company is responsible for strategic management and coordination of Group companies. Among other things, this includes providing these companies with key services, thereby achieving significant economies of scale and enabling subsidiaries to focus their resources on their core businesses.
Dealings between Group companies mainly involve the provision of services, deposits and financing as part of ordinary interbank operations, as well as other contractual arrangements for assistance and advisory services and the provisions of specialist services in support of banking and financial operations.
Interbank transactions are settled at arm's-length conditions. Other dealings are settled according to specific contractual agreements that – without prejudice to the goal of optimising synergies and generating economies of scale and scope at the Group level – are founded upon ongoing, objective parameters designed to ensure transparency and substantive fairness. Prices for services rendered are calculated and formalised using proven parameters that take account of actual use by each company.
Transactions with related parties other than companies that are part of the Banca Popolare di Cividale S.c.p.A. Group are treated as normal banking operations and are ordinarily settled at arm's-length conditions for operations or offered on any more favourable terms for which employees are eligible.
Banking transactions with groups controlled by the directors of the Company or other Banca Popolare di Cividale S.c.p.A. Group companies are approved in accordance with Article 136 of the Consolidated Banking Act and supervisory provisions governing associates.
It should be noted that no transactions with related parties considered major transactions pursuant to the Procedures for Related-Party Transactions cited above were undertaken during the reporting period. In 2014 there were no additional atypical and/or unusual transactions to be disclosed pursuant to Consob bulletin no. DEM/6064293 of 28 July 2006.

Chapter I – SHARE-BASED PAYMENTS

The Group has not entered into payment agreements based on the use of its own equity instruments.

Chapter L – SEGMENT REPORTING

Segment reporting disclosures have been prepared in accordance with the provisions of IFRS 8, which requires that such disclosures be presented in a manner consistent with the way in which the entity's management makes operating decisions. Accordingly, the identification of operating segments and the disclosures presented in this section are modelled on the internal reports employed by the management in allocating resources to the various segments and analysing their performances.

Criteria for identifying and aggregating operating segments

In application of IFRS 8, the Group has identified operating segments on the basis of the corporate perimeters of the individual entities that comprise the Group. The following operating segments have been identified for the purposes of segment reporting at 31 December 2014:

- ***Retail and Corporate Bank***, the segment dedicated to banking activity, which includes Banca Popolare di Cividale; and
- ***Leasing***, the segment dedicated to leasing activity that includes the Group's leasing company, Civileasing.

Businesses have been grouped into operating segments in a manner that reflects the similarity of their earnings profiles and of their sectors of operation in terms of the nature of products and processes, customer type, distribution methods and regulatory context. Segments are categorised by classifying the various Group companies according to their core businesses. The results for each segment are drawn from the separate financial statements of the various entities or combined on the basis of the separate financial statements of the legal entities assigned to each segment, adjusted to reflect consolidated entries deemed immaterial to the results of each individual segment.
The following considerations apply to the reconciliation of results for each sector and consolidated results:

- ✓ The measurement criteria for the segment reporting presented in this section are consistent with those employed in internal reporting, as required by applicable accounting standards; they are also consistent with the accounting standards used in preparing the financial statements, inasmuch as they have been deemed best suited to furnishing a true and fair presentation of the Group's earnings and financial position.

The figures from the comparative period have been reclassified as appropriate.

Segment results – Income-statement data

	31/12/2014			31/12/2013		
RECLASSIFIED INCOME STATEMENT	**LEASING**	**BANK**	**TOTAL**	**LEASING**	**BANK**	**TOTAL**
Interest income and similar revenues	4.952	113.052	118.004	8.921	131.198	140.119
Interest expense and similar charges	274	(48.762)	(48.488)	(3.065)	(54.594)	(57.659)
Net fair value changes in hedge relationships	-	-	-	-	(54)	(54)
Dividends and net income (loss) of equity investments accounted for using equity method	-	1.174	1.174	-	1.278	1.278
FINANCIAL INCOME	**5.226**	**65.464**	**70.690**	**5.856**	**77.828**	**83.684**
Net commissions	(118)	21.858	21.741	(249)	22.536	22.287
Other operating income (net of recovered expenses)	395	1.625	2.020	450	286	736
Net trading income	-	705	705	-	423	423
Gains (losses) from purchase/sale of loans and financial assets	(795)	35.715	34.919	(229)	50.861	50.633
OPERATING REVENUES	**4.709**	**125.367**	**130.075**	**5.828**	**151.934**	**157.762**
Personnel expenses (net of recovered expenses)	(766)	(39.113)	(39.879)	(1.082)	(40.226)	(41.308)
Other administrative expenses (net of recovered expenses)	(1.090)	(22.816)	(23.906)	(1.035)	(25.809)	(26.843)
Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill)	(179)	(3.293)	(3.473)	(85)	(1.289)	(1.374)
OPERATING COST	**(2.036)**	**(65.223)**	**(67.258)**	**(2.202)**	**(67.323)**	**(69.525)**
OPERATING INCOME	**2.673**	**(65.223)**	**62.817**	**3.626**	**(67.323)**	**(69.525)**
Charges/write-backs on impairment of loans	(1.635)	(37.316)	(38.950)	(5.770)	(122.380)	(128.150)
Charges/write-backs on impairment of other assets	-	-	-	-	(1.051)	(1.051)
Net provisions for risks and charges	-	(1.286)	(1.286)	(30)	(2.380)	(2.410)
Profit (loss) on disposal of investments	-	-	-	-	-	-
INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**1.039**	**21.543**	**22.580**	**(2.174)**	**(41.200)**	**(43.375)**
Tax on income from continuing operations	(466)	(12.051)	(12.517)	584	6.997	7.581
INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**573**	**9.492**	**10.065**	**(1.590)**	**(34.203)**	**(35.793)**
NET INCOME FOR THE PERIOD	**573**	**9.492**	**10.065**	**(1.590)**	**(34.203)**	**(35.793)**

Segment results – Balance-sheet data

	31/12/2014			31/12/2013		
ASSETS	**LEASING**	**BANK**	**TOTAL**	**LEASING**	**BANK**	**TOTAL**
Financial assets held for trading	-	3.032	3.032	-	3.512	3.512
Financial assets available for sale	18	1.033.821	1.033.838	18	1.472.115	1.472.132
Financial assets held to maturity	-	64.697	64.697	-	105.413	105.413
Due from banks	1.031	158.316	159.347	1.456	162.294	163.750
Loans to customers	301.176	2.434.074	2.735.250	319.823	2.794.011	3.113.834

	31/12/2014			31/12/2013		
LIABILITIES	**LEASING**	**BANK**	**TOTAL**	**LEASING**	**BANK**	**TOTAL**
Due to banks	277.736	844.087	1.121.823	294.550	716.313	1.010.863
Due to customers	1.024	2.012.000	2.013.024	2.958.519	9.893	2.968.412
Debt securities issued	-	689.006	689.006	-	730.284	730.284

Cividale del Friuli, 18 March 2015
Banca Popolare di Cividale S.c.p.A.
The Board of Directors

Other documents

Certification of the consolidated financial statements pursuant to Article 81-ter of Consob Regulation No. 11971 of 14 May 1999, as amended

1. We, the undersigned, Graziano Tilatti, in the capacity of Chairman of the Board of Directors, and Gabriele Rosin, in the capacity of manager responsible for the preparation of financial reports, of Banca Popolare di Cividale S.c.p.A., do hereby certify, pursuant to Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998, that the administrative and accounting procedures used to prepare the consolidated financial statements during the period 1 January – 31 December 2014:

- were adequate with respect to the characteristics of the enterprise; and
- were effectively applied.

2. Our review of the adequacy and effective application of the administrative and accounting procedures used to prepare the consolidated financial statements at and for the year ended 31 December 2014 was based on a model established by Banca Popolare di Cividale S.c.p.A. in accordance with the *Internal Control – Integrated Framework (CoSO)* and the *Control Objectives for Information and Related Technologies (COBIT)*, which represent generally accepted international standards of reference for the internal control system and financial reporting in particular.

3. Furthermore, we do hereby certify that:

3.1. the consolidated financial statements

a) have been prepared in accordance with the applicable international accounting principles endorsed by the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002;
b) correspond to the results of accounting books and records; and
c) are suited to furnishing a true and fair representation of the financial performance and financial position of the issuer and the set of enterprises within the scope of consolidation.

3.2. The consolidated report on operations includes a reliable analysis of operating performance and results, as well as the situation of the issuer and the set of enterprises included within the scope of consolidation, in addition to a description of the main risks and uncertainties to which it is exposed.

Cividale del Friuli, 18 March 2015

The Chairman of the Board of Directors	Manager responsible for financial reports
Graziano Tilatti	Gabriele Rosin
[signed]	[signed]

Independent Auditors' Report on the consolidated financial statements of Banca Popolare di Cividale for the year ended 31 December 2014

EY
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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders
of Banca Popolare di Cividale S.c.p.A.

1. We have audited the consolidated financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the related explanatory notes, of Banca Popolare di Cividale S.c.p.A. and its subsidiaries (the "Banca Popolare di Cividale Group") as of December 31, 2014 and for the year then ended. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Banca Popolare di Cividale S.c.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 9, 2014.

3. In our opinion, the consolidated financial statements of the Banca Popolare di Cividale Group at December 31, 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Banca Popolare di Cividale Group for the year then ended.

Reconta Ernst & Young S.p.A.
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4. The Directors of Banca Popolare di Cividale S.c.p.A. are responsible for the preparation of the Directors' Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Directors' Report on Operations and the specific section on Corporate Governance regarding the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 2, letter b), as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Directors' Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 2), letter b) included in the specific section of the Report are consistent with the consolidated financial statements of the Banca Popolare di Cividale Group at December 31, 2014.

Verona, April 1, 2015

Reconta Ernst & Young S.p.A.

Signed by: Marco Bozzola, partner

This report has been translated into the English language solely for the convenience of international readers.

Separate Financial Statements of Banca Popolare di Cividale S.c.p.A.

Financial statements

Balance sheet

Balance sheet - Assets			31/12/2014		31/12/2013
10	Cash and cash equivalents		18.486.299		20.019.721
20	Financial assets held for trading		3.032.011		3.512.363
30	Financial assets measured at fair value		-		-
40	Financial assets available for sale		1.033.820.973		1.472.114.620
50	Invetments held to maturity		64.696.661		105.412.626
60	Due from banks		158.685.756		162.911.810
70	Loans to customers		2.711.727.973		3.082.164.168
80	Hedging derivatives		-		-
90	Change in fair value of assets in macro fair value hedge portfolios		-		-
100	Investments in associates and companies subject to joint		36.494.815		36.717.835
110	Property and equipment		76.758.733		72.611.967
120	Intangible assets		19.135.900		19.135.900
	of which:				
	- goodwill	19.135.900		19.135.900	
130	Tax assets		69.899.873		68.429.363
	a) current	18.326.613		16.598.962	
	b) deferred	51.573.260		51.830.401	
	of which convertible into tax credit (Law no. 214/2011)	*48.633.994*		*46.914.232*	
150	Other assets		27.386.535		30.526.823
	Total assets		**4.220.125.529**		**5.073.557.196**

Balance sheet - liabilities and shareholders' equity			31/12/2014		31/12/2013
10	Due to banks		1.116.403.136		997.921.834
20	Due to customers		2.012.149.908		2.958.519.304
30	Debt securities issued		689.005.667		730.283.917
40	Financial liabilities held for trading		1.036.143		965.035
80	Tax liabilities		28.018.390		26.113.142
	a) current	16.870.668		18.992.299	
	b) deferred	11.147.722		7.120.843	
90	Liabilities associated with discontinued operations		-		-
100	Other liabilities		84.796.903		83.635.968
110	Employee termination benefits		6.022.010		5.644.645
120	Provisions for risk and charges:		4.907.048		3.296.111
	a) post-employment and similar obligations	-		-	
	b) other provisions	4.907.048		3.296.111	
130	Valuation reserves		11.126.085		8.551.574
160	Reserves		42.922.245		42.845.467
170	Share premiums		167.021.739		198.569.529
180	Share capital		50.913.255		51.067.947
190	Treasury shares (-)		-		(7.277)
200	Net income (loss) for the period (+/-)		5.803.000		(33.850.000)
	Total liabilities and shareholders' equity		**4.220.125.529**		**5.073.557.196**

Income statement

Income statement			31/12/2014		31/12/2013
10	Interest income and similar revenues		113.051.677		135.260.801
20	Interest expense and similar charges		(48.415.987)		(57.495.815)
30	**Net interest income**		**64.635.690**		**77.764.986**
40	Commission income		28.463.997		28.976.253
50	Commission expense		(7.390.413)		(7.020.743)
60	**Net commission income**		**21.073.584**		**21.955.510**
70	Dividends and similar income		927.091		1.332.973
80	Net trading income		704.520		422.988
90	Fair value adjustments in hedge accounting		-		(53.830)
100	Profit (loss) on disposal or repurchase of:		35.092.643		50.861.422
	a) loans	-		1.080.877	
	b) financial assets available for sale	34.555.834		51.586.307	
	d) financial liabilities	536.809		(1.805.762)	
120	**Total income**		**122.433.528**		**152.284.049**
130	Charges/write-backs on impairment of:		(34.792.825)		(120.209.609)
	a) loans	(32.051.936)		(110.970.749)	
	b) financial assets available for sale	(2.038.944)		(9.280.797)	
	d) other financial transactions	(701.945)		41.937	
140	**Net Financial income**		**87.640.703**		**32.074.440**
150	G&A expenses:		(69.504.545)		(71.865.208)
	a) personnel expenses	(39.067.141)		(40.189.145)	
	b) other administrative expenses	(30.437.404)		(31.676.063)	
160	Net provisions for risks and charges		(2.642.992)		(2.379.805)
170	Net impairment/write-backs on property, plant and equipment		(1.717.468)		(1.221.560)
180	Net impairment/write-backs on intangible assets		-		(67.451)
190	Other operating income (expenses)		7.680.094		6.862.538
200	**Operating cost**		**(66.184.911)**		**(68.671.486)**
210	Profit (loss) on equity investments		(5.223.020)		(4.087.980)
250	**Income (loss) before tax from continuing operations**		**16.232.772**		**(40.685.026)**
260	Tax on income from continuing operations		(10.429.772)		6.835.026
270	**Income (loss) after tax from continuing operations**		**5.803.000**		**(33.850.000)**
290	**Net income for the period**		**5.803.000**		**(33.850.000)**

Statement of comprehensive income

		31/12/2014	31/12/2013
10	**Net profit for the year**	**5.803.000**	**(33.850.000)**
	Other income net of income taxes without transfer to profit and loss account		
40	Actuarial gains (losses) from defined benefit plans	(348.826)	184.523
100	AFS financial assets	6.187.895	(10.645.917)
130	**Total other income, net of income taxes**	**5.839.069**	**(10.461.394)**
140	**Comprehensive income (10 + 130)**	**11.642.069**	**(44.311.394)**

Statement of changes in shareholders' equity (2014)

2014	Balance at 01/01/2014	Balance at 01/01/2014	Allocation of result for previous period		Changhes during the year	Equity operations							Shareholders' equity at 31/12/2014
			Reserves	Dividends and other uses	Changes in reserves	New share issues	Purchase of treasury stock	Extraordinary dividend distribution	Change in equity instruments	Derivatives on own shares	Stock options	Total comprehensive income for the period	
Share capital	**51.067.947**	**51.067.947**	-	-	-	-	**(154.692)**	-	-		-	-	**50.913.255**
a) ordinary shares	51.067.947	51.067.947	-	-			(154.692)	-	-		-	-	50.913.255
b) other shares	-	-	-	-	-	-	-	-	-		-	-	-
Share premium reserve	**198.569.529**	**198.569.529**	**(30.585.442)**	-			**(962.348)**	-	-		-	-	**167.021.739**
Reserves	**42.845.467**	**42.845.467**	-	-	**76.778**	-	-	-	-		-	-	**42.922.245**
a) income	42.845.467	42.845.467		-	76.778		-	-	-		-	-	42.922.245
b) other	(0)	(0)	-	-	-	-	-	-	-		-	-	(0)
Valuation reserves:	**8.551.574**	**8.551.574**	**(3.264.558)**									**5.839.069**	**11.126.085**
Equity instruments	-	-	-	-	-	-	-	-	-		-	-	-
Treasury shares	**(7.277)**	**(7.277)**			-		**7.277**						-
Net income (loss) for the period	**(33.850.000)**	**(33.850.000)**	**33.850.000**		-	-	-	-	-		-	**5.803.000**	**5.803.000**
Shareholders' equity	**267.177.239**	**267.177.239**	-	-	**76.778**	-	**(1.109.763)**	-	-		-	**11.642.069**	**277.786.324**

Statement of changes in shareholders' equity (2013)

2013	Balance at 01/01/2014	Allocation of result for previous period		Changhes during the year	Equity operations							Shareholders' equity at 31/12/2014
		Reserves	Dividends and other uses	Changes in reserves	New share issue	Purchase of treasury stock	Extraordinary dividend distribution		Derivatives on own shares	Stock options	Total comprehensive income for the period	
Share capital	**50.783.289**	-	-	-	**284.658**	-	-	-	-	-	-	**51.067.947**
a) ordinary shares	50.783.289	-	-	-	284.658	-	-	-	-	-	-	51.067.947
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**196.529.480**	-	-	-	**2.040.049**	-	-	-	-	-	-	**198.569.529**
Reserves	**38.045.695**	**7.747.543**	-	**(2.947.771)**	-	-	-	-	-	-	-	**42.845.467**
a) income	38.045.695	7.747.543	-	(2.947.771)		-	-	-	-	-	-	42.845.467
b) other	(0)	-	-	-	-	-	-	-	-	-	-	(0)
Valuation reserves:	**19.980.920**	-	-	**(967.952)**	-	-	-	-	-	-	**(10.461.394)**	**8.551.574**
a) available for sale	16.782.295	-	-	(802.519)	-	-	-	-	-	-	(10.645.917)	5.333.859
b) cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	-
c) other (*)	3.198.625	-	-	(165.433)	-	-	-	-	-	-	184.523	3.217.715
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	**(9.740.441)**	-	-	**9.733.164**	-	-	-	-	-	-	-	**(7.277)**
a) of Parent Company	(9.740.441)	-	-	9.733.164	-	-	-	-	-	-	-	(7.277)
b) of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss) for the perio	**14.172.260**	**(7.747.543)**	**(6.424.717)**	-	-	-	-	-	-	-	**(33.850.000)**	**(33.850.000)**
Shareholders' equity	**309.771.202**	-	**(6.424.717)**	**5.817.441**	**2.324.707**	-	-	-	-	-	**(44.311.394)**	**267.177.239**

Statement of cash flows

CASH FLOW STATEMENT				
OPERATING ACTIVITY	31/12/2014		31/12/2013	
1. Operations		**78.831.223**		**98.282.137**
- interest income received (+)	114.690.496		136.689.492	
- interest expense paid (-)	(30.966.711)		(41.837.942)	
- net commissions (+/-)	18.320.478		26.153.170	
- staff costs	(37.071.912)		(37.707.583)	
- other expenses (-)	(29.618.384)		(39.873.381)	
- other revenues (+)	43.477.257		54.858.381	
- taxes and duties (-)	(1)		-	
2. Liquidity generated/absorbed by financial assets: (+/-)		**789.375.360**		**106.641.027**
- financial assets held for trading	480.352		7.685.454	
- financial assets available for sale	436.254.703		(78.767.206)	
- loans to custumers	335.967.237		(33.276.358)	
- due from banks: repayable on demand	(11.331)		623.893	
- due from banks: other	4.355.766		216.964.028	
- other assets	12.328.633		(6.588.784)	
3. Liquidity generated/absorbed by financial liabilities: (+/-)		**(905.324.912)**		**(104.908.851)**
- due to banks: repayable on demand	(8.014)		(1.372.923)	
- due to banks: other	105.410.169		20.747.239	
- due to customers	(949.792.359)		282.459.011	
- securities issued	(42.225.416)		(377.650.000)	
- financial liabilities held for trading	71.108		(1.108.146)	
- other liabilities	(18.780.400)		(27.984.032)	
Net liquidity generated/absorbed by operating activity A (+/-)		**(37.118.329)**		**100.014.313**
INVESTING ACTIVITY				
1. Liquidity generated by: (+)		**927.091**		**1.332.973**
- dividends received on equity investments	927.091		1.332.973	
2. Liquidity absorbed by: (-)		**29.851.731**		**(9.186.413)**
- purchase of equity investments	(5.000.000)		1.087.980	
- purchase of financial assets held to maturity	40.715.965		(1.305.276)	
- purchase of property, plant and equipment	(5.864.234)		(8.969.117)	
Net liquidity generated/absorbed by investing activity B (+/-)		**30.778.822**		**(7.853.440)**
FUNDING ACTIVITY				
- issue/purchase of own shares	4.806.084		(91.216.881)	
- distribution of dividends and other uses	-		(6.424.717)	
Net liquidity generated/absorbed by funding activity C (+/-)		**4.806.084**		**(97.641.598)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD D = A +/- B +/- C		**(1.533.423)**		**(5.480.725)**

RECONCILIATION		
Cash and cash equivalents at the start of the period E	20.019.721	25.500.445
Total net liquidity generated/absorbed during the period D	(1.533.423)	(5.480.725)
Cash and cash equivalents at the end of the period G = E +/-D+/-F	**18.486.299**	**20.019.721**

Notes
Chapter A – ACCOUNTING POLICIES
A.1 – GENERAL INFORMATION

Section 1 Statement of compliance with international accounting standards

In application of Legislative Decree No. 38 of 28 February 2005, the separate financial statements of Banca Popolare di Cividale are prepared in accordance with the international accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, the adoption of which was compulsory at 31 December 2014, including the relative Interpretations of the International Financial Reporting Interpretation Committee (IFRIC), as established by Regulation (EC) No. 1606 of 19 July 2002.
The financial statements for the year ended 31 December 2014 have been prepared on the basis of the instructions issued by the Bank of Italy within the scope of its regulatory powers governing the technical form of the financial statements of banks and financial institutions as set forth in Legislative Decree No. 38/05 Instructions for the Preparation of the Separate and Consolidated Financial Statements of Banks and Financial Institutions that are the Parent Companies of Banking Groups (Order of 22 December 2005 – Circular No. 262 – third update of 22 December 2014), taking account of the changes announced by the Bank of Italy.
Those Instructions set out a compulsory presentation for the financial statements and the basis for the preparation thereof, as well as the contents of the notes to the financial statements.
The financial statements have been prepared using the international accounting standards in force at 31 December 2014 (including the SIC and IFRIC interpretation documents).
The following is a list of the regulations endorsing several new standards or amendments to existing standards, applicable on a compulsory basis effective financial year 2014, as limited to the cases of interest to the Bank’s business, for which an early application option was not exercised in previous years:

- ✓ Regulation No. 1254/2012, which adopts the following international accounting standards: IFRS 10 *Consolidated Financial Statements*, which replaces IAS 27 and the interpretation SIC 12 and has the objective of providing a single consolidation model that identifies control as the basis for consolidation of all types of entities; ii. IFRS 11 *Joint Arrangements*, which establishes principles for the financial reporting by parties to a joint arrangement and replaces IAS 31 Interests in Joint Ventures and the interpretation SIC 13; iii. IFRS 12 *Disclosure of Interests in Other Entities*, which combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. That same Regulation also amends IAS 27 *Separate Financial Statements* and IAS 28 *Investment in Associates and Joint Ventures* (in addition to replacing IAS 31 *Interests in Joint Ventures*).
- ✓ Regulation No. 313/2013 – transition guidance and amendments to IFRS 10, 11 and 12, clarifying the IASB's intention when first issuing the transition guidance in IFRS 10. The amendments also provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before IFRS 12 is first applied.
- ✓ Regulation No. 1174/2013 – Investment Entities, which amends IFRS 10, IFRS 12 and IAS 27 so as to require that investment entities measure their subsidiaries at fair value through profit or loss account rather than consolidate them in order to better reflect their business model. Disclosures about interests in other entities (IFRS 12) have also been amended so as to require specific disclosure about the subsidiaries of the above-mentioned investment entities.
- ✓ Regulation No. 1374/2013 – Recoverable Amount Disclosures for Non-Financial Assets, which amends IAS 36 and clarifies that the scope of the disclosures of information about the recoverable amount of assets, where that amount is based on fair value less costs of disposal, is limited to impaired assets.
- ✓ Regulation No. 1375/2013 – Novation of Derivatives and Continuation of Hedge Accounting, which amends IAS 39, governing situations where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. Hedge accounting may therefore continue irrespective of the novation, which, without the amendment, would not be permitted.

Among the regulations that have been endorsed but have yet to enter into force, attention should be drawn to:

- ✓ Regulation No. 634/2014, which adopts the interpretation IFRIC 21 *Levies*. That Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37, as well as the accounting for a liability to pay a levy whose timing and amount is uncertain. Application is required from 1 January 2015.
- ✓ Regulation No. 1361/2014, adopting Annual Improvements to the International Reporting Standards 2011–2013 Cycle, with the aim of addressing non-urgent issues relating to areas of inconsistency in IFRS or clarification of wording, discussed by the IASB during the project cycle that began in 2011. The amendments to IFRS 3 and 13 are clarifications or corrections to the respective standards. The amendments to IAS 40 involve changes to the existing requirements or additional guidance on the implementation of those requirements.
- ✓ Regulation No. 28/2015, adopting Annual Improvements to International Financial Reporting Standards 2010–2012 Cycle, with the aim of addressing non-urgent, but necessary issues discussed by the IASB during the project cycle that began in 2011 on areas of inconsistency in IFRS or clarification of wording. The amendments to IFRS 8 and IAS 16, 24 and 38 are clarifications or corrections to the respective standards. The amendments to IFRS 2 and IFRS 3 involve changes to the existing requirements or additional guidance on the implementation of those requirements.

Application of the new provisions did not have a significant impact on consolidated results or the net situation for the period.
The publication of the financial statements for the year ended 31 December 2014 was authorised by the Board of Directors on 18 March 2015. Banca Popolare di Cividale is a cooperative company limited by shares, registered and domiciled in Italy.

Section 2 General basis of preparation

The financial statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and the notes to the financial statements. A report on operations, earnings results and financial position has also been included. The figures presented in the financial statements and in the notes, as well in the report on operations, are expressed in thousands of euro, unless otherwise indicated. The financial statements and notes include figures for the period under review as well as comparative data at 31 December 2013. The financial statements have been prepared in application of the general preparation principles set forth in IAS 1, the accounting standards illustrated in Chapter A.2 of the notes (international accounting standards endorsed by the European Union the adoption of which was compulsory at 31 December 2014) and the general requirements laid down in the Framework for the Preparation and Presentation of Financial Statements drafted by the International Accounting Standards Board (IASB).
The financial statements for the year ended 31 December 2014 have been prepared in a clear manner and provide a fair and true representation of the Bank's financial position and earnings results for the year.

Contents of the financial statements

The balance sheet and income statement consist of items, sub-items and further information (the "of which" within items and sub-items). In the income statement, revenues are indicated without sign, whereas costs are presented in parentheses.
The statement of comprehensive income consists of items that show changes in the carrying amount of assets during the year recognised through valuation reserves. Negative amounts are presented in parentheses.
The statement of changes in shareholders' equity presents the composition of and changes in shareholders' equity accounts during the reporting year and the previous year, broken down into share capital, equity reserves, reserves from retained earnings, reserves from the valuation of assets or liabilities and net income or loss. Treasury shares are deducted from shareholders' equity.
The statement of cash flows has been prepared according to the direct method, which shows the main categories of gross receipts and payments. Cash flows have been presented by distinguishing between operating, investing and financing activity.
The notes to the financial statements include the information provided for by International Financial Reporting Standards and Circular No. 262/2005 of the Bank of Italy (third update of 22 December 2014). In particular, the third update to Circular No. 262 adopts:

- ✓ the changes concerning disclosures introduced by IFRS 12 *Disclosure of Interests in Other Entities*;
- ✓ compliance of the disclosure presented in Chapter F of the notes, Information on capital, Section 2, Own funds and capital ratios, with the new requirements introduced by Regulation EU No. 575/2013

of the European Parliament and the Council of 26 June 2013 ("CRR") and Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013 ("CRD IV").

With regard to IFRS 12, the main changes introduced relate to the disclosure concerning:
- ✓ the "significant judgements and assumptions" made in determining that it has control, joint control or significant influence over another entity;
- ✓ the composition of the group;
- ✓ subsidiaries with material non-controlling interests;
- ✓ significant restrictions on the ability to use or access assets and settle liabilities of subsidiaries;
- ✓ the nature of the risks associated with structured entities (for example, special purpose vehicles);
- ✓ the consequences of changes in ownership interest in a subsidiary that result or do not result in a loss of control;
- ✓ the material joint ventures or entities subject to significant influence for the reporting entity;
- ✓ the nature and extent of interests in non-consolidated structured entities and the associated risks.

Specific disclosure is also required concerning performing positions subject to renegotiation approved by banks for customers in financial difficulty (forborne exposures), in addition to certain additional disclosures concerning liquidity risk and the fair value of derivative financial instruments.

The financial statements and notes include figures for the period under review as well as comparative data at 31 December 2013.

Section 3 Subsequent events

Please refer to the corresponding section of the report on operations.

Section 4 Other aspects

During the year, there were no transactions or events of a non-recurring nature beyond the course of ordinary operations with a material impact on financial performance and financial position (Consob Notice No. DEM/6064293 of 28-7-2006).

Tax consolidation

For the three-year period from 2012 to 2014, the Parent Company and the subsidiary Civileasing S.p.A. adopted the consolidated taxation mechanism. The option, governed by Articles 117 et seq. of the Consolidated Income Tax Act (introduced into the tax code by Legislative Decree No. 344/2003), allows income to be taxed at the consolidated level by transferring the tax positions of participating companies to the Parent Company. The separate financial statements have been audited by Reconta Ernst & Young S.p.A.

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

This section describes the accounting policies adopted in preparing the financial statements for the year ended 31 December 2014 and includes an illustration by item of the criteria for recognition, classification, measurement, derecognition and, where relevant, the criteria for the recognition of income components.

Financial assets held for trading

This category includes debt and equity securities held for trading and the positive value of derivative contracts. Derivative contracts also include those embedded in hybrid financial instruments that have been recognised separately because:
- ✓ their financial characteristics and risks are not strictly correlated with the characteristics of the host contract;
- ✓ the embedded instruments meet the definition of derivative, even when separated; and
- ✓ the hybrid instruments are not measured at fair value with changes in fair value recognised through the income statement.

Reclassifications to other categories of financial assets are not permitted except in cases of unusual events that are highly unlikely to recur in the near term. In such cases, debt securities and equities not held for trading may be reclassified into other categories established by IAS 39 if the conditions for their recognition have been met (financial assets held to maturity, financial assets available for sale and loans and receivables). The transfer value is the fair value at the time of the reclassification. The presence of any embedded derivative contracts to be separated is assessed upon reclassification.

Initial recognition of financial assets occurs at the settlement date for debt securities and equities and the trade date for derivative contracts. Upon initial recognition, financial assets held for trading are recorded at fair

value, without considering transaction costs or revenues directly attributable to the instrument, which are recognised in the income statement.
After initial recognition, financial assets held for trading are measured at fair value. The effects of the application of this measurement criterion are taken to the income statement.
Market prices are used to determine the fair value of financial instruments listed on active markets. In the absence of an active market, the Group uses estimation methods and valuation models that take account of all risk factors associated with the instruments and that, where possible, are based on data that may be obtained from the market, such as: the valuation of listed instruments with similar characteristics (comparables method), discounted cash flow analysis, option-pricing models, values reported for recent comparable transactions (recent transactions method), etc.
Where it is impossible to use the approaches indicated above, the Group adopts estimation methods and valuation models that also contemplate input data not directly available from the market.
Equity securities, units of CIUs that invest in equity securities and derivatives on equity securities not listed on active markets for which fair value may not be determined reliably according to the foregoing guidelines continue to be carried at cost.
Financial assets are only derecognised if they are transferred along with substantially all of the associated risks and rewards of ownership. Conversely, if a significant part of the risks and rewards associated with the transferred financial assets has been retained, those assets continue to be carried, even though ownership of the assets has effectively been transferred. When it is not possible to determine that substantially all risks and rewards have been transferred, financial assets are derecognised where no control over the assets has been retained. Where this is not the case, continuing control, even partial control, results in continuing recognition of the assets to the extent of the entity’s continuing involvement, measured by the exposure to changes in the value of the transferred assets and changes in the associated cash flows.
Lastly, transferred financial assets are derecognised if the entity retains the contractual rights to receive the cash flows from the assets, but assumes a concurrent obligation to remit such cash flows, and only such cash flows, to third parties.

Financial assets available for sale
This category includes non-derivative financial assets not classified as loans and receivables, financial assets held to maturity, financial assets held for trading or designated at fair value. In particular, this category includes not only debt securities not held for trading or classified to the other foregoing portfolios, but also equity interests not managed for trading purposes or classifiable as interests in subsidiaries, associates or joint ventures.
Where allowed by accounting standards, reclassifications are permitted only into the category financial assets held to maturity, except in cases of unusual events that are highly unlikely to recur in the near term. In such cases, debt securities may be reclassified to the loans and receivables category if the conditions for their recognition have been met. The transfer value is the fair value at the time of the reclassification.
Initial recognition of the financial asset occurs at settlement date for debt securities and equities and at disbursement date for loans.
On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument. If, where allowed by the accounting standards, an asset is recognised following reclassification from financial assets held to maturity or, in rare circumstances, from financial assets held for trading, the recognition value is the fair value as at the time of transfer.
After initial recognition, financial assets available for sale are measured at their fair value by recognising the interest, calculated according to the effective interest rate method for debt securities, in the income statement, while gains or losses deriving from changes in fair value are recognised in a specific shareholders’ equity reserve until the financial asset is derecognised or becomes impaired. When the financial asset is sold or impairment is recognised, the cumulative gain or loss must be reversed, in whole or in part, to the income statement.
Fair value is determined on the basis of the criteria illustrated above for financial assets held for trading. Equities and derivative instruments with equities as underlying assets that are not quoted on an active market, the fair value of which may not be determined reliably, continue to be carried at cost.
Financial assets available for sale are assessed to determine whether they show objective evidence of an impairment loss. If such evidence is found to exist, the amount of the loss is measured as the difference between the asset’s acquisition cost and its fair value, less any previously recognised impairment losses. If the grounds for impairment cease to apply as a result of an event that occurs after an impairment loss has been

recognised, recoveries are recognised in the income statement for loans or debt securities and in shareholders' equity for equities.
Financial assets are only derecognised if they are transferred along with substantially all of the associated risks and rewards of ownership. When it is not possible to determine that substantially all risks and rewards have been transferred, financial assets are derecognised where no control over the assets has been retained. Where this is not the case, continuing control, even partial control, results in continuing recognition of the assets to the extent of the entity's continuing involvement, measured by the exposure to changes in the value of the transferred assets and changes in the associated cash flows.
Lastly, transferred financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but assumes a concurrent obligation to remit those cash flows, and only those cash flows, to third parties.

Financial assets held to maturity
Item "50 Financial assets held to maturity" includes non-derivative quoted debt securities with fixed or determinable payments and fixed maturities that the entity actually intends and is able to hold until maturity.
Where allowed by accounting standards, reclassifications are permitted solely into the category financial assets available for sale. Where a material amount of investments classified to this category is sold or reclassified prior to maturity, the remaining financial assets held to maturity are reclassified as financial assets available for sale, and the use of the portfolio in question is restricted for the following two years, unless such sales or reclassifications:

- ✓ are so close to the maturity or the call date of the financial asset that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- ✓ occur after the collection of substantially all of the asset's original principal through scheduled or early ordinary payments; or
- ✓ are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Assets in this category are initially recognised at the settlement date and are measured at their fair value, including directly attributable transaction costs and revenue. If an asset is included in this category due to reclassification from financial assets available for sale or, in rare circumstances, from financial assets held for trading, the asset's reclassification date fair value is taken as its new amortised cost.
After initial recognition, such assets are measured according to the amortised cost method through the effective interest rate approach. Gains or losses associated with financial assets held to maturity are recognised in the income statement when the assets are derecognised or become impaired, and through the amortisation process applicable to the difference between carrying amount and the value reimbursable at maturity. It is periodically assessed whether there is objective evidence that such financial assets have become impaired. If such evidence exists, the loss is measured as the difference between the carrying value of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate. The loss is recognised in the income statement. If the grounds for impairment cease to apply due to an event that occurs after such a loss has been recognised, a recovery is recognised through the income statement. The amount of the recovery cannot result in a carrying amount for the financial asset in excess of its amortised cost if no impairment losses had been recognised in previous periods.
Financial assets are only derecognised if they are transferred along with substantially all of the associated risks and rewards of ownership. When it is not possible to determine that substantially all risks and rewards have been transferred, financial assets are derecognised where no control over the assets has been retained. Where this is not the case, continuing control, even partial control, results in continuing recognition of the assets to the extent of the entity's continuing involvement, measured by the exposure to changes in the value of the transferred assets and changes in the associated cash flows.
Lastly, transferred financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but assumes a concurrent obligation to remit those cash flows, and only those cash flows, to third parties.

Loans and receivables
Loans and receivables include loans to customers and banks with fixed or determinable payments that are not quoted on an active market. The item also includes commercial loans, repurchase agreements with the obligation a forward resale obligation, receivables originating from finance lease transactions and securities subscribed at issue or via private placements, with fixed or determinable payments and not quoted in active markets.

Loans and receivables are initially recognised on the date the contract is signed, which normally coincides with the date of disbursement, while debt securities are recognised on the settlement date. A loan or receivable is recognised according to its fair value, which is equal to the amount disbursed or the subscription price, including any costs or revenues directly attributable to the individual loan or receivable and determinable from inception, even when settled at a later date. Costs that, even with the aforementioned characteristics, are reimbursed by the borrower or are classifiable as normal internal administrative costs are excluded. If in certain rare circumstances an asset is included in this category due to reclassification from financial assets available for sale or from financial assets held for trading, the asset's reclassification date fair value is taken as its new amortised cost.

After initial recognition, loans and receivables are measured at amortised cost, which is equal to their initial value increased or decreased by principal repayments, adjustments or recoveries and amortisation – calculated according to the effective interest method – of the difference between the amount disbursed and the amount to be repaid at maturity, typically attributable to the costs/revenues directly connected to the single loan or receivable. The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan or receivable, by way of principal and interest, to the amount disbursed, including the costs/revenues attributable to the loan or receivable.

The amortised cost method is not used for loans or receivables for which application of the discounting approach may be deemed immaterial due to their short durations. Such loans or receivables are measured at their historical cost. An analogous measurement criterion is applied to loans or receivables with an unspecified maturity or with a notice period.

Loans and receivables are tested to identify those that show objective evidence of possible impairment as a result of events after initial recognition.

These include loans and receivables classified as bad debts, substandard loans, restructured loans and past-due positions according to the rules issued by the Bank of Italy, consistent with IAS/IFRS regulations. Such non-performing loans and receivables are measured separately, or according to the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan or receivable is the difference between its carrying amount at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.

Expected cash flows account for expected recovery periods, the presumed realisable value of guarantees and estimated debt-recovery costs. The adjustment is recognised in the income statement.

The original amount of a loan or receivable is recovered in subsequent periods to the extent that the grounds for impairment cease to apply, provided that such valuation is objectively attributed to an event after the impairment loss. The recovery is recognised in the income statement and cannot result in a carrying amount for the loan or receivable in excess of its amortised cost if no impairment losses had been recognised in previous periods. Recoveries on impairment include time-value effects.

The renegotiation of credit exposures granted by the Bank with respect to performing loans to customers is substantially similar to the opening of a new position, when it is due to commercial reasons other than the deterioration in the borrower’s financial situation, provided that the interest rate applied is a market rate at the renegotiation date. When renegotiations are granted to borrowers suffering from a deterioration in their financial situation, exposures are classified under non-performing loans.

Loans or receivables for which no objective evidence of loss has emerged from individual testing are tested collectively. Collective measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series and other objective elements observable at the measurement date, which allow the latent loss for each loan category to be estimated. Measurement also considers the risk connected to the borrower’s country of residence. Collective adjustments are recognised through the income statement.

Transferred loans and receivables are only derecognised if they are transferred along with substantially all risks and rewards of ownership. If it cannot be determined that substantially all risks and rewards have been transferred, loans and receivables are derecognised provided that no control has been retained. If this is not the case, continuing control, including partial control, results in the entity continuing to carry the loans and receivables to the extent of its continuing involvement, measured as the entity's exposure to changes in the value of the transferred loans and receivables and changes in the associated cash flows.

Lastly, transferred loans are derecognised if the entity retains the contractual rights to receive the cash flows from the loan or receivables, but assumes a concurrent obligation to remit those cash flows, and only those cash flows, to third parties.

Hedging transactions

Hedging transactions are aimed at neutralising potential losses on a specific item or group of items attributable to a certain risk where the risk event should occur.

The only hedges that have been used are fair-value hedges, which are intended to hedge exposure to changes in the fair value of a balance-sheet item attributable to a specific risk. This type of hedging is also used to hedge the market risk (specifically, interest-rate risk) on fixed-rate or structured bonds.

Hedging derivatives are initially recognised at their fair values.

Changes in the fair value of interest rate hedging derivatives are recognised in the income statement among finance expenses. Changes in the fair value of hedging instruments attributed to the hedged item are recognised as part of the carrying amount of the hedged item and are also recognised in the income statement among finance expenses. Any difference, representing the partial ineffectiveness of the hedge, is therefore the net financial effect.

When a hedging transaction is undertaken, the Group designates and formally documents the hedging relationship to which it intends to apply hedge accounting when the hedge commences and, if the hedge is effective, prospectively through the life of the hedge. Documentation includes an identification of the hedging instrument, the hedged item or transaction, the nature of the risk and the methods the entity intends to use to assess the effectiveness of the hedge in offsetting the exposure to changes in the fair value of the hedged item or the cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting the exposure of the hedged item to changes in fair value or cash flows attributable to the hedged risk. Assessments of whether such hedges have proved highly effective are conducted on an ongoing basis during the years for which the hedges have been designated. Hedge effectiveness is assessed at every annual or interim reporting date using:

- ✓ prospective tests, which justify the application of hedge accounting, since these prove the expected effectiveness of the hedge; and
- ✓ retrospective tests, which highlight the degree of hedge effectiveness reached in the period to which they refer. In other words, they measure to what extent results achieved differ from perfect hedging.

If such assessments do not confirm hedge effectiveness, from that moment hedge accounting is discontinued, the derivative is reclassified to financial assets held for trading and the hedged item is measured on the basis of its classification in the balance sheet.

Equity investments

The item includes investments in joint ventures and associates, which are accounted for according to the equity method.

Companies are considered joint ventures when the voting rights and the control of the economic activities of the company are equally shared, directly or indirectly, with another entity.

Companies are considered associates, that is, subject to significant influence, when the Parent Company, directly or indirectly, holds at least 20% of voting rights, or if the Parent Company holds a lesser equity stake but has the power to participate in determining the company’s financial and operational policies due to specific legal relationships such as participation in shareholders’ agreements.

Where there is evidence of impairment, the recoverable amount of an investment is estimated, considering the present value of the future cash flows that may be generated by the investment, including the final disposal value.

If the recoverable amount is lower than the carrying amount, the difference is recognised in the income statement. If the grounds for impairment cease to apply due to an event that occurs after such a loss has been recognised, a recovery is recognised through the income statement.

Equity investments are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is transferred along with substantially all the associated risks and rewards.

Property, plant and equipment

Property, plant and equipment includes land, buildings used in operations, technical plant, furniture, fixtures and equipment of all types. They are tangible items that are held for use in the production or supply of goods or services and are expected to be used during more than one period. Property, plant and equipment are initially recognised at cost, which also includes any expenses directly attributable to purchasing or commissioning the asset. Extraordinary maintenance expenses that increase the future economic benefits are

allocated to increase the value of the assets, while other ordinary maintenance costs are recognised in the income statement.
Items of property, plant and equipment are then measured at cost less accumulated appreciation, including any impairment losses or recoveries.
Property, plant and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount consists of the cost of the assets less their estimated residual value at the end of the depreciation period. Buildings are amortised at a rate deemed appropriate to account for the deterioration of the assets over time due to use. By contrast, land is not depreciated, irrespectively of whether it is acquired individually or embedded in the value of buildings, since it has an indefinite useful life. Each asset's residual amount, useful life and depreciation methods are revised at the end of each year and, where necessary, adjusted on a prospective basis.
If there is evidence that an asset may have become impaired, the carrying value and recoverable amount of the asset are compared. Any impairment losses are recognised in the income statement. If the grounds for impairment cease to apply, a recovery is recognised, in an amount that may not exceed the asset's value net of depreciation charges, in the absence of any previous impairment losses.
Items of property, plant and equipment are derecognised on disposal or when an asset is permanently withdrawn from use and no future economic benefits are expected to flow from its disposal.

Intangible assets

Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Goodwill, which represents the positive difference between the purchase cost and the fair value of an acquiree's assets and liabilities, is also recognised among intangible assets.
Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. Where this is not the case, the cost of an intangible asset is recognised in the income statement in the year in which it is incurred.
For assets with finite useful lives, cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected to flow from the asset.
Assets with indefinite useful lives are not subject to systematic amortisation, but rather periodically tested for impairment. If there is any evidence that an asset may have become impairment, that asset's recoverable amount is estimated. The impairment loss, which is recognised through the income statement, is equal to the difference between the carrying amount and recoverable amount of the asset.
In particular, intangible assets include:

- ✓ technology-related intangibles, such as software, which are amortised on the basis of their obsolescence and over a maximum period of five years; and
- ✓ goodwill.

Goodwill may be recognised when the positive difference between the fair value of the shareholders' equity acquired and the purchase price or initial recognition amount (inclusive of accessory costs) is representative of the equity investment's future income-generating potential. If the difference is negative (badwill), or if goodwill is not justified by the entity's future income-generating potential, it is recognised directly through the income statement.
Goodwill is tested for impairment annually (or whenever there is evidence of impairment). The amount of an impairment loss is determined on the basis of the difference between the carrying amount of goodwill and the recoverable amount of the CGU to which the goodwill has been allocated, if lower. The recoverable amount is equal to the greater of the fair value of the cash-generating unit, less any cost to sell, and the relative value in use. The consequent adjustments are recognised through the income statement.
An intangible asset is derecognised upon disposal or when no future economic benefits are expected to flow from the use or disposal of the asset.

Current and deferred taxation

Income tax, calculated according to the national tax code, is accounted for as a cost on an accruals basis, in a manner consistent with the method applied to account for the costs and revenue that give rise to the tax. It thus represents the balance of current and deferred taxation relating to the net income or loss for the year. Current tax assets and liabilities include the tax balances of the Group companies due to the relevant Italian and foreign tax authorities. More specifically, these items include the net balance of current tax liabilities for the year, calculated on the basis of a conservative estimate of the tax charges due for the year, assessed according to the tax code currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes paid or tax credits from previous years that the Bank claimed against taxes payable in future years. Current tax assets also include tax credits in respect of which a tax refund claim has been filed by the Bank with the relevant tax authorities.

Considering the Group's adoption of the national tax consolidation mechanism, tax positions which may be referred to the Bank and those originated by other Group companies are managed separately from an administrative standpoint.

Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years. Deferred tax liabilities are calculated by applying the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable amounts at the time when the related tax deductibility occurs (so-called probability test). Deferred tax assets and liabilities related to the same tax and due in the same period are set off against one another.

If deferred tax assets and liabilities refer to items affecting the income statement, they are recognised through income taxes.

Deferred tax liabilities associated with companies included in the scope of tax consolidation are reported in their financial statements, in application of the matching principle and in consideration of the fact that the effects of fiscal consolidation are limited to the settlement of current tax positions.

Provisions

Provisions are recognised to account for liabilities the amount or timing of which is uncertain, if and only if:

- ✓ there is a present obligation (legal or constructive) as a result of a past event;
- ✓ it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- ✓ the probable future outlay can be reliably estimated.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance-sheet date and reflects the risks and uncertainties that inevitably surround various events and circumstances. Provisions and increases due to the time factor are recognised in the income statement. Provisions are released when it becomes unlikely that resources capable of yielding economic benefits will need to be expended in order to discharge the obligation or when the obligation is extinguished.

Provisions include those for long-term and post-employment benefits within the scope of IAS 19 and provisions for risks and contingencies within the scope of IAS 37. Provisions do not include impairment losses recognised on the deterioration of guarantees, credit derivatives and similar items pursuant to IAS 39, which instead are recognised under "Other liabilities". The sub-item "Other provisions" includes amounts accrued to account for presumed losses in lawsuits in which an entity is a defendant, including revocatory actions, estimated outlays under complaints filed by customers concerning securities brokerage operations and a reliable estimate of other outlays in connection with any other legal or constructive obligation as at the end of the year or interim period.

Where the time factor is significant, provisions are discounted using current market rates. The discounting effect and the increase in provisions due to the passage of time are recognised through the income statement.

Debt and debt securities issued

Amounts due to banks, amounts due to customers and debt securities issued include the various forms of interbank funding and direct customer deposits, as well as funding through certificates of deposit and the issue of bonds and other debt securities, net of any amounts repurchased.

Such financial liabilities are initially recognised on the date on which the contract is signed, which normally coincides with the moment of receipt of the sums deposited or the issuance of the debt securities. Financial liabilities are initially measured at their fair value, plus directly attributable transaction costs.

After initial recognition, financial liabilities are measured at amortised cost according to the effective interest method. An exception is made for short-term liabilities, where the time factor is immaterial, which are stated at collected amount.

Financial liabilities, or parts of such liabilities, are derecognised when they are extinguished, that is when the obligation is discharged or cancelled or expires. Such assets are also derecognised when they are repurchased on the market. Derecognition is based on the fair value of the component issued and the component repurchased at the purchase date. Any gains or losses deriving from the transaction, depending on whether the recognised amount of the repurchased component is greater or less than the purchase price, are recognised through the income statement. If a security is then placed again, this transaction is treated as a new issue and is recognised at the new placement price.

Financial liabilities held for trading

Liabilities held for trading are represented by derivative financial instruments held for trading that present a negative fair value and have not been designated hedging instruments in a hedging relationship as defined by IAS 39. All liabilities held for trading are designated at fair value through the income statement.

Foreign-currency transactions

Foreign-currency transactions are initially recognised in the functional currency using the applicable exchange rate on the transaction date. At every subsequent balance-sheet date:

- ✓ monetary items are translated at the exchange rate prevailing at the balance-sheet date;
- ✓ non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date; and
- ✓ non-monetary items designated at fair value are translated using the exchange rate prevailing at the date the fair value was determined.

A monetary item is the right to receive, or the obligation to deliver, a fixed or determinable number of units of a currency. Conversely, the fundamental characteristic of non-monetary items is the absence of the right to receive, or the obligation to deliver, a fixed or determinable number of units of a currency. Translation differences relating to monetary items are recognised through the income statement when they arise, whereas those relating to non-monetary items are recognised through shareholders' equity or the income statement, depending on the manner in which the gains or losses that include this component are recognised. Costs and revenues in foreign currencies are measured at the exchange rate prevailing at the date of recognition or, if they have yet to accrue fully, at the exchange rate prevailing at the balance-sheet date.

Other information

Employee termination benefits

As a result of the entry into force of the 2007 Finance Act, which advanced to 1 January 2007 the effective date of the reform of supplementary pension schemes enacted in Legislative Decree No. 252 of 5 December 2005, employee termination benefits consist solely of sums accrued through 31 December 2006. In further detail, portions of employee termination benefits accrued from 1 January 2007 are considered "defined-contribution plans" for accounting purposes in accordance with IAS 19. The expense is limited to the contribution defined by the provisions of the Italian Civil Code, without the need to apply any actuarial approach.

Conversely, the provision for employee termination benefits accrued as at 31 December 2006 continues to be considered a defined-benefit plan for accounting purposes in accordance with IAS 19. However, the liability associated with employee termination benefits is subject to actuarial assessment without pro-rating service rendered inasmuch as the service to be assessed may be considered fully accrued.

All actuarial gains and losses on defined-benefit plans are recognised immediately through other comprehensive income. Such actuarial gains and losses arise as the result of adjustments to previous actuarial assumptions due to actual experience or the modification of those assumptions. They are allocated to a specific equity reserve.

Guarantees and commitments

Guarantees issued are initially recognised at fair value, represented by the commission received, and then measured at the higher of the estimated obligation determined in accordance with IAS 37 and the amount initially recognised, gradually reduced by the portion attributable to the period. The total nominal value, excluding any uses made of guarantees issued, is shown in the notes to the financial statements.

Commitments are recognised according to the best estimate of the obligation determined in compliance with IAS 37. The total amount of commitments assumed is disclosed in the notes to the financial statements.

Recognition of revenue and costs

Revenues arising from the use by third parties of an entity's assets that generate interest, commissions or dividends are recognised when it is probable that the economic benefits from a given transaction will flow to

the entity and the amount of revenue can be determined reliably. Interest and commissions are recognised through the income statement according to the classification of the financial instrument to which they refer, whereas dividends are recognised when shareholders become entitled to receive payment. Other commissions are recorded on an accrual basis.
Costs are recognised when they are incurred by following the principle of the correlation of costs and revenue that arise directly and jointly from the same transactions or events. If costs and revenue may only be correlated generically and indirectly, the costs are recognised over multiple periods according to a systematic allocation approach. When costs may not be associated with revenue, they are immediately recognised through the income statement.

Use of estimates and assumptions in preparing the annual financial statements
In preparing the annual financial statements, use has been made of estimates and assumptions that could have an impact on the amounts recognised in the balance sheet and the income statement and disclosed in the notes. Specifically, the greatest use of subjective assessments by management is required in the following cases:
- ✓ determining the amount of impairment losses for financial assets, especially loans and receivables;
- ✓ determining the fair values of financial instruments to be used for disclosure purposes and using valuation models to determine the fair values of financial instruments not quoted in active markets;
- ✓ assessing the appropriateness of the value of goodwill;
- ✓ determining the amounts of staff provisions and provisions for other risks and charges; and
- ✓ preparing estimates and assumptions relating to the recoverability of deferred tax assets.

Reasonable estimates and assumptions to be used in accounting for management transactions are formulated through subjective assessments founded upon the use of all available information and past experience.

Determining the fair value of financial instruments
The introduction of IFRS 13 modified the definition of fair value with respect to that provided in IAS 39, taking a more market-based approach.
IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) on the primary market (or the most advantageous market), regardless of whether that price is directly observable or estimated through a valuation technique. Fair value is applied individually to all financial assets or financial liabilities. Exceptionally, it may be estimated at the portfolio level if the management and risk monitoring strategy so allow and are adequately documented.
For the details of techniques for measuring (on a recurring and non-recurring basis) the fair value of financial instruments, as well as the classification of such instruments in fair value hierarchy levels, refer to section A.4 of the notes.

Determining amortised cost
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and less any reduction for impairment.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or until the repricing date. To calculate present value, the effective interest rate is applied to the future cash payments or receipts over the entire useful life of the financial asset or financial liability – or a shorter period if certain conditions have been met (for example, the revision of market rates).
After initial recognition, amortised cost allows the revenues and costs deducted from or added to the instrument to be allocated over that instrument's entire expected life through the amortisation process. Amortised cost is determined differently depending on whether the financial asset or financial liability to be measured is fixed-rate or floating-rate and, in the latter case, whether the range of rate fluctuation is known in advance. For instruments with fixed rates or fixed rates by time bands, future cash flows are quantified according to the known interest rate (single or floating) over the life of the loan. For floating-rate financial assets or financial liabilities, the range of fluctuation of which is not known in advance (for example, because it is linked to an index), cash flows are determined according to the most recent known rate. Whenever the rate is revised, the repayment schedule and effective interest rate are recalculated over the entire useful life of the instrument, i.e. through its maturity date. The adjustment is recognised as income or expense in the income statement.

Loans, financial assets held to maturity, amounts due to customers and banks and debt securities issued are measured at amortised cost.

Financial assets and financial liabilities traded at arm's length conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid, including directly attributable transaction costs and commissions in the case of instruments measured at amortised cost.

Transaction costs are internal or external marginal costs and income attributable to the issuance, acquisition or disposal of a financial instrument that may not be charged back to the customer. Such commissions, which must be directly attributable to the individual financial asset or financial liability concerned, affect the original effective return and result in a difference between the effective interest rate associated with the transaction and the contractual interest rate. Transaction costs do not include costs or income associated with several transactions without distinction and components associated with events that may occur during the life of the financial instrument, but are not uncertain upon initial definition, such as give-up commissions, commitment fees and prepayment fees.

Hedged financial assets and financial liabilities are not measured at amortised cost. Rather, changes in fair value associated with the hedged risk are recognised in the income statement (as limited to the hedged risk). However, measurement of such financial instruments at amortised cost resumes if the hedge ceases to exist, at which time all previously recognised changes in fair value are amortised, calculating a new effective interest rate that contemplates the value of the loan, adjusted for the fair value of the hedged portion, through the originally expected maturity of the hedge. In addition, as discussed above in the section concerning the measurement of loans, amounts due to banks and customers and debt securities issued, measurement at amortised cost does not apply either to financial assets and financial liabilities whose brief duration leads to the belief that the economic effect of discounting would be negligible, or to loans without a fixed maturity date and demand loans.

Determining impairment losses

At each reporting date, financial assets not classified as financial assets held for trading and financial assets designated at fair value are tested for impairment in order to determine whether there is objective evidence that the carrying amount of the assets may not be fully recoverable.

An asset has become impaired if there is objective evidence of a reduction in future cash flows compared to original estimates as a result of specific events. The loss must be able to be determined reliably and must be correlated with actual and not merely expected events.

Impairment testing is conducted on a separate basis for financial assets that present specific evidence of impairment losses and on a collective basis for financial assets for which separate testing is not required or for which separate testing does not indicate that impairment had occurred. Collective testing is based on grouping financial assets into homogeneous risk classes in reference to the characteristics of the debtor/issuer, business sector, geographical area, collateral and other relevant factors.

For information regarding loans to customers and loans to banks, the reader is referred to the section concerning loans.

The impairment testing process for available-for-sale assets involves verifying whether there are any indicators that the assets may have become impaired and then determining the amount of any such losses.

Impairment indicators may essentially be divided into two categories: indicators deriving from internal factors relating to the company being valued, and therefore of a qualitative nature, and, for equities, external indicators of a quantitative nature deriving from the market values of the company.

The following factors are considered relevant in the first category of indicators: the reporting of a net loss or a significant divergence from budget targets or targets set in long-term plans disclosed to the market, the announcement or commencement of bankruptcy procedures or restructuring plans and downgrading by a rating agency by more than two classes. In the second category, a significant or extended reduction in fair value below the amount at initial recognition is relevant. In further detail, a reduction in fair value is considered significant if it amounts to more than 30% and extended if it persists for a consecutive period of more than 24 months. If one of the above thresholds has been exceeded, an impairment loss is recognised on the security. If neither of the above thresholds has been exceeded, but there are other indicators of impairment, the impairment loss must also be corroborated by the results of specific analyses of the security and the investment.

The amount of an impairment loss is determined in reference to the fair value of the financial asset.

Forborne exposures

Forborne exposures – performing

Certain individual on-balance sheet performing loans are identified and classified as forborne exposures when, as a result of the deterioration of the borrower's financial condition (the borrower is experiencing "financial difficulty"), the Bank agrees to an amendment of the original contractual conditions or total/partial refinancing of a contract that would not have been approved if the borrower had not been experiencing such a situation of difficulty. Such exposures do not constitute a separate category, but represent a common attribute to the various categories of assets, and are recognised on each individual position subject to such measures.

Consequently, the exposures subject to such measures – performing forborne exposures – are thus identified among performing loans (regular or past due by less than 90 days). Since these exposures are subject to such forbearance measures, they have not been classified among non-performing positions.

Moreover, a position ceases to be considered a forborne exposure if:

1. an observation period of at least two years has elapsed from the date on which forbearance status was granted (or from the date on which the non-performing forborne exposure was reclassified as performing);
2. regular payments of significant amounts of principal or interest have been made for at least half of the observation period; and
3. at the end of the observation period, none of the borrower's exposures is past due by more than 30 days.

Forborne exposures – non-performing

The Bank also identifies non-performing loans subject to forbearance measures ("non-performing forborne exposures"). These are individual on-balance sheet exposures belonging to the categories mentioned above that meet the requirements for forbearance, as defined above. Such exposures do not constitute a separate category of non-performing assets, but represent an attribute, as appropriate in each case, of the categories of non-performing assets in which they are included. Cases in which a credit exposure is restructured with the intent of settling the position, to be classified as non-performing, are also included among forborne exposures.

A position ceases to be regarded as a non-performing forborne exposure and is reclassified as a performing forborne exposure if all of the following conditions have been met:

1. designating the position forborne does not entail the recognition of write-downs or losses;
2. one year has elapsed from the application of forbearance measures to the exposure;
3. no past-due exposures or elements in conflict with full repayment of the exposure in accordance with the conditions envisaged by the forbearance measures adopted have been recognised following classification as forborne. The absence of conflicting elements is determined through a thorough assessment of the borrower's financial situation. No conflicting elements may be considered to exist if the borrower has repaid an amount, according to the schedule laid down in the repayment or restructuring plan, equal to the sum that had previously been declared past due (if there were past-due exposures), or to the sum that was reclassified as a loss in the context of the forbearance measures adopted, or, alternatively, if the borrower has already demonstrated its ability to satisfy the post-forbearance conditions through other actions.

Chapter A.3 – TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

In 2014, the Bank did not undertake transfers between portfolios of financial assets, as envisaged in IAS 39. The following table presents the disclosure of the residual carrying amounts of assets reclassified in previous years at 31 December 2014, the fair values of those assets, the income components registered during the period and the effects on the income statement that would have occurred if the assets had not been transferred.

Type of financial instrument	Previous portfolio (2)	New portfolio (3)	Book value at 31.12.2014 (4)	Fair value at 31.12.2014 (5)	Income components in case of no transfer (before tax)		Annual income components (before tax)	
					Valutative (6)	Altre (7)	Valutative (8)	Altre (9)
Debt securities	HFT	LOANS	3.000	3.000	-	-	-	-
	Total		**3.000**	**3.000**	-	-	-	-

Chapter A.4 – INFORMATION ABOUT FAIR VALUE

QUALITATIVE DISCLOSURES

This section includes the disclosure regarding financial instruments subject to reclassification from one portfolio to another pursuant to the rules set forth in IAS 39 and the disclosure regarding the fair-value hierarchy in accordance with the provisions of IFRS 13.

Fair value is the price at which an asset may be sold or a liability transferred in a transaction between market participants at the measurement date.

Consequently, it is an exit price and not an entry price.

The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

For financial instruments measured at fair value on a recurring basis, the bank attributes higher priority to the use of observable inputs and lower priority to measurement techniques that do not use market inputs. In particular, the bank establishes the order of priority, criteria and conditions that result in the choice of one of the following measurement techniques:

- ✓ mark-to-market: a measurement method coinciding with classification to level 1 of the fair value hierarchy;
- ✓ comparable approach: a measurement method based on the use of observable market inputs, the use of which implies classification to level 2 of the fair value hierarchy;
- ✓ mark-to-model: a measurement method involving the application of pricing models whose inputs result in classification to level 3 (use of at least one significant non-observable input) of the fair value hierarchy.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used

If, for a given financial instrument, the conditions for identifying an active market have not been satisfied and it thus is not possible to classify it to level 1 of the fair value hierarchy and apply the mark-to-market approach, it will be necessary to make use of a measurement technique, by which is meant a process that permits the identification of the price at which the instrument could be exchanged between independent parties in balanced bargaining conditions.

If this measurement technique is based on observable market inputs, the instrument is classified as level 2 and a comparable approach is applied.

The measurement techniques applied in this case include:

- ✓ the use of recent market transactions between knowledgeable, independent parties;
- ✓ reference to the fair value of a financial instrument having the same characteristics;
- ✓ cash flow discounting techniques;
- ✓ option valuation techniques;
- ✓ the use of commonly used pricing techniques, provided that such techniques yield prices in line with those applied in actual exchanges.

The market inputs used in the comparable approach are:

- ✓ prices quoted on active markets for similar assets or liabilities;
- ✓ prices quoted for the instrument in question or similar instruments on inactive markets, i.e., markets on which there are few transactions. The prices are not current or vary substantially over time and amongst the various market markets, or little information is made public;
- ✓ observable market inputs (e.g., interest rates, observable yield curves, credit spreads, quoted volatilities, etc.);
- ✓ inputs that derive from observable market data, for which the relationship is supported by parameters such as correlation.

If the measurement techniques adopted also use non-observable inputs, and their contribution to the determination of fair value is to be regarded as significant, the measurement of the financial asset or liability is to be considered level 3.

The mark-to-model approach applies to all financial instruments for which there is no active market, where:

- ✓ significant adjustments to the observable inputs used based on non-observable inputs are necessary;
- ✓ the estimate of fair value is based on the bank's internal assumptions concerning future cash flows and the discount curve used;
- ✓ the measurement techniques used are of sufficient complexity to entail significant model risk;
- ✓ The main inputs used in this approach are:
- ✓ for real estate funds, a NAV adjustment model aimed at taking account of the issuer's default risk;

- ✓ for structured bonds, the discounted cash flow model, applied on the basis of estimates of future cash flows and/or the discount factor;
- ✓ for equity instruments, the market approach (a model based on market multiples and price matrices), the Black-Scholes-Merton model and the binomial model.

A.4.2 Valuation processes and sensitivity
The Bank conducted an assessment of the potential impacts of sensitivity to unobservable market parameters in the measurement of instruments classified to level 3 in the fair-value hierarchy and measured at fair value on a recurring basis. That assessment indicated that the impacts concerned were not material with respect to the situation represented. In further detail, the portfolio of instruments measured at fair value on a recurring basis and classified to level 3 of the fair-value hierarchy consists primarily of equity investments, subject to impairment testing when the requirements for so doing have been met, and investments in fund shares.

A.4.3 Fair-value hierarchy
IFRS 13 establishes that financial instruments measured at fair value are to be classified according to the degree of observability of the inputs analysed when pricing them.
Specifically, three levels of classification have been established:

- ✓ Level 1: the fair value of the instruments classified to this level is determined on the basis of quoted prices observable on active markets;
- ✓ Level 2: the fair value of the instruments classified to this level is determined on the basis of measurement models that use inputs observable on active markets;
- ✓ Level 3: the fair value of the instruments classified to this level is determined on the basis of measurement models that primarily use inputs not observable on active markets.

The levels indicated above are to be applied in hierarchical order, giving the highest priority to the use of observable market parameters that permit the assets or liabilities to be measured on the basis of the assumptions used by market participants and the lowest priorities to measurement techniques that do not contemplate market parameters and thus reflect a greater degree of discretion in measurement by the bank.

A.4.4 Other information
The following is an account of the criteria used in measuring portfolios at fair value.

Fixed-income bonds
Such securities are priced according to the liquidity conditions of their respective markets of reference.
Liquid instruments quoted on active markets are measured at mark-to-market, and positions in such instruments are therefore classified to level 1 of the fair value hierarchy. If there are no price quotations that satisfy the requirements for determining fair value, it is concluded that no active market exists. Accordingly, such instruments are measured by comparing them with similar securities quoted by info providers (the comparative approach), using an operating price quotation on an inactive market, or the mark-to-model approach, and are assigned to level 2 of the fair value hierarchy. If a fair value quotation cannot be determined by applying the foregoing criteria, the instrument is classified as level 3 and its price is determined through a specific request to a market broker or the implementation of an ad hoc pricing model.

ABSs and structured securities
Securities with embedded option components that cannot be separated, securities representative of banking assets (e.g., ABSs or MBSs) and similar securities (e.g., CDOs or MBOs) are classified as level 3 due to the absence of market price quotations or observable market inputs to which to refer. An indicative valuation provided by third parties, which may include the issuer of the security, is used.

Equity instruments
If an equity instrument is quoted on an active market, it is classified to level 1 of the fair value hierarchy. If no active market exists, where possible the security is measured on a theoretical basis (the security is classified as level 3 if the inputs used are not observable on the market). If the highly variable nature of the inputs yields a wide range of results, the security is measured at cost and classified as level 3. Equity instruments are only classified as level 2 if a price quotation exists but the market of reference is significantly reduced.

Mutual funds and shares of CIUs
Such instruments are classified as level 1 if a quotation on an active market is available. Alternatively, such instruments are measured according to their official net asset value (NAV) at the end of the period. Such assets are classified to level 2 or level 3 of the fair value hierarchy depending on the availability of NAV, portfolio transparency and position liquidity.

Certificates and covered warrants
If an active market exists, the market quotations of investment certificates and covered warrants are taken as the fair values of such securities, and the instruments are classified to level 1 of the fair value hierarchy. If no active market exists, since accurate theoretical pricing is not possible, certificates positions are measured on the basis of an indicative valuation/quotation from a market broker and/or the issuer, or on the basis of the most recent market valuation available, and the instruments are assigned to level 2 or level 3 of the fair value hierarchy depending on the observability of the inputs used.

Derivatives
Futures positions in government bonds and interest rates are measured according to the closing price on the last business day. Accordingly, such instruments are to be considered level 1 of the fair value hierarchy. The market value of OTC derivatives is calculated according to pricing models that use market parameters as inputs. On inactive markets, and for particular types of instruments for which prices and inputs are not observable, fair value is calculated by adopting ad hoc valuation techniques for each instrument considered. The following is an account of the valuation methods applied to portfolios not measured at fair value, but for which disclosure in the financial statements is required under the accounting standard of reference, IFRS 7.

Amounts due from and to banks, loans to customers, amounts due to customers and debt securities issued
For financial instruments carried at amortised cost and classified among amounts due to and from banks, loans to customers, amounts due to customers and debt securities issued, fair value is determined as follows for the purposes of disclosure in the financial statements:

- ✓ the fair value of medium-/long-term performing loans to customers is determined by discounting projected cash flows on the basis of a risk-free curve, to which a spread representative of credit risk, determined on the basis of expected losses (PD and LGD), is applied. The fair value thus determined is classified to level 3 of the fair value hierarchy;
- ✓ the fair value of amounts due to and from banks with longer maturities is determined by discounting the projected cash flows according to a risk-free curve, to which a spread representative of credit risk is applied;
- ✓ the fair value of non-performing loans to customers (bad debt, substandard, past-due and restructured positions) is determined by discounting the positions, net of adjustment provisions representative of the associated credit risk, at a risk-free market rate. For such exposures, the exit price would be significantly influenced by:
- ✓ projected impairment losses, which are the result of a subjective assessment by the manager of the position, with regard to the recovery rate and timing. As a consequence, such positions are classified to level 3 of the fair value hierarchy;
- ✓ the carrying amount at initial recognition is regarded as a sound approximation of the fair value of demand or short-term assets and liabilities. The fair value thus determined is classified to level 3 of the fair value hierarchy by convention;
- ✓ the fair value of bonds carried at amortised cost is measured by reference to quotations on an active market, or on the basis of a valuation technique involving the discounting of the security's cash flows according to the interest rate curve of reference, corrected as appropriate to take account of the change in creditworthiness on the basis of the method described above for the assessment of fixed-income securities. The same applies for considerations regarding the fair value hierarchy;
- ✓ the fair value of debt securities included among amounts due from banks and loans to customers is determined by using price contributions on active markets or valuation models, as described above in reference to financial assets and liabilities designated at fair value.

Non-financial assets – Investment property
Fair value is determined in all cases on the basis of independent appraisals, which are based on the current prices of similar assets (value per square metre indicated by the most common monitoring centres and prices in similar transactions). This value is normally adjusted to reflect the particular characteristics of the property being appraised, such as its geographical and commercial position, accessibility, infrastructure, urban context, state of preservation, size, rights of way, and the condition of external and internal plant. As a result of such adjustments, which depend to a significant degree on the estimates prepared by the independent appraiser, the amounts identified are characterised by nature by elements of judgement and subjectivity. The fair value thus obtained is classified to level 3 of the fair value hierarchy.

QUANTITATIVE DISCLOSURES

A.4.5 Fair-value hierarchy

The following tables show the breakdown of portfolios of assets and liabilities measured at fair value into the aforementioned levels and annual changes in assets and liabilities of this kind classified to level 3.

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

	31/12/2014			31/12/2013		
Financial assets / liabilities at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets held for trading	222	1.451	-	18	2.623	-
2. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
3. Financial assets available for sale	961.925	100	71.796	1.376.716	20.250	75.148
4. Hedging derivatives	-	-	-	-	-	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**962.147**	**1.551**	**71.796**	**1.376.735**	**22.873**	**75.148**
1. Financial liabilities held for trading	-	1.036	-	-	965	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	**1.036**	-	-	**965**	-

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

A.4.5.2 Annual changes in financial assets measured at fair value (level 3)

	FINANCIAL ASSETS					
	Held for trading	Designated at fair value through profit or loss	Available for sale	For hedging purposes	Property and equipment	Intangible assets
1. Opening balance	-	-	**75.148**	-	-	-
2. Increasese	-	-	**7.680**	-	-	-
2.1. Purchases	-	-	7.677	-	-	-
2.2. Gains recognised in:	-	-	-	-	-	-
2.2.1.Income statement	-	-	-	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2. Shareholders' equity	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	-	-	3	-	-	-
3. Decreases	-	-	**11.032**	-	-	-
3.1. Sales	-	-	6.204	-	-	-
3.2. Redemptions	-	-	-	-	-	-
3.3 Losses recognized in:	-	-	-	-	-	-
3.3.1. Income statement	-	-	1.977	-	-	-
- of which capital losses	-	-	-	-	-	-
3.3.2. Shareholders' equity	X	X	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	2.851	-	-	-
4. Closing balance	-	-	**71.796**	-	-	-

A.4.5.3 Annual changes in financial liabilities measured at fair value (level 3)

None of the items in the table, provided for by the Bank of Italy, A.4.5.3 "Annual changes in financial assets designated at fair value (level 3)" presents values.

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

	31/12/2014				31/12/2013			
Financial assets / liabilities not measured at fair value or measured at fair value on a non-recurring basis	**BV**	**L1**	**L2**	**L3**	**VB**	**L1**	**L2**	**L3**
1. Financial assets held to maturity	64.697	64.697	-	-	105.413	105.413	-	-
2. Due from banks	158.686	-	9.031	149.655	162.912	-	33.870	128.988
3. Loans to customers	2.711.728	-	-	2.749.598	3.082.164	-	-	3.142.834
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets or groups of assets being divested	-	-	-	-	-	-	-	-
Total	**2.935.110**	**64.697**	**9.031**	**2.899.253**	**3.350.489**	**105.413**	**33.870**	**3.211.152**
1. Due to banks	1.116.403	-	-	1.116.403	997.922	-	-	997.922
2. Due to customers	2.012.150	-	-	2.012.150	2.958.519	-	-	2.957.656
3. Securities issued	689.006	-	638.158	50.847	730.284	-	650.295	79.989
4. Liabilities associated to assets being divested	0	-	-	-	-	-	-	-
Total	**3.817.559**	-	**638.158**	**3.179.400**	**4.686.725**	-	**650.295**	**4.035.568**

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

A.5 Day-one profit/loss

On the basis of the composition of the financial instruments portfolio and the results of the analyses performed, no day-one profits were identified. "Day-one profit" is defined as the difference, upon initial recognition, not immediately recognised in the income statement pursuant to IAS 39 AG 76 and AG 76A, between the transaction price and value obtained through the use of valuation techniques that make use of non-market inputs.

Chapter B – NOTES TO THE BALANCE SHEET

ASSETS

Section 1 – Cash and cash equivalents – item 10

	31/12/2014	31/12/2013	%
a) Cash	18.486	20.020	-7,7%
b) Free deposits with Central banks	-	-	-
Total	**18.486**	**20.020**	**-7,7%**

Section 2 – Financial assets held for trading – item 20

2.1 Financial assets held for trading: composition by type

	31/12/2014			31/12/2013			%
	L1	L2	L3	L1	L2	L3	
A. Cash assets							
1. Debt securities	1	1.450	-	1	2.623	-	-44,7%
1.1 structured securities	-	-	-	-	-	-	-
1.2 other debt securities	1	1.450	-	1	2.623	-	-44,7%
2. Equities	222	-	-	17	-	-	1244,8%
3. Quotas of UCI	-	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-	-
4.1 reverse repurchase agreements	-	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-	-
Total A	**223**	**1.450**	**-**	**18**	**2.623**	**-**	**-36,6%**
B. Derivatives	-	0	0	0	0	-	-
1. Financial derivatives	591	-	768	44	34	793	56,0%
1.1 trading	591	-	768	44	34	793	56,0%
1.2 fair value option	-	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-	-
2.2 fair value option	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-
Total	**591**	**-**	**768**	**44**	**34**	**793**	**56,0%**
TOTAL (A+B)	**814**	**1.450**	**768**	**62**	**2.657**	**793**	**-13,7%**

2.2 Financial assets held for trading: composition by borrower/issuer

	31/12/2014	31/12/2013	%
A. ON-BALANCE-SHEET FINANCIAL ASSETS			
1. Debt securities	**1.451**	**2.624**	-44,7%
a) Governments and central banks	-	-	-
b) Other government agencies	-	-	-
c) Banks	917	377	142,8%
d) Other issuers	535	2.247	-76,2%
2. Equity securities	**222**	**18**	**1168,1%**
a) Banks	222	-	-
b) Other issuers	-	18	-100,0%
- insurance undertakings	-	-	-
- financial companies	-	-	-
- non-financial companies	-	18	-100,0%
- other	-	-	-
3. Units in collective investment undertakings	-	-	-
4. Loans	-	-	-
a) Governments and central banks	-	-	-
b) Other government agencies	-	-	-
c) Banks	-	-	-
d) Other	-	-	-
Total (A)	**1.674**	**2.642**	**-36,6%**
B. DERIVATIVES	**1.358**	**871**	**56,0%**
a) Banks	526	155	238,5%
b) Customers	833	715	16,4%
Total (B)	1.358	**871**	56,0%
Total (A + B)	**3.032**	**3.512**	**-13,7%**

2.3 Financial assets held for trading: annual changes

	Debt securities	Equity securities	Units in collective investment undertakings	Loans	Total 31/12/14
A. Opening balance	2.624	18	-	-	2.642
B. Increases	112.008	2.743	3.027	-	117.778
B1. Purchases	111.619	2.307	3.005	-	116.931
B2.Fair value gains	8	3	-	-	11
B3. Other changes	381	433	22	-	836
C. Decreases	113.180	2.539	3.027	-	118.746
C1. Sales	111.387	2.217	3.016	-	116.620
C2. Redemptions	1.667	-	-	-	1.667
C3. Fair value losses	48	6	-	-	54
C4. Transfers to other portfolios	-	-	-	-	-
C5. Other changes	78	316	11	-	405
D. Closing balance	1.452	222	-	-	1.674

Section 3 – Financial assets designated at fair value – item 30

This section is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 4 – Financial assets available for sale – item 40

4.1 Financial assets available for sale: composition by type

	31/12/2014			31/12/2013			%
	L1	L2	L3	L1	L2	L3	
1. Debt securities	961.733	100	-	1.376.435	20.250	-	-31,1%
1.1 Structured securities	-	-	-	-	-	-	-
1.2 Other debt securities	961.733	100	-	1.376.435	20.250	-	-31,1%
2. Equities	192	-	55.726	254	-	58.608	-5,0%
2.1 Measured at fair value	192	-	55.726	254	-	58.608	-5,0%
2.2 Measured at cost	-	-	-	-	-	-	-
3. Quotas of UCI	-	-	16.069	27	-	16.541	-3,0%
4. Loans	-	-	-	-	-	-	-
TOTAL	**961.925**	**100**	**71.796**	**1.376.716**	**20.250**	**75.148**	**-29,8%**

It should be noted that, as illustrated above in Chapter A of these notes, unquoted equities the fair value of which may not be determined in a reliable or verifiable manner are carried at cost, adjusted to account for impairment losses. The following is a detailed list of equities.

Financial assets available for sale	% holding	Number of share or units	Nominal value	Book value
KB 1909 SPA	1,60%	185.430	603	497
SIA SPA	0,01%	15.179	2	8
UNIONE FIDUCIARIA SPA	0,10%	1.080	6	7
FRIULIA SPA	0,62%	1.717.290	1717	4.474
PROMO CORMONS COLLIO SRL-IN LIQUIDAZIONE	8,08%	2	5	-
TORRE-NATISONE GAL SCARL	5,39%	2.392	1	1
C.A.T.A.S SPA	9,00%	9.031	90	319
BANK FOR BUSINESS	4,62%	1.318	520	233
DEZELNA BANKA DD	5,57%	228.289	953	2.788
CONFART.UD SERV.SRL	10,00%	288	150	150
C.F.P. CIVIDALE SRL	9,10%	410	21	21
MEDIO FRIULI ORD	2,27%	2.565.320	2565	4.165
ICBPI SPA	5,14%	729.577	2189	34.203
BCA VALSABBINA SCRL	0,29%	105.357	316	1.896
BANKADATI SERV. INF.	2,00%	10.000	50	70
CONSULTING SPA	1,32%	1.975	2	3
AGENZIA SVILUPPO DISTRETTO IND DELLA SEDIA SPA	1,00%	4	2	2
SIPI INVESTIMENTI SPA	2,97%	29.700	30	315
VIVABIOCELL SPA -B-	17,85%	147.801	148	275
FRIULI NEWS SPA	5,66%	5.660	6	13
CR FERRARA SPA	0,72%	303.432	1566	952
SWIFT	0,01%	8	1	6
CR BOLZANO ORD.	0,07%	3.000	231	585
S.A.A.V. SPA	0,98%	5.930.723	1542	4.745
BANCA ETRURIA SCRL	0,24%	496.420	1012	192
Total				**55.918**

4.2 Financial assets available for sale: composition by borrower/issuer

	31/12/2014	31/12/2013	%
1.Debt securities	**961.833**	**1.396.685**	**-31,1%**
a) Governments and central banks	932.843	1.373.915	-32,1%
b) Other governments agencies	100	100	0,0%
c) Banks	17.729	22.670	-21,8%
d) Other issuers	11.162	-	-
2. Equity securities	**55.918**	**58.861**	**-5,0%**
a) Banks	45.014	46.517	-3,2%
b) Other issuers	21.809	12.344	76,7%
- insurance undertakings	-	-	-
- financial companies	7	7	0,5%
- non financial companies	10.898	12.337	-11,7%
- other	-	-	-
3. Units in collective investment u	**16.069**	**16.568**	**-3,0%**
4. Loans	-	-	-
a) Governments and central banks	-	-	-
b) Other governments agencies	-	-	-
c) Banks	-	-	-
d) Other	-	-	-
Total	**1.033.821**	**1.472.114**	**-29,8%**

4.4 Financial assets available for sale: annual changes

	Debt securities	Equity securities	Units in collective investment undertakings	Loans	Total
A. Opening balance	**1.396.685**	**58.862**	**16.568**	-	**1.472.115**
B. Increases	**2.838.426**	**10.508**	**2.176**	-	**2.851.110**
B1. Purchases	2.767.902	10.508	2.168	-	2.780.578
B2. Fair value gains	19.553	-	3	-	19.556
B3. Writebacks	-	-	-	-	-
- recognised through income statement	-	X	-	-	-
- recognised through equity	-	-	-	-	-
B4. Transfers from other portfolios	-	-	-	-	-
B5. Other changes	50.971	-	5	-	50.976
C. Decreases	**3.273.278**	**13.452**	**2.675**	-	**3.289.405**
C1. Sales	3.232.916	9.746	1.457	-	3.244.119
C2. Redemptions	3.500	-	33	-	3.533
C3. Fair value losses	19	1.029	1.135	-	2.183
C4. Writedowns for impairment	-	-	-	-	-
- recognised through income statement	-	1.989	50	-	2.039
- recognised through equity	-	-	-	-	-
C5. Transfers to other portfolios	-	-	-	-	-
C6. Other changes	36.843	688	-	-	37.531
D. Closing balance	**961.833**	**55.918**	**16.069**	-	**1.033.820**

	Amount
Breakdown of major increases	**4.745**
S.A.A.V. Spa	4.745

	Amount
Breakdown of major decreases	**(7.061)**
Friulia Spa	(5.759)
CR Ferrara Spa	(1.302)

Impairment testing of financial assets available for sale

As required by IFRSs, financial assets available for sale are tested for impairment to determine whether there is objective evidence that the carrying amounts of such assets may not be fully recoverable. The impairment testing process involves verifying whether there are any indicators that the assets may have become impaired and then determining the amount of any such losses. Impairment indicators may essentially be divided into two categories: indicators deriving from internal factors relating to the entity being assessed, and therefore of a qualitative nature, and external indicators deriving from the market values of the company (for quoted equity securities only). An impairment loss is recognised when there is an indication of impairment or the quoted price falls more than 30% below the initial recognition amount or remains below that amount for a period of more than 24 months. In all other cases, the recognition of impairment must be confirmed by the outcome of specific assessments as regards the security and the investment. The testing conducted indicated the need to adjust the values of assets with an effect on the income statement of €2,039 thousand.

Section 5 – Financial assets held to maturity – item 50

5.1 Financial assets held to maturity: composition by type

	31/12/2014				31/12/2013			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Debt securities	**64.697**	**64.697**	-	-	105.413	105.413	-	-
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	64.697	64.697	-	-	105.413	105.413	-	-
2. Loans	-	-	-	-	-	-	-	-
Total	**64.697**	**64.697**	-	-	**105.413**	**105.413**	-	-

5.2 Financial assets held to maturity: composition by borrower/issuer

	31/12/2014	31/12/2013
1. Debt securities	64.697	105.413
a) Governments and central banks	54.260	88.921
b) Other government agencies	-	-
c) Banks	10.437	16.492
d) Other issuers	-	-
2. Loans	-	-
a) Governments and central banks	-	-
b) Other governments agencies	-	-
c) Banks	-	-
d) Other	-	-
Total	**64.697**	**105.413**
Total fair value	**64.697**	**105.413**

5.4 Financial assets held to maturity: annual changes

	Debt securities	Loans	Total 31/12/2014
A. Opening balance	**105.413**	-	**105.413**
B. Increases	**3.116**	-	**3.116**
B1. Purchases	-	-	-
B2. Writebacks	-	-	-
B3. Transfers from other portfolios	-	-	-
B4. Other changes	3.116	-	3.116
C. Decreases	**43.832**	-	**43.832**
C1. Sales	-	-	-
C2. Redemptions	41.000	-	41.000
C3. Writedowns for impairment	-	-	-
C4. Transfers to other portfolios	-	-	-
C5. Other changes	2.832	-	2.832
D. Closing balance	**64.697**	-	**64.697**

Item B4 “Other changes” represents the interest collected during the year. Item C5 refers to the portion of such interest recognised through the income statement.

Section 6 – Due from banks – item 60

6.1 Due from banks: composition by type

	31/12/2014				31/12/2013				%
	BV	FV			BV	FV			
		L1	L2	L3		L1	L2	L3	
A. Claims on central banks	3.789	-	-	-	5.272	-	-	-	-28,1%
1. Time deposits	-	X	X	X	-	X	X	X	-
2. Reserve requirement	3.789	X	X	X	5.272	X	X	X	-28,1%
3. Repurchase agreements	-	X	X	X	-	X	X	X	-
4. Other	-	X	X	X	-	X	X	X	-
B. Due from banks	154.897	-	-	-	157.640	-	-	-	-1,7%
1. Loans	141.813	-	-	-	123.716	-	-	-	14,6%
1.1 Current accounts and free deposits	32.146	X	X	X	20.904	X	X	X	53,8%
1.2 Time deposits	2.064	X	X	X	2.039	X	X	X	1,2%
1.3 Other financing	-	X	X	X	100.774	X	X	X	-100,0%
- repurchase agreements	49.753	X	X	X	45.453	X	X	X	9,5%
- finance leases	-	X	X	X	-	X	X	X	-
- other	57.850	X	X	X	55.320	X	X	X	4,6%
2. Debt securities	13.083	-	-	-	33.924	-	-	-	-61,4%
2.1 structured	-	X	X	X	-	X	X	X	-
2.2 other debt securities	13.083	X	X	X	33.924	X	X	X	-61,4%
Total (carrying amount)	**158.686**	-	**9.031**	**149.655**	**162.912**	-	**33.870**	**128.988**	**-2,6%**

Section 7 – Loans to customers – item 70

7.1 Loans to customers: composition by type

	31/12/2014						31/12/2013						%
	Book value			Fair value			Book value			Fair value			
	Performing	Non performing		L1	L2	L3	Performing	Non performing		L1	L2		
		Purchased	Other					Purchased	Other				
Loans													
1. Current accounts	405.587	-	80.516	X	X	X	429.620	-	80.288	X	X	X	-4,7%
2. Repurchase agreements	-	-	-	X	X	X	102.916	-	-	X	X	X	-100,0%
3. Mortgage loans	1.762.613	-	221.023	X	X	X	1.890.322	-	200.662	X	X	X	-5,1%
4. Credit cards, personal loans and loans repaid by automatic deductions from wages	47.358	-	1.717	X	X	X	45.259	-	1.704	X	X	X	4,5%
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X	-
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X	-
7. Other	178.646	-	14.269	X	X	X	316.900	-	14.493	X	X	X	-41,8%
Debt securities	-	-	-	X	X	X	-	-	-	X	X	X	-
8. structured	-	-	-	X	X	X	-	-	-	X	X	X	-
9 other debt securities	-	-	-	X	X	X	-	-	-	X	X	X	-
Total	**2.394.203**	**-**	**317.525**	**-**	**-**	**2.749.598**	**2.785.017**	**-**	**297.147**	**-**	**-**	**3.142.834**	**-12,02%**

7.2 Loans to customers: composition by borrower/issuer

	31/12/2014			31/12/2013			%
	Performing	Non - performing		Performing	Non - performing		
		Purchased	Other		Purchased	Other	
1. Debt securities	-	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-	-
- insurance undertakings	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
2. Loans to:	**2.394.203**	**-**	**317.525**	**2.785.017**	**-**	**-**	**-2,6%**
a) Governments	1	-	-	24	-	0	-96,1%
b) Other government agencies	7.285	-	-	7.657	-	-	-4,9%
c) Other	-	-	-	-	-	-	-
- non-financial companies	1.197.850	-	254.941	1.353.817	-	231.211	-8,3%
- financial companies	310.668	-	5.653	533.504	-	6.194	-41,4%
- insurance undertakings	13.250	-	-	13.292	-	-	-0,3%
- other	865.148	-	56.932	876.723	-	59.742	-1,5%
Total	**2.394.203**	**-**	**317.525**	**2.785.017**	**-**	**297.147**	**-12,02%**

7.3 Loans to customers: hedged assets (IAS 1/103.c; IAS 32/98.c; ED 7/24.c) (1)

This section is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 8 – Hedging derivatives – item 80

This section is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 9 – Change in fair value of macro fair value hedge portfolios – item 90

This section is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 10 – Equity investments – item 100

10.1 Equity investments: information on investments

	Registered office	Headquarters	% holding	% of votes	Book Value
A. Companies under exclusive control					
2 Civileasing Srl	Udine - Via Vittorio Veneto 24	Udine - Via Vittorio Veneto 24	100,00%		30.018.346
3 Tabogan Srl	Cividale del Friuli (UD) - Via G. Pelizzo n. 8/5	Cividale del Friuli (UD) - Via G. Pelizzo n. 8/5	100,00%		-
3 Civitas SPV S.r.l. *	Conegliano (TV) - Via V. Alfieri n. 1	Conegliano (TV) - Via V. Alfieri n. 1	0,00%		-
B. Companies subject to joint control					
C. Companies under significant influence					
1 Acileasing S.p.A.	Udine - Via Crispi n. 3	Udine - Via Crispi n. 3	30,00%		1.176.609
2 Acrent S.p.A.	Udine - Via Crispi n. 17	Udine - Via Crispi n. 17	30,00%		548.305
3 Itas Assicurazioni Spa	Trento - Piazza delle Donne Lavoratrici n. 2	Trento - Piazza delle Donne Lavoratrici n. 2	25,00%		2.199.000
4 Help Line	Cividale del Friuli (UD) - Via G. Pelizzo n. 8	Cividale del Friuli (UD) - Via G. Pelizzo n. 8	30,01%		2.552.555

** Civitas SPV S.r.l. is a special purpose entity controlled by Banca Popolare di Cividale due to its status as originator of the securitisation and the contractual conditions of the transaction, as required by IFRS 10.*

10.4 Equity investments: annual changes

	31/12/2014	31/12/2013
A. Opening balance	**36.718**	**204.554**
B. Increases	**5.000**	**76.884**
B.1 Purchases	-	73.722
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other changes	5.000	3.162
C. Decreases	**5.223**	**244.720**
C.1 Sales	-	
C.2 Writedowns	5.223	4.088
C.3 Other changes	-	240.632
D. Closing balance	**36.495**	**36.718**
E. Total revaluations	-	-
F. Total writedowns	-	-

Breakdown	Operation	Amount	
C.2 writedowns			**5.223**
Tabogan Srl	write-down		5.223

10.5 Commitments regarding equity investments in joint ventures

No commitments have been recognised in respect of equity investments in joint ventures, as shown in the list of equity investments provided in the foregoing table 10.1.

10.6 Commitments regarding investments in companies subject to significant influence

No commitments have been recognised in respect of companies subject to significant influence, as shown in the list of equity investments provided in the foregoing table 10.1.

10.7 *Significant restrictions*

No commitments have been recognised in respect of the list of equity investments presented in table 10.1 above.

Section 11 – Property, plant and equipment – item 110

11.1 Operating property, plant and equipment: composition of assets measured at cost

	31/12/2014	31/12/2013	%
1. Property and equipment owned	**76.759**	**72.612**	**5,7%**
a) land	4.933	4.933	0,0%
b) buildings	67.055	65.032	3,1%
c) movables	3.805	1.880	102,4%
d) electrical plant	8	4	124,9%
e) other	957	764	25,3%
1. Property and equipment acquired under fi	-	-	-
a) land	-	-	-
b) buildings	-	-	-
c) movables	-	-	-
d) electrical plant	-	-	-
e) other	-	-	-
Total	**76.759**	**72.612**	**5,7%**

The following are the estimated useful lives of depreciable items of property, plant and equipment by asset class:

- ✓ land: indefinite;
- ✓ works of art: indefinite:
- ✓ buildings – 2% – 50 years;
- ✓ furniture – 12% – 9 years;
- ✓ plant – 15% – 7 years;
- ✓ plant – 30% – 4 years;
- ✓ plant – 7.5% – 14 years;
- ✓ fixtures – 15% – 7 years; and
- ✓ electronic machines – 20% – 5 years.

11.5 Operating property, plant and equipment: annual changes

	Land	Buildings	Furniture	Electrical plant	Other	Total
A. Opening gross balance	4.933	78.175	9.074	11.678	32	103.892
A.1 Total net writedowns	-	13.150	7.195	10.910	25	31.280
A.2 Opening net balance	4.933	65.025	1.879	768	7	72.612
B. Increases	-	3.039	2.394	486	-	5.919
B.1 Purchases	-	3.039	2.394	486	-	5.919
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Fair value gains recognised in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases	-	1.015	469	289	-	1.772
C.1 Sales	-	-	-	55	-	55
C.2 Depreciation	-	1.015	469	234	-	1.717
C.3 Writedowns for impairment recognised in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Fair value losses recognised in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) discontinuing operations	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Closing net balance	4.933	67.048	3.805	966	7	76.758
D.1 Total net writedowns	-	14.166	7.663	11.089	25	32.942
D.2 Closing gross balance	4.933	81.214	11.468	12.054	32	109.701
E. Measurement at cost	-	-	-	-	-	-

11.7 Commitments to acquire property, plant and equipment

There were no significant commitments to acquire property, plant and commitment.

Section 12 – Intangible assets – item 120

12.1 Intangible assets: composition by category

	31/12/2014		31/12/2013		
	finite useful life	indefinite useful life	finite useful life	indefinite useful life	%
A.1 Goodwill	X	19.136	X	19.136	0,0%
A.2 Other intangible assets	-	-	-	-	-
A.2.1 Assets measured at cost	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-
b) Other assets	-	-	-	-	-
A.2.2 Assets measured at fair value	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-
b) Other assets	-	-	-	-	-
Total	-	**19.136**	-	**19.136**	**0,0%**

12. 2 Intangible assets: annual changes

	Goodwill	Other intangible		Other intangible		Total
		Fin.	Indef.	Fin.	Indef.	
A. Gross initial carrying amount	19.136	-	-	-	-	19.136
A.1 Total net adjustments	-	-	-	-	-	-
A.2 Net initial carrying amount	19.136	-	-	-	-	19.136
B. Increases	-	-	-	-	-	-
B.1 Purchases	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	-	-	-
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	-	-	-
- Amortisation	X	-	-	-	-	-
- Write-downs recognised in	-	-	-	-	-	-
shareholders' equity	X	-	-	-	-	-
income statement	-	-	-	-	-	-
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinu	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net final carrying amount	19.136	-	-	-	-	19.136
D.1 Total net adjustments	-	-	-	-	-	-
E. Gross final carrying amount	**19.136**	-	-	-	-	**19.136**
F. Measurement at cost	-	-	-	-	-	-

Key: Fin.: finite useful life; Indef.; indefinite useful life

Goodwill is related to:
1. the acquisition of the banking arm of the former Banca Agricola di Gorizia; and
2. the acquisition of a bank branch from third parties.

Impairment testing of goodwill

Goodwill is initially measured at cost, which derives from the amount by which the consideration paid exceeds the net assets and liabilities acquired. If the amount of consideration is less than the fair value of the acquiree's net assets, the difference is recognised through the income statement.

After initial recognition, goodwill is measured at cost less any cumulative impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination must be allocated at the acquisition date to each cash-generating unit of the entity that is expected to benefit from the combination, irrespective of whether the acquiree's assets or liabilities are assigned to those units.

Goodwill is tested for impairment at least once a year (at 31 December) and more frequently where circumstances indicate that the carrying amount may have become impaired.

Allocation of goodwill to cash-generating units (CGUs)

With respect to the definition of "cash-generating unit (CGU)," it should first be noted that following the corporate reorganisation undertaken in 2013 the Group has identified its operating segments as coinciding with the individual legal entities that comprise the Group:

- **Retail and Businesses and the Corporate Centre**, which includes Banca Popolare di Cividale S.c.p.A.; and
- **Leasing**, which includes Civileasing S.p.A.

The cash-generating units associated with goodwill have been attributed to the operating segment coinciding with the legal entity Banca Popolare di Cividale, which represents the "smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets".

Estimating cash flows to determine the value in use of a CGU

The accounting principles of reference require that impairment testing be conducted by comparing the carrying amount and recoverable amount of each CGU. Where the recoverable amount is less than the carrying amount, an impairment loss must be recognised. The recoverable amount of a CGU is the greater of its fair value and value in use. The recoverable amount of the Bank's CGUs is represented by its value in use, determined on the basis of the future cash flows generated by each CGU to which goodwill has been allocated. Such cash flows have been estimated on the basis of:

- the strategic plan for the period 2014–2016, approved by the Parent Company's Board of Directors in March 2014;
- updated macroeconomic scenarios; and
- economic projections for the period 2015–2019.

Projections of future results have been extended through 2019 with the aim of obtaining an assessment of the Bank’s income-generating capacity and the ability to create value over time, which is independent of the current macroeconomic scenario.

Value in use has been determined by the management, with the methodological support of an authoritative external expert, by applying Excess Capital variant of the Dividend Discount Model (“DDM”). This approach is used to determine the value of a company or business unit according to the dividend flows that it is estimated it may generate on a prospective basis, while maintaining a minimum capitalisation level consistent with the instructions provided in this regard by supervisory authorities and in a manner consistent with expected business trends.

This method is widely adopted in well-established current valuation practice and is supported by the foremost academic theory regarding business valuation, particularly as regards entities operating in the banking sector.

The application of the Dividend Discount Model involved the use of expected profitability estimates and financial parameters to discount flows. In further detail, value in use was calculated on the basis of the following assumptions and elements:

- **Cash flows:** an explicit period of 2014–2019, estimated on the basis of: i) the 2014–2016 Strategic Plan and subsequent update approved by the Board of Directors; and ii) the minimum level of capitalisation (minimum capital) required to ensure operation of banking activity.
- **Terminal value**, estimated as a function of: i) long-term expected net income; and ii) the sustainable growth rate, equal to long-term expected inflation.
- **Minimum capital:** the target capitalisation requirement was assumed as a function of a tier 1 ratio of 9.5%, in line with the targets of major quoted Italian banks, in light of international practice. When determining capital requirements, the above ratio was applied to the prospective RWAs (risk-weighted assets) of Banca Popolare di Cividale, estimated and based on capital requirements inclusive of the benefits provided for in supervisory regulations for banks belonging to banking groups.
- **Discounting rate (Ke)**: future cash flows have been discounted by using a cost of equity capital (Ke) determined as the sum of the nominal rate of return on risk-free assets and a specific risk premium that reflects the risk level of the industry of reference and the specific risks associated with the Bank’s operations. In further detail, the cost of equity capital has been estimated as **8.51%** as the result of:
  - **R_f:** the rate of return on risk-free assets, identified on the basis of the gross annual return on the ten-year Italian benchmark BTP, one-month average surveyed on 31 December 2014 (source: Market Information Provider) at 2.87%;
  - **β:** the beta coefficient, which indicates the risk level of a specific equity with respect to the equity market at large, estimated on the basis of the historical average two-year betas of a sample of quoted Italian banks (source: Market Information Provider) surveyed on 31 December 2014 at 1.13;
  - **R_m – R_f:** the premium, or difference in return, requested by investors for an investment in equities rather than a risk-free investment; this premium was determined at 5.0%, in line with professional practice; and
  - **g-rate:** the long-term growth rate expected to apply after the express forecasting period, corresponding to expected inflation in 2017 (source: EIU), equal to 2.0%.

Sensitivity analysis

Since valuation is rendered especially complex by the macroeconomic and market scenario currently affecting the financial sector as a whole, as well as by the ensuing difficulty in formulating projections concerning long-term future profitability, and in order to comply with the provisions of IAS 36, a sensitivity analysis was conducted of the parameters used in the assessment aimed at determining the change in recoverable amount, assuming a change in parameters used in the impairment testing procedure. In particular, that analysis was conducted as a function of a positive and negative change of 50 bps in the Ke with respect to 8.51%.

An additional sensitivity analysis was conducted on the discounted rate used (Ke) to render the recoverable amount of the CGU equal to its carrying amount. The target cost of capital that results in the CGU’s value in use and carrying amount being equal, is 8.61%.

The results of the impairment test

The impairment test, conducted in accordance with international accounting principles, as well as the indications contained in Bank of Italy/Consob/ISVAP Document No. 4 of 3 March 2010, did not indicate the need to proceed with the impairment of the goodwill carried as at 31 December 2014.
In addition, it should be emphasised that the parameters and information used to test recoverable amount (particularly the expected cash flows for the CGU identified, as well as the discounting rates applied) have been significantly influenced by the macroeconomic and market scenario, which could undergo abrupt changes currently not subject to prediction. The effect that such changes could have on the estimate of the CGU's cash flows, as well as on the main assumptions adopted, could thus yield results significantly different from those presented in these financial statements in the financial statements of future years.

Section 13 – Tax assets and tax liabilities – item 130 of assets and item 80 of liabilities

Deferred tax assets came to €51,573 thousand and may be broken down as follows:

13.1 Deferred tax assets: composition

Composition by type:	31/12/2014	31/12/2013
Tax effect on AFS reserve	537	468
staff costs	495	619
other	1.101	1.138
goodwill	381	437
loans	49.059	49.169
Total	**51.573**	**51.830**

13.2 Deferred tax liabilities: composition

Deferred tax liabilities came to €11,148 thousand and may be broken down as follows:

Composition by type:	31/12/2014	31/12/2013
Goodwill	4.195	3.588
PPA	-	-
staff costs	-	13
Tax effect on AFS	6.463	2.997
Other	489	523
Total	**11.148**	**7.121**

13.3 Change in deferred tax assets (through the income statement)

	31/12/2014	31/12/2013
1. Opening balance	51.362	91
2.Increases	5.179	55.997
2.1 Deferred tax assets recognised during the year	5.179	29.959
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) writebacks	-	-
d) other	5.179	29.959
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	26.038
3. Decreases	5.656	4.726
3.1 Deferred tax assets derecognised during the year	169	3.789
a) reversals	-	3.789
b) writedowns for supervening non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	169	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	5.486	-
a) conversion in tax assets set forth in Italian Law 214/2011	5.486	937
b) other	-	-
4.Closing balance	**50.886**	**51.362**

13.3.1 Change in deferred tax assets pursuant to Law 214/2011 (through the income statement)

	31/12/2014	31/12/2013
1. Opening balance	**46.914**	**21.828**
2.Increases	8.244	28.579
3. Decreases	(6.524)	(3.493)
3.1 Reversals	-	-
3.2 Transformation into tax credits	(5.486)	(937)
a) from losses for the year	(5.486)	(937)
b) from fiscal losses	-	-
3.3 Other decreases	(1.038)	(2.556)
4.Closing balance	**48.634**	**46.914**

13.4 Changes in deferred tax liabilities (through the income statement)

	31/12/2014	31/12/2013
1.Opening balance	4.111	-
2. Increases	573	4.293
2.1 Deferred tax liabilities recognised during the year	573	1.205
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	573	1.205
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	3.088
3. Decreases	-	182
3.1 Deferred tax liabilities derecognised during the year	-	182
a) reversals	-	182
b) due to change in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**4.684**	**4.111**

13.5 Changes in deferred tax assets (through equity)

	31/12/2014	31/12/2013
1.Opening balance	468	432
2. Increases	688	467
2.1 Deferred tax assets recognised during the year	688	-
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	688	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	467
3. Decreases	468	432
3.1 Deferred tax assets derecognised during the year	468	432
a) reversals	468	432
b) writedowns for supervening non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4.Closing balance	**688**	**468**

13.6 Changes in deferred tax liabilities (through equity)

	31/12/2014	31/12/2013
1.Opening balance	3.010	8.190
2. Increases	6.463	3.011
2.1 Deferred tax liabilities recognised during the year	6.463	3.011
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	6.463	3.011
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	3.010	8.190
3.1 Deferred tax liabilities derecognised during the year	3.010	-
a) reversals	3.010	8.190
b) due to change in accounting policies	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	6.464	3.010

13.7 Other information

Transformation of deferred tax assets into tax credits

Article 2 of Law Decree No. 225 of 29 December 2010 (the "Thousand Extensions Decree"), enacted, with amendments, as Law No. 10 of 26 February 2011, allows deferred tax assets recognised in connection with impairment losses on loans by banks and financial companies, goodwill and other intangible assets to be transformed into tax credits in certain situations. The provision was most recently amended by Law No. 147 of 27 December 2013 (the 2014 Stability Act), which extended the rules to include deferred tax assets (DTAs), in connection with the same items as above, recognised with respect to regional production tax, as well as the losses on loans of banks and financial companies, considering that the tax treatment of such losses was also modified by the Stability Act, to bring it into line with that of impairment losses, as illustrated above.

In extremely short form, the rules that allow the transformation of deferred tax assets state that:

- ✓ DTAs are transformed into tax credits upon the occurrence of operating losses presented in the separate financial statements. The transformation applies to an amount corresponding to the share of the loss for the year, corresponding to the relationship between DTAs and the sum of share capital and reserves;
- ✓ any share of such DTAs that contributes to the formation of a tax loss for the purposes of corporate income tax or a negative value of production for the purposes of regional production tax is converted into a tax credit, with the concurrent de-activation of the recoverability limits envisaged for tax losses;
- ✓ tax credits do not generate interest. They may be used, without limits of amount, for offsetting against other taxes payable (including those deriving from withholding agent activity) and social-security contributions payable by a single bank or corporate tax consolidation programme. Such tax credits may also be transferred at nominal value according to the procedure governed by Art. 43-ter of Presidential Decree No. 602/1973 and may be submitted for a refund of the remainder after offsetting.

In this regard, due to the losses recognised in 2013 the bank converted DTAs of €5,486 thousand into tax credits.

Probability test on deferred taxes

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

- ✓ temporary taxable differences: a deferred tax liability must be recognised for all taxable temporary differences;
- ✓ deductible temporary differences: a deferred tax asset is to be recognised for all deductible temporary differences if it is probable that sufficient taxable income will be earned in order to use the deductible temporary difference. Deferred tax assets not recognised in a given year – inasmuch as the conditions for their recognition had not been satisfied – are to be recognised in the year in which those requirements are met.

Accordingly, the amount of the deferred tax assets recognised must be tested each year in order to determine whether it is reasonably certain that taxable income will be earned in the future and thus that the deferred tax assets may be recovered.

For the 2014 financial statements, as in previous years, an analysis has been conducted with the aim of verifying whether projections of future profitability are sufficient to ensure the re-absorption of deferred tax assets and therefore justify their recognition and retention in the financial statements (a process known as the "probability test").

In conducting the probability test on the deferred tax assets recognised in the Group's financial statements at 31 December 2014, as for the 2013 financial statements, deferred tax assets deriving from deductible temporary differences were considered separately. In this regard, it is relevant that effective the tax period ended 31 December 2011 the law permits the conversion into tax credits of deferred tax assets recognised in financial statements to account for tax losses arising from the deferred deduction of qualified temporary differences (Article 2, paragraph 56-bis, of Law Decree No. 225/2010, introduced by Article 9 of Law Decree No. 201/2011, converted into Law No. 214/2011), in addition to that already provided for where the separate financial statements present a loss (Article 2, paragraphs 55 and 56, of Law Decree No. 225/2010). Such convertibility has introduced an additional, supplementary method of recovery that is appropriate to ensuring the recovery of qualified deferred tax assets in all situations, regardless of an enterprise's future profitability. In fact, if qualified temporary differences exceed taxable income in a given year, the recovery of deferred tax assets does not take the form of a reduction of current taxes, but rather of the recognition of deferred tax assets on the tax loss, convertible into tax credits pursuant to Article 2, paragraph 56-bis, of Law Decree No. 225/2010.

The convertibility of deferred tax assets on tax losses resulting from qualified temporary differences is therefore a sufficient condition for the recognition of deferred tax assets in the financial statements, thereby ensuring that the associated probability test is implicitly passed.
This arrangement is also borne out in the joint Bank of Italy, Consob and ISVAP document no. 5 of 15 May 2012 (issued in the framework of the IAS/IFRS Application Coordination Board) concerning the Accounting Treatment of Deferred Tax Assets Deriving from Law 214/2011 and in the subsequent Italian Banking Association IAS document no. 112 of 31 May 2012 (Tax Credits Deriving from the Transformation of Deferred Tax Assets: Clarification from the Bank of Italy, Consob and ISVAP Regarding the Application of IAS/IFRS).
On this basis, the test consisted of the following steps in particular:

a) identifying different tax assets other than those resulting from write-downs of loans, goodwill and other intangible assets with indefinite useful lives ("non-qualified deferred tax assets") carried in the balance sheet;
b) analysing such non-qualified deferred tax assets and deferred tax liabilities carried in the balance sheet, distinguishing them by type of origin and thus by projected timing of recovery;
c) forecasting the Company's future profitability with the aim of verifying the ability to absorb the deferred tax assets set forth in point a) above.

The test conducted indicated that taxable income was sufficient and able to absorb the deferred tax assets recognised in the financial statements at 31 December 2014.

Section 14 – Non-current assets held for sale and discontinued operations and associated liabilities – item 140 of assets and item 90 of liabilities

This section is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 15 – Other assets – item 150

15.1 Other assets: composition

	31/12/2014	31/12/2013	%
Amounts due from the tax authorities	846	805	5,2%
Ammounts due from the tax authorities for withholdings on interest paid to customers and other amounts due	8.102	6.421	26,2%
Cheques drawn on the bank to be settled	5.447	4.721	15,4%
Counterparts for securities ad coupon payments to be received	1.909	132	1349,5%
Soundry items to be debited to customers and banks	581	604	-3,9%
Value date differences on portfolio transactions	3	-	-
Costs and advances pending financial allocation	75	70	7,5%
Transit items	23	203	-88,4%
Items finalized but not allocable to other items	9.733	16.720	-41,8%
Amounts related to payment for the supply of goods and services	10	17	-37,6%
Other	657	835	-21,3%
Total	**27.387**	**30.527**	**-10,3%**

Among the various items, mention should be made of other assets for the determination of accruals of €3,247 thousand and costs attributable to future years of €3,598 thousand.

LIABILITIES

Section 1 – Due to banks – item 10

1.1 Due to banks: composition by type

	31/12/2014	31/12/2013	%
1. Due to central banks	971.605	851.281	14,1%
2. Due to banks	-	-	-
2.1 Current accounts and demand deposits	59.346	66.655	-11,0%
2.2 Time deposits	436	520	-16,1%
2.3 Borrowings	-	-	-
2.3.1 Repurchase agreements	-	-	-
2.3.2 other	84.918	79.380	7,0%
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	-	-
2.5 Other payables	98	87	12,0%
Totale	**1.116.403**	**997.922**	11,9%
Fair value-livello 1	-	-	-
Fair value-livello 2	-	-	-
Fair value-livello 3	**1.116.403**	**997.922**	11,9%
Fair value	**1.116.403**	**997.922**	11,9%

Section 2 – Due to customers – item 20

2.1 Due to customers: composition by type

	31/12/2014	31/12/2013	%
1. Current accounts and demand deposits	1.524.084	1.378.360	10,6%
2. Time deposits	333.369	282.466	18,0%
3. Borrowings	-	-	-
3.1 Repurchase agreements	111.659	1.257.498	-91,1%
3.2 Other	7.547	631	1095,4%
4. Liabilities in respect of commitments to repurchase own equity instruments	-	-	-
5. Other payables	35.491	39.564	-10,3%
Total	**2.012.150**	**2.958.519**	-32,0%
Fair value - L1	-	-	-
Fair value - L2	-	-	-
Fair value - L3	**2.012.150**	**2.957.656**	-32,0%
Fair value	**2.012.150**	**2.957.888**	-32,0%

Section 3 – Debt securities issued – item 30

3.1 Debt securities issued: composition by type

	31/12/2014				31/12/2013			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	638.158	-	638.158	-	650.295	-	650.295	-
1.1 structured	-	-	-	-	14.936	-	14.936	-
1.2 other	638.158	-	638.158	-	635.358	-	635.358	-
2. Other	50.847	-	-	50.847	79.989	-	-	79.989
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	50.847	-	-	50.847	79.989	-	-	79.989
Total	**689.006**	-	**638.158**	**50.847**	**730.284**	-	**650.295**	**79.989**

Key: BV = book value; FV = fair value

3.2 Breakdown of item 30 "Debt securities issued": subordinated securities

	Amount	
Description	31/12/2014	31/12/2013
Subordinated securities	48.494	61.540

The amount included under "Debt securities issued" came to €48.5 million. The item refers to the following bond issues:

a) Subordinated bond of an original nominal value of €15 million issued on 7 April 2008 having the following characteristics:

- ✓ interest rate: first coupon of 4.81% per annum, gross, payable on 7 July 2009; subsequent coupons: for the first five years, monthly average of the 3-month Euribor for the month before the date of each coupon, plus 0.25%; for the next five years of the term of the bond, i.e., starting from the coupon payable on 7 April 2013, interest will be equal to the same weighted average plus a rising spread of: 0.35% for coupons payable during the sixth year; 0.45% for coupons payable during the seventh year; 0.55% for coupons payable during the eighth year; 0.65% for coupons payable during the ninth year; and 0.75% for coupons payable during the tenth year;
- ✓ amortisation schedule: principal is to be repaid in five equal instalments of 20% of principal starting on 7 April 2014;
- ✓ maturity: 7 April 2018;

- ✓ early redemption clause: the Bank reserves the right to redeem the bond early, provided that at least five years have elapsed since the date of issue, with the prior consent of the Bank of Italy, and with at least one month's notice;
- ✓ no provisions exist for conversion into share capital.

b) Subordinated bond with an original nominal value of €40 million issued on 13 August 2007 having the following characteristics:

- ✓ interest rate: first coupon of 4.6% per annum, gross, payable on 13/11/2007; subsequent coupons: for the first five years, monthly average of the 3-month Euribor for the month before the date of each coupon, plus 0.25%; for the next five years of the term of the bond, i.e., starting from the coupon payable on 13 August 2012, interest will be equal to the same weighted average plus a rising spread of: 0.35% for coupons payable during the sixth year; 0.45% for coupons payable during the seventh year; 0.55% for coupons payable during the eighth year; 0.65% for coupons payable during the ninth year; and 0.75% for coupons payable during the tenth year;
- ✓ amortisation schedule: principal is to be repaid in five equal instalments of 20% of principal starting on 13 August 2013;
- ✓ maturity: 13 August 2017;
- ✓ early redemption clause: the Bank reserves the right to redeem the bond early, provided that at least five years have elapsed since the date of issue, with the prior consent of the Bank of Italy, and with at least one month's notice;
- ✓ subordination clause: if the Bank is wound up, the bonds shall only be repaid all other creditors not equally subordinated have been satisfied;
- ✓ no provisions exist for conversion into share capital.

c) Subordinated bond of an original nominal value of €15 million issued on 10 December 2013 having the following characteristics:

- ✓ interest rate: half-yearly coupons equal to the 6-month Euribor rate plus a spread of 430 bps;
- ✓ amortisation schedule: principal is to be repaid in five equal instalments of 20% of principal starting on 10 December 2014;
- ✓ maturity: 10 December 2018;
- ✓ no early redemption clause has been provided for;
- ✓ subordination clause: if the Bank is wound up, the bonds shall only be repaid all other creditors not equally subordinated have been satisfied;
- ✓ no provisions exist for conversion into share capital.

Finally, it should be noted a subordinated convertible bond with payment date of 19 December 2014 having the following characteristics was in the process of being placed on 31 December 2014:

- ✓ interest rate: fixed annual coupons of 2.75%;
- ✓ bullet repayment at maturity;
- ✓ maturity: 19 December 2019;
- ✓ no early redemption clause has been provided for;
- ✓ subordination clause: if the Bank is wound up, the bonds shall only be repaid all other creditors not equally subordinated have been satisfied;
- ✓ no provisions exist for conversion into share capital.

A nominal amount of €630,000 had been placed at 31 December 2014.

3.3 Breakdown of item 30 "Debt securities issued": specifically hedged securities

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 4 – Financial liabilities held for trading – item 40

4.1 Financial liabilities held for trading: composition by type

	31/12/2014					31/12/2013				
		FV					FV			
	NV	L1	L2	L3	FV*	NV	L1	L2	L3	FV*
A. On-balance-sheet 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	-	247	-	789	-	-	-	965	-	-
1.1 trading	X	247	-	789	X	X	-	965	-	X
1.2 associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 other	X	-	-	-	X	X	-	-	-	X
2 Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 trading	X	-	-	-	X	X	-	-	-	X
2.2 associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**247**	**-**	**789**	**X**	**X**	**-**	**965**	**-**	**X**
Total (A+B)	**X**	**247**	**-**	**789**	**X**	**X**	**-**	**965**	**-**	**X**

Key: FV = fair value; FV = fair value calculated by excluding the changes in value due to the change in the issuer's credit rating since the issue date; NV = nominal or notional value*

Section 5 – Financial liabilities designated at fair value – item 50

This section is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 6 – Hedging derivatives – item 60

This section is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 7 – Change in fair value of financial liabilities in macro fair value hedge portfolios – item 70

This section is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 8 – Tax liabilities – item 80

For information on this section, please see Section 13 under Assets.

Section 9 – Liabilities associated with discontinued operations – item 90

This section is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 10 – Other liabilities – item 100

10.1 Other liabilities – composition

	31/12/2014	31/12/2013	%
Amounts due to social security and welfare institutions	1.495	1.510	-1,0%
Amouns due to public entities on behalf of third parties	4.074	4.228	-3,7%
Sundry items to be debited to customers and banks	-	-	0,0%
Amounts available to customers	2.855	3.686	-22,5%
Amounts payable to employees	2.559	2.470	3,6%
Value date differences on portfolio transactions	19.659	17.726	10,9%
Sundry items to be debited to customers	4.991	7.059	-29,3%
Intems in transit between branches	1	145	-99,1%
Accruals other than those capitalised	636	516	23,2%
Guaratees given	1.532	830	84,6%
Payables related to the supply of goods and services	3.498	7.469	-53,2%
Sundry and residual items	43.499	37.997	14,5%
Total	**84.797**	**83.636**	**1,4%**

The various items include:

- ✓ amounts due to the vehicle for securitised mortgage loans (€26,394 thousand);
- ✓ third-party funds for agricultural loans (€6,653 thousand);
- ✓ stamp duty payable of €3,919 thousand.

Section 11 – Employee termination benefits – item 110

11.1 Employee termination benefits: annual changes

	31/12/2014	31/12/2013
A. Opening balance	**5.645**	**419**
B. Increases	**1.595**	**6.971**
B.1 Provision for the year	1.595	1.757
B.2 Other increases	-	5.214
C. Decreases	**1.217**	**1.746**
C.1 Severance payments	418	392
C.2 Other decreases	800	1.354
D. Closing balance	**6.022**	**5.645**
Total	**6.022**	**5.645**

Item C.2 “Other decreases” refers to the amounts transferred to the pension fund and INPS Treasury Fund.
Under international accounting principles, employee termination benefits are considered post-employment benefits of the defined-benefit type. Accordingly, for accounting purposes, their value is determined through actuarial approaches based on a technical procedure known in actuarial literature as the “MAGIS” method. This method, based on a stochastic simulation of the Montecarlo type, allows projections to be prepared for the compensation costs for each employee, considering the demographic and compensation figures associated with each position, without aggregating those positions or introducing average values. The calculations were performed for the number of years necessary for all workers currently in service to leave service.
In accordance with IAS 19, the actuarial assessments have been conducted according to the accrued benefit method by using the Projected United Credit Method.
Technical assessments were conducted according to the following parameters:

- ✓ annual technical discount rate: 1.49%;
- ✓ annual inflation rate: 1.5%;
- ✓ annual rate of termination benefit increase: 2.5%.

As required by ESMA, the actuarial assessment was repeated while leaving all other hypotheses unchanged but considering a discounting rate equal to the index for the Eurozone, Iboxx Corporate AA, with a duration of 10+ years, in a manner consistent with the average financial duration of prospective divestments tied to departures from the category subject to assessment.

Section 12 – Provisions for risks and charges – item 120

12.1 Provisions for risks and charges: composition

	31/12/2014	31/12/2013
1. Company pension plans	-	-
2. Other provisions	4.907	3.296
2.1 legal disputes	1.250	800
2.2 staff costs	-	-
2.3 other	3.657	2.496
Total	**4.907**	**3.296**

12.2 Provisions for risks and charges: annual changes

	Pension plans	Other provisions	Total
A. Opening balance	-	**3.296**	**3.296**
B. Increases	-	**2.697**	**2.697**
B.1 Provision for the year	-	2.697	2.697
B.2 Changes due to passage of time	-	-	-
B.3 Changes due to changes in discount rate	-	-	-
B.4 Other increases	-	-	-
C. Decreases	-	**1.086**	**1.086**
C.1 Use during the year	-	1.032	1.032
C.2 Changes due the changes in discount rate	-	-	-
C.3 Other decreases	-	54	54
D. Closing balance	-	**4.907**	**4.907**

12.4 Provisions for risks and charges – other
Provisions for risks and charges consist of the following:

Provision for revocatory actions

This provision stood at €1,020 thousand as at 31 December 2014 and represents the estimated amount of expected liabilities, calculated specifically with the support of the Bank's legal counsel, in respect of judicial and out-of-court actions in which the Bank is a defendant.

Provisions for contingencies and complaints
This provision amounted to €3,887 thousand at 31 December 2014 and consisted of €2,401 thousand of accruals for customer complaints and legal disputes with former employees, €1,357 thousand of liabilities associated with valuations of property assets held by subsidiaries and €129 thousand of accruals for the interbank deposit guarantee fund.

Section 13 – Redeemable shares – item 140
This section is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 14 – Shareholders' equity – items 130, 150, 160, 170, 180, 190 and 200
Shareholders' equity is defined by international accounting standards as "the residual value of an entity's assets after all liabilities have been deducted". From a financial standpoint, equity represents the monetary extent of the resources contributed by the owners or generated by the entity.
Capital management is the set of policies and decisions required to determine the capitalisation level, as well as the optimal combination of the various alternative capitalisation instruments aimed at ensuring that capital and capital ratios are consistent with the risk profile assumed, in full accordance with supervisory requirements.
In further detail, the capital policy adopted by Group banks is founded upon the three following approaches:

- ✓ full compliance with regulatory requirements (regulatory approach);
- ✓ appropriate monitoring of risks associated with banking operations (management approach); and
- ✓ support for company development projects (strategic approach).

At 31 December 2014, Banca Popolare di Cividale had fully subscribed and paid-in share capital of €50,913 thousand, divided into 16,971,085 ordinary shares without par value.

14.1 Share capital and treasury shares: composition

	31/12/2014	31/12/2013	%
1. Share capital	50.913	51.068	-0,3%
2. Share premiums	167.022	198.570	-15,9%
3. Reserves (*)	42.922	42.845	0,2%
4. (Treasury shares)	-	(7)	-100,0%
5. Valuation reserves	11.126	8.552	30,1%
6. Capital instruments	-	-	-
7. Net income (loss) for the period	5.803	(33.850)	-117,1%
Total	**277.786**	**267.177**	**4,0%**

14.2 Share capital – number of shares: annual changes

	Ordinary	Other
A. Shares at start of year	17.022.352	-
- fully paid	-	-
- partly paid	-	-
A.1 Treasury stock (-)	(297)	-
A.2 Shares in circulation: opening balance	17.022.649	-
B. Increases	-	-
B.1 New issues	-	-
- paid issues:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of own shares	-	-
B.3 Other changes	-	-
C. Decreases	51.564	-
C.1 Cancellation	51.564	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**16.971.085**	-
D.1 Treasury stock (+)	-	-
D.2 Shares at end of the year	16.971.085	-
- fully paid	16.971.085	-
- partly paid	-	-

14.3 Share capital: other information

Share capital consists of 16,971,085 ordinary shares with a par value of €3.00 each, for an aggregate total of €50,913 thousand.

Schedule illustrating eligibility for distribution, possible uses and origins of shareholders' equity reserves as required by Article 2427 of the Italian Civil Code

	Amount to 31/12/2014	UTILISATION OPTIONS	AMOUNT AVAILABLE	USE IN PRIOR YEARS FOR LOSS COVERAGE	OTHER
Share capital	**50.913**	-	-	-	-
Capital reserves	-	-	-	-	-
Share premiums	167.022	A - B - C	167.022	167.022	-
Valuation reserves	11.126	A-B	11.126	11.126	-
Other reserves	-	**A - B - C**	-	-	-
- legal reserve	19.208	B	19.208	19.208	-
- reserve for the purchase of tre	-	-	-	-	-
- statutory reserve	22.279	A - B	22.279	22.279	-
- other reserves	1.435	A - B	1.435	1.435	-
- retained earnings	-	A - B	-	-	-
Net income for the period	5.803	-	-	-	-
Total	**277.786**	-	**221.070**	**221.070**	-
Non available	-	-	-	-	-
Available	**277.786**	-	**221.070**	**221.070**	-

A for share capital increases; B for coverage of losses; C for distribution to shareholders

14.4 Earnings reserves: other information

	31/12/2014	31/12/2013	%
Legal reserve	19.208	19.208	0,0%
Statutory reserve	22.279	22.202	0,3%
Other reserves	5.500	5.500	0,0%
Merger deficit - surplus	(4.064)	(4.064)	0,0%
Total	**42.922**	**42.845**	**0,2%**

14.5 Equity instruments: composition and annual changes

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

14.6 Other information

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

OTHER INFORMATION

1. Guarantees issued and commitments

	31/12/2014	31/12/2013	%
1) Financial guarantees issued	32.615	39.722	-17,9%
a) Banks	3.342	3.062	9,1%
b) Customers	29.272	36.660	-20,2%
2) Commercial guarantees issued	51.747	60.493	-14,5%
a) Banks	435	1.010	-56,9%
b) Customers	51.311	59.483	-13,7%
3) Irrevocable commitments to disburse funds	13.611	21.702	-37,3%
a) Banks	-	-	-
i) certain use	-	-	-
ii) uncertain use	-	-	-
b) Customers	13.611	21.702	-37,3%
i) certain use	223	168	33,1%
ii) uncertain use	13.388	21.535	-37,8%
4) Commitments underlying credit derivatives: sales of protection	-	-	-
5) Assets pledged as collateral for third-party debts	-	-	-
6) Other commitments	-	-	-
Total	**97.973**	**121.917**	**-19,6%**

2. Assets pledged as collateral for liabilities and commitments

	31/12/2014	31/12/2013	%
1. Financial assets held for trading	-	-	-
2. Financial assets recognized at fair value	-	-	-
3. Financial assets available for sale	940.566	1.327.460	-29,1%
4. Financial assets held to maturity	64.697	105.369,00	-38,6%
5. Loans to banks	-	-	-
6. Loans to customers	7.030	555.748	-98,7%
7. Property, plant and equipment	-	-	-

In addition, the Bank has committed off-balance sheet securities with a value of €557 million as collateral, of which €196 million associated with notes issued by BPC and fully repurchased, representative of liabilities guaranteed by the Italian government pursuant to Art. 8 of Law Decree 201 of 6 December 2011, converted into Law 214 of 22 December 2011, used as collateral for refinancing transactions with the European Central Bank.

4. Management and intermediation services

	31/12/2014
1. Trading in financial instruments on behalf of third parties	
a) Purchases	
1. settled	-
2. not yet settled	-
b) Sales	
1. settled	-
2. not yet settled	-
2. Asset management	**224.057**
a) individual	224.057
b) collective	-
3. Custody and administration of securities	**4.065.061**
a) third-party securities held as part of depository bank services (excluding portfolio management)	-
1.securities issued by reporting entity	-
2. other	-
b) other third-party securities on deposit (excluding portfolio management): other	-
1. securities issued by reporting entity	481.413
2. other	389.993
c) third-party securities deposited with third parties	862.590
d) securities owned by bank deposited with third parties	2.812.478
4. Other	

5 – 6 Financial assets/liabilities presented on a net basis, subject to master netting agreements or similar agreements

IFRS 7 requires that specific disclosure be provided for financial instruments that are set off in the balance sheet pursuant to IAS 32 or that are partially eligible for offsetting, upon the occurrence of certain conditions, in that they are governed by master netting agreements or similar agreements that do not comply with the criteria established by IAS 32 for offsetting in the financial statements.

For Banca Popolare di Cividale, there were no outstanding netting agreements for which balances are to be offset in the balance sheet pursuant to IAS 32.

The financial instruments potentially eligible for offsetting in the tables below are governed by the following agreements:

- ✓ for derivative instruments: an ISDA master agreement and clearing house netting agreements;
- ✓ for repurchase and reverse repurchase agreements: Global Master Repurchase Agreements (GMRAs);
- ✓ for securities lending: global master securities lending agreements (GMSLAs).

Technical forms	Gross amountof financial assets (a)	Amount of financial liabilities offset in the financial (b)statements	Net amount of financial assets shown in the financial (c=a-b)statements	Related amounts not offse tin the financial statements		Net amount 31/12/2014	Net amount 31/12/2013
				Financial (d)instruments	Cash deposits(e) received as collateral		
1. Derivatives	46	-	46	-	-	46	-
2. Repurchase agreements							
3. Securities lending							
4. Other							
Total T	46	-	46	-	-	46	X
Total (T-1)	120	-	120	19	-	X	101

Technical forms	(a)Gross amountof financial assets	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets shown in the financial (c=a-b)statements	Related amounts not offse tin the financial statements		Net amount 31/12/2014	Net amount 31/12/2013
				Financial instrumen (d)ts	Cash deposits received as collateral (e)		
1. Derivatives	1.148	-	1.148	352	-	796	-
2. Repurchase agreements							
3. Securities lending							
4. Other							
Total T	1.148	-	1.148	352	-	796	X
Total (T-1)	773	0	773	343	0	X	430

Chapter C – NOTES TO THE INCOME STATEMENT

Section 1 – Interest – items 10 and 20

1.1 Interest income and similar revenues: composition

	Debt securities	Loans	Other transactions	31/12/2014	31/12/2013	%
1. Financial assets held for trading	112	-	-	112	346	-67,8%
3. Financial assets available for sale	23.074	-	-	23.074	30.510	-24,4%
4. Financial assets held to maturity	3.116	-	-	3.116	4.137	-24,7%
5. Due from banks	620	594	-	1.214	5.097	-76,2%
6. Loans to customers	-	85.536	-	85.536	95.102	-10,1%
6. Financial assets recognised at fair value	-	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	66	-100,0%
8. Other assets	X	X	-	-	2	-100,0%
Total	26.923	86.130	1	113.052	**135.261**	**-16,4%**

1.2 Interest income and similar revenues: differentials on hedging transactions

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

1.3.1 Interest income on foreign-currency financial assets

	31/12/2014	31/12/2013	%
Interest income on foreign-currency financial assets - securities	116	112	4,1%
Total	**116**	**112**	**4,1%**

1.4 Interest expense and similar charges: composition

	Debt	Securities	Other liabilities	31/12/2014	31/12/2013	%
1. Due to Central Banks	1.757	X	-	1.757	4.725	-62,8%
2. Due to banks	2.899	X	-	2.899	2.001	44,9%
3. Due to customers	26.090	X	-	26.090	27.426	-4,9%
4. Securities issued	X	17.671	-	17.671	23.344	-24,3%
5. Financial liabilities held for trading	-	-	-	-	-	-
6. Financial liabilities at fair value	-	-	-	-	-	-
7. Other liabilities	X	X	-	-	-	-
8. Hedging derivatives	X	X	-	-	-	-
Total	**30.745**	**17.671**	-	**48.416**	**57.496**	**-15,8%**

1.5 Interest expense and similar charges: differentials on hedging transactions

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

1.6.1 Interest expense on foreign-currency financial liabilities

	31/12/2014	31/12/2013	%
Interest expence on foreign-currency financial assets	309	303	2,1%
Total	**309**	**303**	**2,1%**

Section 2 – Commissions – items 40 and 50

2.1 Commission income: composition

	31/12/2014	31/12/2013	%
a) guarantees issued	944	1.138	-17,1%
b) credit derivatives	-	-	-
c) management, intermediation and advisory services:	7.848	7.566	3,7%
1. trading in financial instruments	-	-	-
2. foreign exchange	535	586	-8,8%
3. asset management	1.803	1.794	0,5%
3.1 individual	1.803	1.794	0,5%
3.2 collective	-	-	-
4. securities custody and administration	245	395	-38,0%
5. depository services	-	-	-
6. securities placement	3.958	3.495	13,2%
7. reception and transmission of orders	674	640	5,3%
8. advisory services	-	-	-
8.1. on investments	-	-	-
8.2. on financial structure	-	-	-
9. distribution of third-party services	633	655	-3,3%
9.1 asset management	-	-	-
9.1.1 individual	-	-	-
9.1.2 collective	-	-	-
9.2 insurance products	633	655	-3,3%
9.3 other	-	-	-
d) collection and payment services	7.785	7.266	7,1%
e) servicing activities for securitizations	-	-	-
f) services for factoring transactions	-	-	-
g) tax collection services	-	-	-
h) management of multilateral trading facilities	-	-	-
i) management of current accounts	6.041	6.356	-5,0%
j) other	5.847	6.651	-12,1%
Total	**28.464**	**28.976**	**-1,8%**

2.2 Commission income: distribution channels for products and services

Channels/Amounts	31/12/2014	31/12/2013	%
a) at Bank branches:	6.375	5.895	8,14%
1. portfolio management	1.783	1.744	2,24%
2. placement of securities	3.958	3.495	13,24%
3. third party products and services	633	655	-3,34%
b) outside bank branches:	-	-	0,00%
1. portfolio management	-	-	0,00%
2. placement of securities	-	-	0,00%
3. third party products and services	-	-	0,00%
c) other distribution channels:	19	50	-61,17%
1. portfolio management	19	50	-61,17%
2. placement of securities	-	-	0,00%
3. third party products and services	-	-	0,00%

2.3 Commission expenses: composition

	31/12/2014	31/12/2013	%
a) guarantees received	37	7	402,6%
b) credit derivatives	-	-	-
c) management and intermediation services:	22	43	-48,8%
1. trading in financial instruments	19	26	-27,2%
2. foreign exchange	-	-	-
3. asset management	-	-	-
3.1 own portfolio	-	-	-
3.2 third-party portfolio	-	-	-
4. securities custody and administration	-	-	-
5. placement of financial instruments	3	17	-81,8%
6. off-premises distribution of securities, products and services	-	-	-
d) collection and payment services	2.291	2.217	3,3%
e) other services	5.040	4.753	6,0%
Total	**7.390**	**7.021**	**5,3%**

Commission expense for "other services" includes commissions of €4,070 thousand for liabilities guaranteed by the Italian central government used as collateral for financing transactions with the ECB.

Section 3 – Dividends and similar income – item 70

3.1 Dividends and similar income: composition

	31/12/2014		31/12/2013		%
	Dividends	Income from UCI	Dividends	Income from UCI	
A. Financial assets held for trading	10	-	13	-	-25,5%
B. Financial assets available for sale	917	-	1.320	-	-30,5%
C. Financial assets recognised at fair value	-	-	-	-	-
D. Equity investments	-	X	-	X	-
Total	**927**	**-**	**1.333**	**-**	**-30,4%**

Section 4 – Net trading income or loss – item 80

4.1 Net trading income or loss: composition

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities	11	401	54	-	357
1.2 Equity securities	-	-	-	132	(132)
1.3 Units in collective investment undertakings	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
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	9
4. Derivatives					
4.1 Financial derivatives					
- on debt securities and interest rates	6.851	769	6.856	750	14
- on equity securities and equity indices	-	-	-	-	-
- on foreign currencies and gold	X	X	X	X	457
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**6.862**	**1.170**	**6.911**	**882**	**705**

Section 5 – Net fair value changes in hedge accounting – item 90

5.1 Net fair value changes in hedge accounting: composition

	31/12/2014	31/12/2013
A. Income on:		
A.1 Fair value hedges	-	5.184
A.2 Hedged financial assets (fair value)	-	-
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash flow hedges	-	-
A.5 Assets and liabilities in foreign currencies	-	-
Total income on hedging activities (A)	**-**	**5.184**
B. Expense on:		
B.1 Fair value hedges	-	5.238
B.2 Hedged financial assets (fair value)	-	-
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedges	-	-
B.5 Assets and liabilities in foreign currencies	-	-
Total expense on hedging activities (B)	**-**	**5.238**
C. Net gain (loss) on hedging activities (A-B)	**-**	**(54)**

Section 6 – Profit (loss) on disposal or repurchase – item 100

6.1 Profits (loss) on disposal of investments: composition

	Totale 31/12/2014			Totale 31/12/2013		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Loans to banks	-	-	-	1.082	1	1.081
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	36.720	2.164	34.556	55.356	3.769	51.586
3.1 Debt securities	36.692	1.476	35.216	55.356	3.769	51.586
3.2 Equity securities	-	688	-	-	-	-
3.3 Units in collective investment undertakings	28	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**36.720**	**2.164**	**34.556**	**56.438**	**3.770**	**52.667**
Financial liabilities	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	1.453	916	537	151	1.957	(1.806)
Total liabilities	**1.453**	**916**	**537**	**151**	**1.957**	**(1.806)**

Section 7 – Profit (loss) on financial assets and liabilities designated at fair value – item 110

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 8 – Charges/write-backs on impairment – item 130

8.1 Charges/write-backs on impairment of loans: composition

	Writedowns (1)			Writebacks (2)				31/12/2014	31/12/2013	%
	Specific			Specific		Portfolio				
	Writeoffs	Other		A	B	A	B			
A. Loans to banks	-	-	-	-	-	-	-	-	- -	
- Loans	-	-	-	-	-	-	-	-	-	0%
- Debt securities	-	-	-	-	-	-	-	-	-	0%
B. Loans to customers	1.083	32.975	1.468	270	3.205	-	-	32.052	110.971	-71%
Non performing loans purchased	-	-	-	-	-	-	-	-	- -	
- Loans	-	-	X	-	-	X	X	-	- -	
- Debt securities	-	-	X	-	-	X	X	-	- -	
Other	1.083	32.975	1.468	270	3.205	-	-	32.052	110.971	-71%
- Loans	1.083	32.975	1.468	270	3.205	-	-	32.052	110.971	-71%
- Debt securities	-	-	-	-	-	-	-	-	- -	
C. Total	**1.083**	**32.975**	**1.468**	**270**	**3.205**	**-**	**-**	**32.052**	**110.971**	**-71%**

Key: A = interest; B = other write-backs

8.2 Charges/write-backs on impairment of financial assets available for sale: composition

	Writedowns (1)		Writebacks (2)		31/12/2014 (3)	31/12/2013
	Specific		Specific			
	Writeoffs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	1.989	X	X	1.989	7.792
C. Units in collective investment undert	-	50	X	-	50	1.489
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**2.039**	**-**	**-**	**2.039**	**9.281**

Key: A = interest; B = other write-backs

Impairment losses are recognised in cases of prolonged or significant decreases in the fair value of equity instruments to less than their initial carrying amounts.

Impairment losses of €1,989 thousand were recognised through the income statement on equity instruments during the reporting year. Such losses may be broken down as follows:

- ✓ Cassa di Risparmio di Ferrara S.c.p.A.: €1,303 thousand;
- ✓ Dezelna Banka Slovenije: €277 thousand;

- ✓ Torre Natisone Gal: €2 thousand;
- ✓ Banca Etruria S.c.r.l.: €62 thousand;
- ✓ Sipi Investimenti S.p.A.: €304 thousand;
- ✓ Consulting S.p.A.: €2 thousand;
- ✓ Vivabiocell S.p.A.: €39 thousand.

The impairment losses on interests in CIUs refer to the shares of the Aladinn Ventures Fund.

8.4 Charges/write-backs on impairment of other financial transactions:

	Writedowns (1)			Writebacks (2)					
	Specific		Portfolio	Specific		Portfolio		31/12/2014	31/12/2013
	Writeoffs	Other		A	B	A	B		
A. Guarantees issued	-	-	823	-	2	-	119	702	(42)
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	**-**	**-**	**823**	**-**	**2**	**-**	**119**	**702**	**(42)**

Key: A = interest; B = other write-backs

Section 9 – G&A expenses – item 150

9.1 Personnel expenses: composition

	31/12/2014	31/12/2013	%
1) Employees	38.004	38.722	-1,9%
a) wages and salaries	25.915	26.575	-2,5%
b) social security contributions	7.241	7.091	2,1%
c) severance benefits	76	10	662,2%
d) pensions	-	-	-
e) allocation to employee severance benefit provision	1.696	2.032	-16,6%
f) allocation to provision for pensions and similar liabilities	-	-	-
- defined contribution	-	-	-
- defined benefit	-	-	-
g) payments to external pension funds	1.193	1.220	-2,2%
- defined contribution	1.193	1.220	-2,2%
- defined benefit	-	-	-
h) costs in respect of agreements to make payments	-	-	-
in own equity instruments	-	-	-
i) other employee benefits	1.884	1.793	5,1%
2) Other personnel	565	513	10,2%
3) Board of Directors	525	978	-46,3%
4) Early retirement costs	-	-	-
5) Recovery of expenses for employees of the Bank seconded to other entitie	(65)	(68)	-4,7%
6) Reimbursement of expenses for employees of other entities seconded to	38	45	-15%
Total	**39.067**	**40.190**	**-2,8%**

9.2 Average number of employees by category

	2014	2013
Employees	-	-
a) Senior management	8	8
b) Middle management	233	227
of which Grade III and IV	115	106
c) Other personnel	332	346
Other personnel	-	-
Total	**573**	**581**

9.4 Other employee benefits

Other employee benefits include €550 thousand in meal vouchers and €642 thousand in insurance policies.

9.5 Other administrative expenses: composition

	31/12/2014	31/12/2013	%
Compensation for professional and consultancy services	2.810	4.318	-34,9%
Insurance	280	234	19,5%
Advertising	807	740	9,2%
Telephone, postal and data transmission	581	763	-23,9%
Office supplies and printing	443	484	-8,6%
Maintenance and repairs	1.240	914	35,8%
Electricity, heating and shared property service charges	1.219	895	36,2%
Services provided by third parties	8.929	9.747	-8,4%
Cleaning	645	558	15,6%
Travel expenses	1.100	1.232	-10,7%
Security and transport of valuables	144	195	-26,5%
Membership fees	503	503	-0,2%
Commercial information	1.013	1.050	-3,5%
Magazine and newspaper subscriptions	71	68	4,5%
Rent payable	2.494	2.606	-4,3%
Entertaining expenses	205	190	8,0%
Taxes and duties	6.758	6.028	12,1%
Other expenses	1.196	1.150	4,0%
Total	**30.437**	**31.676**	**-3,9%**

Section 10 – Net provisions for risks and charges – item 160

10.1 Net provisions for risks and charges: composition

	31/12/2014	31/12/2013	%
Customer disputes	706	1.701	-58,5%
Provision for legal disputes	129	529	-75,6%
Revocatory actions	450	150	200,0%
Other	1.358	-	100,0%
Total	**2.643**	**2.380**	**11,1%**

Section 11 – Charges/write-backs on impairment of property, plant and equipment – item 170

11.1 Charges/write-backs on impairment of property, plant and equipment: composition

	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c) 2014
A. Property, plant and equipment				
A.1 owned	1.717	-	-	1.717
- operating assets	1.717	-	-	1.717
- investment property	-	-	-	-
A.2 acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
Total	**1.717**	-	-	**1.717**

Section 12 – Charges/write-backs on impairment of intangible assets – item 180

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 13 – Other operating income/expenses – item 190

13.1 Other operating expenses: composition

	31/12/2014	31/12/2013	%
- impairment losses on non-current assets under finance leases	-	-	-
- losses on disposal of property, securities held as non-current assets, equity investments, other assets	-	-	-
- out-of-period expenses and reductions in assets	(851)	(703)	-21,1%
- other	(310)	(301)	-3,0%
Total	**(1.161)**	**(1.004)**	**-15,7%**

13.2 Other operating income: composition

	31/12/2014	31/12/2013	%
a) merchant banking	-	-	-
b) premiums received for options	-	-	-
c) other income - rentals and fees	184	226	-18,8%
d) expenses charged to others - recovery of taxes	5.779	5.357	7,9%
e) expenses charged to others - customer insurance premiums	-	-	-
f) expenses charged to others on deposits and current accounts	530	283	86,9%
g) expenses charged to others - intercompany services	-	-	-
h) expenses charged to others - other	1.309	1.337	-2,1%
i) gains on disposal of property, securities held as non-current as	-	-	-
l) out-of-period income and reductions in liabilities	1.039	662	57,0%
Total	**8.841**	**7.866**	**12,4%**

Section 14 – Profit (loss) on equity investments – item 210

14.1 Profit (loss) on equity investments: composition (IAS 1/81.c, 103.c, IAS 28/38; IFRS 5/41)

	31/12/2014	31/12/2013	%
A. Revenues	-	-	**0%**
1. Revaluations	-	-	-
2. Profits on disposal	-	-	0%
3. Write-backs	-	-	-
4. Other	-	-	-
B. Charges	5.223	4.088	**28%**
1. Write-downs	5.223	4.088	28%
2. Impairment losses	-	-	-
3. Losses on disposal	-	-	-
4. Other	-	-	-
Net result	**(5.223)**	**(4.088)**	**28%**

Write-downs of equity investments refer to the subsidiary Tabogan S.r.l.

Section 15 – Net adjustment to the fair value of property, plant and equipment and intangible assets – item 220

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 16 – Goodwill impairment – item 230

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 17 – Profit (loss) on disposal of investments – item 240

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 18 – Taxes on income from continuing operations – item 260

18.1 Taxes on income from continuing operations: composition

	31/12/2014	31/12/2013	%
1. Current taxes (-)	(15.068)	(17.861)	-15,6%
2. Changes in current taxes from previous periods (+/-)	-	-	-
3. Reduction of current taxes for the period (+)	-	-	-
3. bis Reduction in current taxes for the year for credit taxes set forth in Italian Law no. 214/2011 (+)	5.486	937	485,5%
4. Change in deferred tax assets (+/-)	(306)	24.210	-101,3%
5. Change in deferred tax liabilities (+/-)	(543)	(452)	-100,0%
6. Taxes for the period (-) (-1+/-2+3+/-4+/-5)	**(10.430)**	**6.835**	**-252,6%**

18.2 Reconciliation of theoretical tax liability and actual tax liability recognised

	31/12/2014	31/12/2013
Income (loss) before tax from continuing operations	16.233	- 40.685
Income (loss) before tax on groups of assets/liabilities under disposal	-	-
Theoretical taxable income	16.233	- 40.685
Income tax - theoretical tax expense	(4.464)	11.188
Effect of non-taxable or taxed at reduced rates positive components of income	242	-
Effect of taxed positive components of income	-	-
Effect of revenues that do not form taxable income	(3.452)	(3.880)
Income tax - actual tax expense	**(7.674)**	**7.308**
Theoretical tax expense - Irap	(3.247)	(830)
Effect of revenues/expenses that do not form taxable income	22	-
Effect of other changes	469	356
Actual tax expense - IRAP	**(2.756)**	**(474)**
Other taxes	-	-
Actual tax expenses for the period	**(10.430)**	**6.835**
of which: actual tax expenses from continuing operations	-	-
actual tax liabilities on the groups of assets being divested	-	-

Section 19 – Income (loss) after tax from discontinued operations – item 280

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Section 20 – Other information

There is no additional information to report beyond that provided in the previous sections.

Section 21 – Earnings per share

21.1 Average number of ordinary shares (fully diluted)

The methods of calculating basic earnings per share and diluted earnings per share are defined by IAS 33 *Earnings per Share*. Basic earnings per share is defined as the relationship between the net income attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period. The following table presents basic earnings per share and the details of the calculation.

Basic Earning per share	31/12/2014	31/12/2013
Adjusted attributable profit	5.803	(33.850)
Weighted average number of shares	16.971.085	17.022.649
Basic Earning per share	**0,342**	**(1,989)**

Diluted earnings per share reflects the dilutive effects of the conversion of potential ordinary shares, defined as financial instruments that grant their holders the right to obtain ordinary shares. Accordingly, when calculating diluted earnings per share, the numerator and denominator of the ratio are adjusted to account for the effects of the additional shares that would need to be issued if all potential ordinary shares with dilutive effects were converted.

Banca Popolare di Cividale has not issued financial instruments that grant their holders the right to obtain ordinary shares.

21.2 Other information

The reader is referred to the information presented in the similar section of the notes to the consolidated financial statements.

Chapter D – COMPREHENSIVE INCOME

		Gross amount	Income tax	Net amount
10	NET INCOME (LOSS)	x	x	5.803
	Other comprehensive income without reclassificati	-	-	-
40	Defined-benefit plans	(499)	(150)	(349)
100	Financial assets available-for-sale:	12.114	5.926	6.188
	a) fair value changes	12.114	5.926	6.188
130	Total other comprehensive income	11.615	5.776	5.839
140	TOTAL COMPREHENSIVE INCOME	-	-	11.642

Chapter E – RISKS AND HEDGING POLICIES

Identifying the risks to which the Group is potentially exposed is crucial for assuming such risks in an informed manner and managing them effectively, using the appropriate tools and techniques to mitigate those risks.

Its internal rules, operating procedures and monitoring structures designed to protect against business risks have been developed according to a model that integrates monitoring methods at various levels, all converging with the goals of ensuring the efficiency and effectiveness of operating processes, preserving the company's assets, protecting it from losses, ensuring the reliability and integrity of information and verifying the proper conduct of operations in accordance with internal and external regulations.

In 2014 the Banca Popolare Group completely revised its risk management process to comply with the new provisions concerning the internal control system (Bank of Italy Circular 263/2007, 15th update of 2 July 2013, which entered into force on 1 July 2014). Among the main changes, the following are especially worthy of mention:

- ✓ the active role attributed to company governance bodies in the decision-making and risk-monitoring process, through the establishment of the business model and the Risk Appetite Framework (RAF);
- ✓ the formulation and implementation of an integrated internal control system;
- ✓ the consolidation and enhancement of the powers attributed to the risk control function;
- ✓ the provisions regarding outsourcing and the extension of the responsibility of the Compliance function;
- ✓ the introduction of specific rules concerning ICT organisation and governance, management of ICT outsourcing and operating continuity.

The management and monitoring of risks within the Banca Popolare di Cividale Group are founded upon the following basic principles:

- ✓ identifying responsibilities for assuming risks;
- ✓ adopting consistent, adequate measurement and control systems in formal and substantial terms in light of the extent of the risks to be monitored; and
- ✓ organisational separation of functions responsible for management and functions responsible for control.

These principles are formally stated and illustrated in specific policies and the related rules and procedures concerning risks identified as significant. These documents, which are submitted for the approval of the Parent Company's Board of Directors, govern the set of regulated risks, significant and periodically monitored indicators, observation thresholds and operating limits, breach management methods, stress tests applied and the company's organisational structure, bodies and functions charged with performing the activities concerned, in keeping with the roles and responsibilities assigned to them.

In this process, which takes place at various levels of the organisational structure, a fundamental role is played, in accordance with prudential regulations, by the Parent Company's Board of Directors, which is responsible for establishing directives and strategic guidelines concerning the assumption of risk, approving strategic and operational limits (RAF) and drawing up the related guidelines.

The Risk Appetite Framework (RAF) thus represents the general architecture within which the risks assumed by the Group are managed, through the establishment of general principles concerning maximum risk tolerance and the ensuing structure for oversight of the Group's overall risk profile and major specific risks. The process requires a high degree of consistency and reconciliation of the strategic plan, RAF, ICAAP, budget and internal control system.

In accordance with the new supervisory rules (Bank of Italy Circular No. 263/2007, 15th update of 2 July 2013), the organisational structure of the Parent Company, Banca Popolare di Cividale, identifies the Risk

Management Service and Compliance Service, which are to report directly to the Board of Directors, as the second-level control functions. This is also assured for the Auditing Department, a level-three control function that is independent of the other company units. The three functions (Risk Management, Compliance and Internal Auditing) are part of the internal control system, governed by prudential supervisory regulations, the internal document Internal Control System Guidelines, and the Rules and Procedures for the Coordination of Control Functions.

Risk Management Service

It performs a risk control function, as prescribed by the specific supervisory rules. It is divided into two units: the Credit Risk Management Office, which focuses on credit and concentration risk, and the Operational and Financial Risks Office, which focuses specifically on “financial risks” (liquidity, market and interest rate risk) and other risks (operational, strategic, and reputation risk). The Risk Management Service pursues the objective of monitoring the actual risk assumed by the Bank, as well as of observance of operating limits, and contributes to defining the Risk Appetite Framework (RAF). In pursuit of this goal, it proposes the most appropriate quantitative and qualitative parameters and verifies the efficacy of the measures assumed to remedy the deficiencies observed in the risk management process, periodically reporting to company bodies on the activities it performs. It is also tasked with formulating advance opinions on the consistency of major transactions with the RAF, and with analysing the risks of new products and services and the risks arising from entry into new operating and market segments. It coordinates the preparation of the ICAAP report and monitors the performance of capital ratios, proposing policies aimed at ensuring that the capital base is consistent with the overall degree of risk assumed.

Compliance Service

Legal compliance is the responsibility of an independent function that supervises management of non-compliance risk at the Group level, according to a risk-based approach, for all company activity, ensuring that internal procedures are adequate to prevent that risk. The Compliance function reports to the Compliance Service and is also responsible for supervising legal compliance for financial intermediation and complaints handling services. The Anti-Money Laundering function also reports to the Compliance Service and pursues the objective of preventing and managing the risk of non-compliance with laws governing money-laundering and financing for terrorism. The Head of the Compliance Service acts as the head of both functions for supervisory purposes, in addition to serving as the party responsible for reporting suspect transactions pursuant to Legislative Decree No. 231/07.

According to the Group’s organisational model, a Group Management Committee and an Asset and Liability Committee have been instituted, with the additional aim of ensuring an effective exchange of information regarding exposure to such risks between the various segments and maximising the efficacy of the overall control of those risks. The Group’s Management Committee, the members of which also include the heads of control functions, supports the general management in operational coordination of the guidelines established with the Strategic Plan and periodically compares company results with the objectives established in the Plan. The ALCo (Assets and Liabilities Committee), of which the Risk Manager is a member, is charged with proposing the Group’s strategic decisions in financial matters to the Board of Directors, through the General Manager, as well as with coordinating management policies for assets, liabilities and the associated risks, in light of market scenarios and the guidelines established in the current Strategic Plan.

ICAAP at the Banca Popolare di Cividale Group

In accordance with the regulatory provisions governing the prudential control process, the Group has implemented specific company rules, approved by the Parent Company's Board of Directors and periodically updated, that regulate the internal capital adequacy assessment process (ICAAP). The supervisory regulations require that ICAAP be based on appropriate company risk-management systems and presuppose adequate corporate governance mechanisms, an organisational structure with clearly defined lines of responsibility and an effective internal-control system. The corporate boards are responsible for the process and enjoy full autonomy in defining its structure and organisation to the extent of their respective expertise and prerogatives. They implement and promote updates to ICAAP with the aim of ensuring that it constantly adheres to the Group's operational characteristics and strategic context. The process must be formalised, documented, internally audited and approved by the corporate boards. In detail, the process aims to:

- ✓ identify capital requirements on the basis of actual risk and the strategic guidelines set by the Group, in accordance with the Risk Appetite Framework (RAF);
- ✓ ensure that capital is constantly adequate to current and prospective needs;
- ✓ keep all major risks under observation;

- ✓ ensure that regular attention is devoted to risk-measurement and -management processes, developing an increasingly strong "risk culture"; and
- ✓ define approaches, tools, methods, and organisational and control systems for risks and capital commensurate to the Group's strategies, characteristics, scope and complexity, with a view towards constant, gradual refinement.

In April of each year, at the conclusion of the process described above, the Parent Company's Board of Directors approves the ICAAP Report at 31 December of the previous year, which represents both the point of convergence and end result of financial planning, risk management and capital management, and a tool to be used in strategic evaluation and implementation of business decisions.

ICAAP is aimed at expressing an assessment that total capital is essentially currently and prospectively adequate to cover the relevant risks to which the Group is exposed, support the company's growth plans and maintain suitable market standing.

The disclosure obligations imposed by prudential regulations (Bank of Italy Circular 285/2013 and the CRR, Regulation EU No. 575/2013) are discharged at the Group level through preparation of the Disclosure by Institutions document published in the specific Investor Relations section of the company's website, www.civibank.it. The document contains a disclosure for market operators of information concerning capital adequacy, risk exposure and the general characteristics of management systems and the oversight thereof. The information, which is both qualitative and quantitative in nature, is provided through concise overviews, thus fostering the transparency and comparability of the data.

SECTION 1 – CREDIT RISK

1.1 CREDIT RISK

QUALITATIVE DISCLOSURES

1. General aspects

Lending is an essential component of the Banca Popolare di Cividale Group's core business.

The objectives of its lending policies and loan approval and management rules are directed towards:

- ✓ supporting business development in the Group's area of operation, while focusing on assistance for and relationships with small and medium enterprises and families;
- ✓ diversifying the portfolio, by limiting the concentration of exposures to individual counterparties/groups and individual sectors of the economy;
- ✓ efficiently selecting groups and companies to which to lend through a thorough analysis of creditworthiness aimed at limiting the risk of default;
- ✓ constantly monitoring relationships, through both automatic procedures and systematic surveillance of positions, in order to identify any signs of imbalance in a timely manner and then launch the corrective measures aimed at preventing the relationship from deteriorating.

The quality of the loan portfolio is constantly monitored in accordance with precise operating rules throughout all phases of the management of loan positions.

2. Credit risk management policies

2.1 Organisational aspects

Within the organisational structure adopted by Banca Popolare di Cividale, management of credit risk is entrusted to the following organisational units, to varying extents, in accordance with the mission and activities assigned to each under specific internal rules and procedures:

- ✓ Loan Department: it is tasked with overseeing the process of assuming all types of risks associated with lending for the Banca Popolare di Cividale Group, with the support of the Head of the Loan Service. Through the general management, after having obtained the opinion of the Risk Management function, it proposes credit management policies to the Board of Directors. It is responsible for ensuring that the lending process is compliant with the provisions of the law, supervisory authority, Articles of Association and internal rules and procedures, and it constantly updates the technical procedures for loan application review, assessment and disbursement and the associated internal rules;
- ✓ Loan Service (an operating unit of the Loan Department): it is charged with managing and verifying the process of assuming all types of risks associated with lending for the Banca Popolare di Cividale Group: the Loan Application Review Office, Loan Register Office and Mortgage Administration Office are all part of the Loan Service;
- ✓ Loan Monitoring Office (an operating unit of the Loan Department): it is responsible for ordering the appropriate checks of the regular performance of loans granted by the Bank, as well as for authorising

the appropriate measures to restore positions to regular status and verifying that network units take action within the required terms. It also provides operating guidelines to area personnel;

- ✓ Problem Loan Control Office (an operating unit of the Loan Department): it manages the portfolio of loans classified as substandard, from the extra-judicial phase to assessment of whether to proceed to enforced recovery of the position or reclassification as performing. It is also tasked with promoting a problem loan management culture among all network staff. It proposes the amount of provisions to the competent bodies during the financial statement preparation process;
- ✓ Legal and Dispute Service/Dispute Office: it manages legal aspects of positions classified as bad debts, and in particular is responsible for taking legal measures and actions aimed at recovering the amounts concerned. It is also tasked with conducting assessments of loss projections for individual disputed positions and proposing the necessary provisions;
- ✓ Risk Management Service/Credit Risk Management Office: it identifies, assesses and conducts systematic, integrated management of the credit risk assumed by the company, in addition to ensuring an adequate system for reporting to company bodies and the responsible production units. It collaborates in setting the RAF, drafting the credit policy with regard to the assumption of credit and concentration risks and establishing the related operating limits;
- ✓ Finance Service/Treasury & Funding Office: in the context of its specific operations, it is tasked with ensuring the compliance of financial assets with the prescriptions of the rules and procedures for credit risk as regards credit limits for borrowers (monitoring of the system of limits imposed by the regulations).

In early 2015, the introduction of a new management system for monitoring loans also entailed changes at the level of the organisational structure, involving the designation of a new unit as responsible for managing anomalous positions. In particular, when the Loan Monitoring Procedure has been fully implemented into the production process, the Loan Monitoring Office and Problem Loan Office will be merged into the newly formed Anomalous Loan and Pre-dispute Office within the Loan Department. The credit quality managers (local managers) will continue to provide their current supervision of their local areas following their integration into the above operating unit.

2.2 Management, measurement and control systems

The risk profile of the loan portfolio of Banca Popolare di Cividale is monitored throughout all phases of the process, beginning with application review and assessment of the borrower's satisfaction of reliability requirements, through verification of the borrower's creditworthiness, the transaction's risk level, the appropriateness of the return and the current and prospective sustainability of the credit risk.

The power to approve loans is delegated by the network to central offices and company bodies, according to a system governed by the Lending Process Rules and Procedures, which provide for specific loan authorisation powers assigned according to various criteria including the amount of the credit facility, weighted by risk type, the rating class, the primary reason for applying for the loan, the classification of the counterparty as non-performing or a change of risk level, and specific cases falling within the exclusive purview of the Board of Directors.

The credit decision-making process is supported by internal procedures (the Electronic Lending Procedure and Rating Procedure), which allow management of all phases of the lending process (from contact with the customer to application review, disbursement and management and final closure), as well as of the rating assignment process. All applications are automatically assigned to the competent level according to the rules and limits of amount laid down in the Lending Process Rules and Procedures.

Creditworthiness is analysed according to elements of a quantitative nature (income components, financial statement analysis, and internal and systemic performance data) and of a qualitative nature (a thorough understanding of the customer, the competitive climate in which the customer operates, an analysis of the sector, shareholder composition, adverse entries, and so forth), with the use of specific data providers (in particular, CRIF for individual customers, CERVED for company chamber of commerce certificates and adverse entries, CEBI for financial statements, and so forth).

In keeping with the strategic objectives identified in its 2014–2016 Strategic Plan, Banca Popolare di Cividale is embarking on a process of adjusting its rating system, used in the lending process for non-regulatory purposes.

The new rating models developed by the Creval Group, an external provider to the Banca Popolare di Cividale Group, were introduced in the second half of 2014. The rating system calls for the establishment of a new rating assignment process involving the introduction of a rating procedure (part of a specific larger procedure, integrated into the loan application review phase) aimed at analysing quantitative and qualitative information concerning the borrower to be used to calculate the online rating or acceptance rating. The scope of application of the rating system extends to borrowers in the credit risk segments Corporate, Corporate SMEs, Small Retail, Micro Retail and Individual Retail. This specific segmentation has been created for the purposes of managing risk (credit risk segmentation), and is associated with the use of the appropriate rating model.

The ratings assigned online (by the rating procedure) are subject to a monthly monitoring process aimed at identifying signs of significant deterioration of the risk profile, through automatic mass calculation of "monitoring" ratings with monthly frequency, using all up-to-date quantitative information that may be drawn from the systems (register, consolidated exposures at the end of the month, financial statement data and performance data) and the most recent qualitative questionnaire completed.

In order to ensure continuity with the previous rating system, for enterprise segments (Corporate, Corporate SMEs, Retail SMEs and Micro Retail), the external provider has set up a master scale of nine classes of creditworthiness for performing borrowers, plus one class for defaulting borrowers. For the Individual segment, for which the model has been introduced and applied for the first time, five rating classes have been established for performing countries, in addition to one class for defaulting counterparties. Each rating class in each segment is associated with a probability of default, estimated by the external supplier on the basis of the average default rates observed in recent periods (calibration on seven years) in the pertinent portfolio, updated annually.

In accordance with the Group's internal rules and procedures, the rating system is subject to periodic review at the overall level by the Risk Management Service, as part of validation activity for models used for non-regulatory purposes.

After a loan is approved and disbursed, the position is assessed over time (on a fixed date or at defined intervals), initially by the branches, which are responsible for specific daily and monthly activities, as well as by the geographical areas. These are also home to specialised professionals known as credit quality managers, who support the areas in all activities relating to promotion, prevention and monitoring of credit quality. Further assessments may be launched in response to reports or initiatives of dedicated units, foremost among which is the Credit Monitoring Office (since the beginning of 2015 the Anomalous Loan and Pre-dispute Office), which is responsible for loan performance control, conducted through IT procedures aimed at identifying potentially anomalous situations, broken down into two main phases:

- ✓ daily monitoring of anomalies on the basis of information obtained through managing the relationship with the customer; and
- ✓ systematic surveillance with the use of automated systems with the aim of identifying in a timely manner positions that present signs of deterioration of the risk profile in order to include them in a specific process for managing anomalous positions.

In the second half of 2014, new measures were launched relating to the performance management and monitoring and debt recovery process. In further detail:

- ✓ more detailed classification of performing positions through the introduction of new management statuses, associated with specific actions aimed at preventing the deterioration of positions; the new management statuses have been defined on the basis of consecutive days past due/number of unpaid instalments and of specific events/position risk indicators;
- ✓ testing of phone collection action, outsourced to a specialised company for customers in the Individual and Retail categories.

In addition, plans call for the introduction of a new management model in the first half of 2015. Under this model, positions belonging to the various credit risks segments (Corporate, Corporate SME, Retail and Individual) attributed to the various management statuses are assigned to portfolios through the application of a new procedure known as the Monitoring Procedure.

In accordance with the new prudential regulations and the Group's organisational structure, internal control of credit risk is assigned to the Credit Risk Management Office, which through specific periodic reports pursues the objective of monitoring and measuring the level of credit risk associated with the Bank’s loan portfolio. The information base consists of the data provided by the Central Risks Database, the general records database and the economic groups database.

Quarterly reports, which are presented to company bodies in accordance with the internal rules and procedures of the Internal Control System, include in particular:

- ✓ an analysis of the composition and performance of the loans portfolio, with an emphasis on credit quality, including a breakdown of loans into performing and non-performing (restructured, past-due, substandard and bad debts) and a comparison with the industry benchmark; the analysis also includes the transition matrices and the calculation of default rates;

- ✓ a qualitative analysis of risk profiles from a “strategic” standpoint;
- ✓ the application of stress tests on the risk level of the loan portfolio, including in terms of capital requirements;
- ✓ an analysis of concentration risk for single names and associated groups and an analysis of concentration risk by geographical area and sector, with a calculation of capital requirements as well in both ordinary and stress conditions.

Additional information is available concerning online control instruments, which allow all management units involved in implementing credit policies to maintain adequate oversight. In particular, analyses of the following are available:

- ✓ the performance of various classes of risk: composition, changes and comparisons by category and area;
- ✓ the ratings assigned to companies and individuals; portfolio composition; distribution by use; changes of class (deterioration/improvement);
- ✓ the primary exposures by risk class; and
- ✓ uses by sector (ATECO or SAE codes).

In order to comply with the new supervisory regulations that entered into force on 1 July 2014 concerning the internal control system and risk monitoring, the Bank also launched specific project initiatives aimed at introducing a second-level credit risk control system. The main activities for which the Credit Risk Management Office is responsible include verifying that the performances of individual credit exposures, and non-performing exposures in particular, are properly monitored, and assessing the consistency of classifications, the appropriateness of provisions and the adequacy of the recovery process at the central and peripheral level.

2.3 Credit risk mitigation techniques

Guarantees are a secondary consideration in the loan approval process. Loan approval continues to be based on the borrower's effective ability to repay the amount of the loan.

Operating procedures for the proper acquisition, use and management of guarantees have been established in specific internal rules with the aim of ensuring consistent, uniform operations.

Guarantees are acquired through an operational procedure that ensures an assessment of the formal and substantive validity of documentation that includes ascertaining the legal capacity to contract required to provide the guarantee in question. Checks are supplemented at the central level, where securities are held and contracts managed. In the case of pledges, only specified, easily liquidated assets are eligible for acquisition and valuation under the procedure. In cases of mortgages, assets are valued by independent appraisers, except in special, low-value cases, in accordance with the Italian Banking Association Property Appraisal Guidelines, adopted by the Bank.

The guarantees acquired that comply with the generic and specific suitability criteria established by supervisory legislation for the mitigation of credit exposures are also used to determine capital requirements. In the case of property guarantees in particular, the Bank has entered into a specific agreement with an external provider for the periodic updating of the market value of properties provided as collateral or subject to finance lease, on statistical bases, in order to ensure “property supervision”. For exposures of more than €3 million, the Bank has the appraisals revised by an independent expert each year.

Before personal guarantees are accepted, checks are usually made at the competent register of deeds to ascertain the guarantor’s actual real-estate portfolio, bearing in mind the possibility of a rapid, unexpected depletion of the asset base.

2.4 Non-performing financial assets

In accordance with supervisory provisions, anomalous loans are classified as loans past due by more than 90 days, restructured loans, substandard positions and bad debts (classification in place until December 2014). With effect from 1 January 2014, the new definition of "default by a debtor" introduced by European regulations provides that when determining defaulted exposures the overall exposure to a debtor is to be considered (known as the "individual debtor approach"), with the possibility of referring to individual lines of credit (known as the "individual transaction approach") for retail exposures only. In application of the new regulations in effect from 1 January 2014, Banca Popolare di Cividale has adopted by the individual debtor approach for all of the Bank's exposures.

Monitoring substandard and bad debt positions is the responsibility of the Loan Monitoring Office/Problem Loan Office and the Legal and Dispute Service, respectively.

Classification of individual positions as substandard is decided by the competent bodies, usually on the recommendation of the Loan Monitoring Office and Problem Loan Office, and also according to supervisory criteria for identifying what are known as “objective substandard positions”. The amount of provisions to be recognised is also determined during the decision-making process. Likewise, the competent bodies also decide whether to remove substandard status and reclassify the loan among ordinary positions.

Once a loan is classified as substandard, the decision-making powers of individual loan officers are suspended and any further decision on extending loans rests solely with collegial bodies. Substandard loans are systematically monitored by the Loan Monitoring Office and Problem Loan Office, which provides ongoing support to individual branches concerning methods of handling positions and the steps to be taken to restore the positions to performing status.

The procedure for classifying a position as a bad debt is analogous to that used for managing substandard loans. Decisions concerning the amounts of individual provisions, as well as any changes, are made by the competent bodies upon the recommendation of the Loan Department.

Banca Popolare di Cividale has planned various activities relating to the lending process for 2015, foremost among which is the launch of a new process known as the Monitoring Procedure, which will require the establishment of a new organisational unit, with the aim of introducing the new classification of non-performing assets provided for in the new supervisory regulations. In accordance with supervisory provisions, anomalous loans are classified as loans past due by more than 90 days, restructured loans, substandard positions and bad debts (classification in place until December 2014). With effect from 1 January 2014, the new definition of "default by a debtor" introduced by European regulations provides that when determining defaulted exposures the overall exposure to a debtor is to be considered (known as the "individual debtor approach"), with the possibility of referring to individual lines of credit (known as the "individual transaction approach") for retail exposures only. In application of the new regulations in effect from 1 January 2014, Banca Popolare di Cividale has adopted by the individual debtor approach for all of the Bank's exposures.

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The procedure for classifying a position as a bad debt is analogous to that used for managing substandard loans. Decisions concerning the amounts of individual provisions, as well as any changes, are made by the competent bodies upon the recommendation of the Legal Department.

Banca Popolare di Cividale has planned various activities relating to the lending process for 2015, foremost among which is the launch of a new process known as the Monitoring Procedure, which will require the establishment of a new organisational unit, with the aim of introducing the new classification of non-performing assets provided for in the new supervisory regulations.

QUANTITATIVE DISCLOSURES
A. CREDIT QUALITY

A. Non-performing and performing positions: stocks, write-downs, changes and distribution by sector and geographical area

A.1.1 Distribution of loan exposures by portfolio and credit quality (carrying amounts)

	Bad debts	Substandard loans	Restructured positions	Non performing, expired loans	Performing, expired loans	Other assets	Total
1. Financial assets held for trading	-	-	-	-	-	2.810	2.810
2. Financial assets available for sale	-	-	-	-	-	961.833	961.833
3. Financial assets held to maturity	-	-	-	-	-	64.697	64.697
4. Due from banks	-	-	-	-	-	158.686	158.686
5. Loans to customers	162.114	132.130	9.727	13.555	246.386	2.147.816	2.711.728
6. Financial assets recognized at fair value	-	-	-	-	-	-	-
7. Financial assets being divested	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-
Total 31/12/2014	**162.114**	**132.130**	**9.727**	**13.555**	**246.386**	**3.335.842**	**3.899.753**
Total 31/12/2013	**144.673**	**120.234**	**11.165**	**21.075**	**285.398**	**4.168.123**	**4.750.669**

A.1.2 Distribution of loan exposures by portfolio and credit quality (gross and net values)

	Impaired assets			Other assets			
	Gross exposure	Specific writedowns	Net exposure	Gross exposure	Portfolio writedowns	Net exposure	**Total net exposure**
1. Financial assets held for trading	-	-	-	X	X	2.810	2.810
2. Financial assets available for sale	-	-	-	961.833	-	961.833	961.833
3. Financial assets held to maturity	-	-	-	64.697	-	64.697	64.697
4. Due from banks	-	-	-	158.686	-	158.686	158.686
5. Loans to customers	590.448	272.923	317.525	2.411.997	17.794	2.394.203	2.711.728
6. Financial assets measured at fair value	-	-	-	X	X	-	-
7. Financial assets being divested	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total 31/12/2014	**590.448**	**272.923**	**317.525**	**3.597.212**	**17.794**	**3.582.228**	**3.899.753**
Total 31/12/2013	**575.073**	**277.926**	**297.147**	**4.467.017**	**16.990**	**4.453.523**	**4.750.670**

Past-due performing exposures

The accounting standard IFRS 7 requires that for all financial assets not subject to impairment losses, entities must disclose the age of the past-due exposure that results when the counterparty fails to make payment on the contractually required due dates.

It bears remarking that:

- ✓ for exposures subject to repayment in instalments with at least one instalment past due, the entire amount of the exposure as carried is reported as "past due"; and
- ✓ for "revocable" credit facilities where the established credit limit has been exceeded (even where due to the compounding of interest), the entire amount of the exposure is reported.

Accordingly, the figures presented in the following table primarily refer to shares of loans that have not yet come due, in accordance with the figures presented in the column "Performing past-due exposures" of the table "A.1.1 – Distribution of loan exposures by portfolio and credit quality (book values)".

Exposures renegotiated as part of collective agreements refer to the following collective agreements and systemic initiatives:

- ✓ the Solidarity Fund for the Suspension of Mortgages for the Purchase of First Homes, which allows households experiencing difficulty as a result of the crisis to suspend repayment of their mortgages;
- ✓ the 2013 Credit Agreement signed by Italy's Ministry for the Economy and Finance, Italian Banking Association and business associations, allowing the suspension or extension of loans to SMEs;
- ✓ measures in support of residents of municipalities affected by natural disasters.

It should be noted that the provisions provided by the Bank of Italy call for renegotiation to result in a freeze of the calculation of days of inclusion in the past-due category for the entire period of effectiveness of the suspension.

Positions for which the Bank has agreed to renegotiation with the customer due to financial difficulties experienced by the customer may consist of:

- ✓ a change of the previous contractual terms and conditions, inasmuch as the borrower is unable to pay due to financial difficulties, where such a change would not have been permitted if the borrower were not experiencing financial difficulties; or
- ✓ partial or total refinancing of the borrower, which would not have been granted if the borrower was not experiencing financial difficulties, where "refinancing" means a new contract that allows the original contract to be repaid in whole or in part.

This category differs from the renegotiation of credit positions not due to financial difficulties experienced by the borrower, granted by the Bank with respect to performing loans to customers, which in substance is similar to the opening of a new position, when it is essentially done for commercial reasons, provided that the interest rate applied is a market rate at the renegotiation date.

The following table presents a breakdown of past-due exposures by portfolio and time past due:

	Up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year	Total net exposure
Renegotiated exposures under collective agreements	3.662	-	-	-	3.662
Other exposures	209.253	11.803	6.138	404	227.599
Forbearance Performing	13.639	1.397	89	-	15.125

Simplified composition with creditors and composition with creditors on a going-concern basis

In its letter of 10 February 2014, the Bank of Italy required that adequate disclosure be provided concerning the extent and performance of exposures subject to simplified composition with creditors and composition with creditors on a going-concern basis. In further detail, borrowers may apply for simplified composition with creditors by filing only their financial statements for the past three years and a list of their creditors, while reserving the option of filing the proposal, plan and additional documentation at a later date, within a term set by the judge of between 60 and 120 days (in justified cases, the term may be extended for an additional 60 days). Within that term, the borrower may also apply to the judge for approval of a debt-restructuring agreement. On the other hand, the mechanism of composition with creditors on a going-concern basis allows borrowers in crisis situations to present a composition plan envisaging one of the three following scenarios: i) continuation of business activity by the borrower; ii) disposal of the company on a going-concern basis; or iii) contribution of the company to one or more entities, including newly incorporated entities.

The amendments (Law No. 134/2012, enacting Law Decree No. 83/2012, known as the "Development Decree," and Law No. 98/2013, enacting Law Decree No. 69/2013) were introduced with the aim of promoting the early identification of difficulty experienced by an entrepreneur in meeting his obligations, as well as of fostering continuing operation where certain requirements have been met.

With respect to the Bank's situation, it should be remarked that the portfolio of loans to customers includes gross exposures subject to simplified composition and composition on a going-concern basis classified as bad exposures of €664 thousand, €164 thousand classified as performing, and €34,509 thousand classified as substandard.

A.1.3 On- and off-balance sheet loan exposures to banks: gross and net values

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad debts	-	-	X	-
b) Substandard loans	-	-	X	-
c) Restructured positions	-	-	X	-
d) Past due positions	-	-	X	-
e) Other assets	187.768	X	-	187.768
TOTAL A	**187.768**	**-**	**-**	**187.768**
B. OFF-BALANCE-SHEET EXPOSURE	**-**	**-**	**-**	**-**
a) Impaired	-	-	X	-
b) Other	4.526	X	-	4.526
TOTAL B	**4.526**	**-**	**-**	**4.526**
TOTAL A+B	**192.294**	**-**	**-**	**192.294**

A.1.6 On- and off-balance sheet loan exposures to customers: gross and net values

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure
A. ON-BALANCE-SHEET EXPOSURES				
a) Bad debts	378.343	216.229	X	162.114
b) Substandard loans	182.904	50.775	X	132.130
c) Restructured positions	13.241	3.514	X	9.727
d) Past due positions	15.960	2.405	X	13.555
e) Other assets	3.410.896	X	17.794	3.393.102
TOTAL A	**4.001.344**	**272.923**	**17.794**	**3.710.627**
B. OFF-BALANCE-SHEET EXPOSURES				
a) Impaired	5.544	867	X	4.677
b) Other	90.793	X	665	90.128
TOTAL B	**96.336**	**867**	**665**	**94.805**

A.1.7 On-balance sheet loan exposures to customers: changes in gross impaired positions

	Bad debts	Substandard loans	Restructured positions	Past due positions
A. Opening gross exposure	**358.329**	**176.713**	**13.545**	**26.486**
- of which: exposures assigned but not derecognized	-	-	-	-
B. Increases	**71.112**	**69.916**	**1.534**	**13.632**
B.1 from performing positions	12.864	53.452	1.047	13.540
B.2 transfers from other categories of impaired positions	51.485	12.613	220	50
B.3 other increases	6.763	3.851	267	42
C. Decreases	**51.098**	**63.725**	**1.838**	**24.158**
C.1 to performing positions	-	2.913	191	4.659
C.2 writeoffs	40.420	-	-	-
C.3 collections	10.678	11.395	464	5.704
C.4 assignments	-	-	-	-
C.4 *bis* losses for assignments				
C.5 transfers to other categories of impaired positions	-	49.417	1.153	13.795
C.6 other decreases	-	-	30	-
D. Closing gross exposure	**378.343**	**182.904**	**13.241**	**15.960**
- of which: exposures assigned but not derecognized	-	-	-	-

A.1.8 On-balance sheet loan exposures to customers: changes in total adjustments

	Bad debts	Substandard loans	Restructured positions	Past due positions
A. Total opening adjustments	**213.655**	**56.479**	**2.380**	**5.411**
- of which: exposures assigned but not derecognized	-	-	-	-
B. Increases	**45.930**	**21.084**	**1.537**	**1.933**
B.1. writedowns	20.851	18.092	1.444	1.831
B.1. bis losses on sale	-	-	-	-
B.2. transfers from other categories of impaired positions	21.844	2.658	85	11
B.3. other increases	3.235	334	8	91
C. Decreases	**43.356**	**26.789**	**403**	**4.939**
C.1. writebacks from valuations	4.082	3.629	104	1.144
C.2.writebacks from collection	770	1.680	-	976
C.2. bis gains on sale	-	-	-	-
C.3. writeoffs	38.504	-	-	-
C.4. transfers to other categories of impaired positions	-	21.480	299	2.819
C.5. other decreases	-	-	-	-
D. Total closing adjustments	**216.229**	**50.774**	**3.514**	**2.405**
- of which: exposures assigned but not derecognized	-	-	-	-

A.2 CLASSIFICATION OF EXPOSURES ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

A.2.1 – Distribution of on- and off-balance sheet exposures by external rating grades

Under the Bank of Italy preparation rules, the table in question has not been compiled since the Group does not rely on external ratings issued by authorised ratings agencies (ECAIs) for on- and off-balance sheet exposures to customers.

A.2.2 – Distribution of on- and off-balance sheet exposures by internal rating grades

This table has not been compiled since rating models are not used for regulatory purposes. However, they are used as a management tool for classifying and analysing customers for risk management purposes.

A.3 Distribution of secured exposures by type of guarantee

A.3.1 – Secured on-balance sheet loan exposures to banks

	Net exposures	Collateralsi (1)				Guarantees (2)									Total (1)+(2)
						Credit derivatives					Signature Loans (loans guarantee				
							Other credit derivatives								
		Property	Property leasing	Securities	Other assets	CLN	Goverments a	Other public e	Banks	Other entities	Goverments and	Other public entiti	Banks	Other entities	
1. Secured exposures to banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.1. fully secured	49.753	-	-	48.987	-	-	-	-	-	-	-	-	-	-	48.987
- of which nonperforming	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which nonperforming	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured exposures to customers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1. fully secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which nonperforming	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which nonperforming	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2. – Secured on-balance sheet loan exposures to customers

	Net exposures	Collateralsi (1)				Guarantees (2)									Total (1)+(2)
						Credit derivatives					Signature Loans (loans guarantees)				
							Other credit derivatives								
		Property	Financial leasing	Securities	Other assets	CLN	Goverments and Central Banks	Other public entities	Banks	Other entities	Goverments and	Other public entiti	Banks	Other entities	
1. Secured on balance sheet credit exposures:	1.949.029	6.100.735		30.255	25.410	-	-	-	-	-	-	14.618	284	266.231	**5.372.370**
1.1. totally secured	1.887.731	5.063.017		23.227	19.664	-	-	-	-	-	-	10.037	268	214.153	5.330.364
- of which impaired	276.675	1.032.403		2.276	2.350	-	-	-	-	-	-	211	7	27.917	1.065.164
1.2. partially secured	61.298	5.316		4.752	3.396	-	-	-	-	-	-	4.371	9	24.161	42.005
- of which impaired	8.580	5.209		179	62	-	-	-	-	-	-	101	6	5.119	10.675
2. Secured off balance sheet credit exposures:	30.787	243		4.826	5.370	-	-	-	-	-	-	24	-	16.623	24.882
2.1. totally secured	19.610	243		3.262	3.226	-	-	-	-	-	-	24	-	-	20.146
- of which impaired	2.052	-		107	1.148	-	-	-	-	-	-	-	-	-	2.204
2.2. partially secured	9.125	-		1.457	997	-	-	-	-	-	-	-	-	-	4.737
- of which impaired	454	-		-	72	-	-	-	-	-	-	-	-	-	172

B. CREDIT DISTRIBUTION AND CONCENTRATION

B.1 Distribution of on- and off-balance sheet exposures to customers by sector (carrying amounts)

	Governments and central banks			Other public entities			Financial companies			Insurance undertakings			Non-financial companies			Other		
	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns	Net exposure	Specific writedowns	Portfolio writedowns
A. On-balance-sheet exposures																		
A.1 Bad debts	-	-	X	-	3	X	1.983	1.253	X	-	-	X	135.517	190.621	X	24.613	24.352	X
A.2 Substandard loans	-	-	X	-	-	X	2.136	1.537	X	-	-	X	102.559	41.940	X	27.435	7.297	X
A.3 Restructured positions	-	-	X	-	-	X	1.529	1.640	X	-	-	X	6.747	1.857	X	1.451	17	X
A.4 Past due positions	-	-	X	-	-	X	5	1	X	-	-	X	10.117	1.795	X	3.433	609	X
A.5 Other	987.104	X	0	7.385	-	62	322.364	X	171	13.250	X	-	1.197.850	X	10.180	865.148	X	7.381
TOTAL	987.104	-	0	7.385	3	62	328.017	4.431	171	13.250	-	-	1.452.791	236.213	10.180	922.080	32.275	7.381
B. Off-balance-sheet exposures																		
B.1 Bad debts	-	-	X	-	-	X	-	-	X	-	-	-	1.921	217	X	2	0	X
B.2 Substandard loans	-	-	X	-	-	X	-	-	X	-	-	X	2.658	649	X	23	0	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	63	1	X	11	0	X
B.4 Other	-	X	-	3.627	X	6	14.875	X	13	-	X	-	58.798	X	608	12.827	X	38
TOTAL	-	-	-	3.627	-	6	14.875	-	13	-	-	-	63.440	866	608	12.863	1	38
TOTAL 31/12/2014	987.104	-	0	11.012	3	68	342.892	4.431	184	13.250	-	-	1.516.231	237.079	10.787	934.943	32.276	7.420
TOTAL 31/12/2013	1.462.860	0	0	8.254	3	61	557.046	2.741	190	13.292	-	-	1.663.643	239.749	10.848	960.889	35.479	6.675

B.2 Distribution of on- and off-balance sheet loan exposures to customers by geographical area (carrying amounts)

	ITALY		OTHER EUROPEAN		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet exposures										
A.1 Bad debts	161.334	213.027	572	3.131	-	7	-	-	208	64
A.2 Substandard loans	131.438	50.072	679	699	-	-	12	3	-	-
A.3 Restructured positions	9.727	3.514	-	-	-	-	-	-	-	-
A.4 Past due positions	13.505	2.396	50	9	0	0	-	-	-	-
A.5 Other	3.379.183	17.681	12.931	106	319	2	558	5	111	1
TOTAL A	3.695.188	286.691	14.231	3.944	319	9	571	8	318	65
B. Off-balance-sheet exposures										
B.1 Bad debts	1.923	217	-	-	-	-	-	-	-	-
B.2 Substandard loans	2.681	649	-	-	-	-	-	-	-	-
B.3 Other impaired assets	73	1	-	-	-	-	-	-	-	-
B.4 Other	90.065	664	62	1	-	-	-	-	-	-
TOTAL B	94.742	1.531	62	1	-	-	-	-	-	-
TOTAL 31/12/2014	**3.789.930**	**288.222**	**14.293**	**3.945**	**319**	**9**	**571**	**8**	**318**	**65**
TOTAL 31/12/2013	**4.651.477**	**291.468**	**13.245**	**4.244**	**409**	**6**	**478**	**7**	**387**	**21**

	Northwest Italy		North east Italy		Italy - Center		South Italy and Islands	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet exposures								
A.1 Bad debts	1.504	6.503	150.941	196.488	7.568	8.553	1.322	1.484
A.2 Substandard loans	4.517	387	123.407	49.326	3.414	320	101	40
A.3 Restructured positions	-	-	9.727	3.514	-	-	-	-
A.4 Past due positions	18	3	13.424	2.382	17	3	45	8
A.5 Other	22.431	191	2.326.490	17.369	1.029.090	110	1.173	10
TOTAL A	28.469	7.084	2.623.988	269.079	1.040.090	8.986	2.641	1.542
B. Off-balance-sheet exposure	-	-	-	-	-	-	-	-
B.1 Bad debts	-	-	1.809	197	113	19	-	-
B.2 Substandard loans	-	-	2.669	649	-	-	13	-
B.3 Other impaired assets	-	-	73	1	-	-	-	-
B.4 Other	1.007	11	88.532	648	90	1	436	5
TOTAL B	1.007	11	93.083	1.495	203	20	449	5
TOTAL 31/12/2014	19.807	4	98.294	822	227	1	247	2

B.3 Distribution of on- and off-balance sheet loan exposures to banks by geographical area (carrying amounts)

	ITALY		COUNTRIES		AMERICA		ASIA		REST OF WORLD	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. On-balance-sheet exposures										
A.1 Bad debts	-	-	-	-	-	-	-	-	-	-
A.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
A.3 Restructured positions	-	-	-	-	-	-	-	-	-	-
A.4 Past due positions	-	-	-	-	-	-	-	-	-	-
A.5 Other	168.337	-	15.697	-	3.485	-	-	-	249	-
TOTAL A	168.337	-	15.697	-	3.485	-	-	-	249	-
B. Off-balance-sheet exposures										
B.1 Bad debts	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other	3.578	-	949	-	-	-	-	-	-	-
TOTAL B	3.578	-	949	-	-	-	-	-	-	-
TOTAL 31/12/2014	171.915	-	16.646	-	3.485	-	-	-	249	-
TOTAL 31/12/2013	189.375	-	14.256	-	3.164	-	-	-	51	-

	Northwest Italy		North east Italy		Italy - Center		South Italy and Islands	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. On-balance-sheet exposures								
A.1 Bad debts	-	-	-	-	-	-	-	-
A.2 Substandard loans	-	-	-	-	-	-	-	-
A.3 Restructured positions	-	-	-	-	-	-	-	-
A.4 Past due positions	-	-	-	-	-	-	-	-
A.5 Other	-	-	-	-	-	-	-	-
TOTAL A	102.873	-	358	-	64.962	-	143	-
B. Off-balance-sheet exposure	102.873	-	358	-	64.962	-	143	-
B.1 Bad debts	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-
B.4 Other	-	-	-	-	-	-	-	-
TOTAL B	13	-	223	-	3.342	-	-	-
TOTAL 31/12/2014	13	-	223	-	3.342	-	-	-
TOTAL 31/12/2013	67	-	661	-	3.063	-	-	-

B.4 Large exposures

In accordance with the Bank of Italy's instructions set forth in the letter dated 28 February 2011, the amount of "risk positions" that qualify as "large exposures" is disclosed on the basis of both carrying amounts and weighted value. In particular, as provided for in Regulation EU No. 575/2013, and as transposed in Italy by Bank of Italy circulars 154 and 286, the value of the exposure is presented in the financial statements, whereas the weighted value is taken as the value of the exposure after applying credit risk mitigation and the exemptions pursuant to Article 400 of the CRR.

The disclosure drafted in accordance with the new Basel III regulations, in effect since 1 January 2014, indicates exposures in excess of the 10% of eligible capital attributable to exposures to the Italian government of €948,895 thousand and exposures to Cassa Compensazione e Garanzia of €113,589 thousand, with the remainder attributable to exposures to banking and financial counterparties.

	31/12/2014	31/12/2013
Amount - Book value	1.233.018	3.165.949
Amount - Weighted value	137.136	136.305
Number	6	7

C. SECURITISATIONS

C.1 SECURITISATIONS

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

D. STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES (OTHER THAN SECURITISATION VEHICLES)

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

E. TRANSFERS

A. Financial assets sold but not fully derecognised

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

	Financial assets held for trading			Financial assets measured at fair value			Financial assets available for sale			Financial assets 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	31/12/14	31/12/13
A. Cash asseets	-	-	-	-	-	-	54.511	-	-	53.223	-	-	-	-	-	-	-	-	107.734	1.222.133
1. Debt securities	-	-	-	-	-	-	54.511	-	-	53.223	-	-	-	-	-	-	-	-	107.734	1.222.133
2. Equities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCIS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31/12/2014	-	-	-	-	-	-	**54.511**	-	-	**53.223**	-	-	-	-	-	-	-	-	**107.734**	**X**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X
Total 31/12/2013	-	-	-	-	-	-	**1.134.237**	-	-	**87.896**	-	-	-	-	-	-	-	-	**X**	**1.222.133**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	-

A = financial assets sold but fully recognised (carrying amounts). B = financial assets sold but partly recognised (carrying amounts). C = financial assets sold partially recognised (full amount).

E.2 – Financial liabilities associated with financial assets sold but not derecognised: carrying amounts

	Financial assets held for trading	Financial assets measured at fair value	Financial assets available for sale	Financial assets held to maturity	Due from banks	Loans to customers	Total
1. Deposits from customers	-	-	54.482	57.177	-	-	111.659
a) relating to fully recognised assets	-	-	54.482	57.177	-	-	111.659
b) relating to partially recognised assets	-	-	-	-	-	-	-
2. Deposits from Banks	-	-	-	-	-	-	-
a) relating to fully recognised assets	-	-	-	-	-	-	-
b) relating to partially recognised assets	-	-	-	-	-	-	-
Total 31/12/2014	-	-	**54.482**	**57.177**	-	-	**111.659**
Total 31/12/2013	-	-	**1.166.129**	**91.369**	-	-	**1.257.498**

E.3 – Sales with liabilities subject to recovery solely for the assets sold: fair value
This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

B. Financial assets sold and fully derecognised with recognition of continuing involvement
This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

F. CREDIT RISK MEASUREMENT MODELS
Please refer to the qualitative disclosures on credit risk for further information.

SECTION 2 – MARKET RISKS

The Bank's investment policy is inspired by the goal of limiting market risk in its various forms (interest-rate risk, price risk and exchange-rate risk).

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

The trading book, as defined in supervisory reporting rules, includes financial instruments subject to capital requirements for market risks.

QUALITATIVE DISCLOSURES

A. General aspects

The trading book is extremely limited in amount and consists almost entirely of bonds.
The Bank does not have positions in structured credit products or derivative contracts. Likewise, there are ties whatsoever to special-purpose entities with exposures to risky financial instruments.

B. Interest-rate and price-risk management processes and measurement methods
The Bank's investment policy is aimed at limiting market risk for those components of such risk that it knowingly intends to assume:

- ✓ interest-rate risk;
- ✓ price risk; and
- ✓ exchange-rate risk.

The Bank does not normally assume positions that entail commodity risk.
In accordance with the mission of a group focused on retail customers, financing activity is essentially aimed at protecting the overall financial balance of the Bank. Investment and trading activity is conducted in accordance with the guidelines established at the relevant Bank levels and is carried out within a comprehensive system of delegated powers and specific rules setting operational restrictions in terms of instruments, amounts, investment markets, types of security and issuer, sector and rating.
The investment policies pursued resulted in the retention of a significant amount of government bonds eligible as collateral for refinancing operations with the ECB, primarily as a liquidity reserve. Most of the securities concerned have been included among assets available for sale. At the same time, the extremely limited size of the portfolios classified among assets held for trading means that the exposure to price risk associated with the securities held in those portfolios is virtually negligible.

QUANTITATIVE DISCLOSURES

1. Regulatory trading book: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and derivatives

Denominated in euro

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years to 10 years	more than 10 years	unspecified maturity
1. Assets	0	419	159	692	221	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	0	419	159	692	221	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Derivatives	0	(13.307)	275	- 137	(145)	- 0	-	-
3.1 With underlying security	-	283	-	- 139	(145)	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	283	-	- 139	(145)	-	-	-
+ long positions	-	776	-	2	1	-	-	-
+ short positions	-	493	-	141	146	-	-	-
3.2 Without underlying security	0	(13.590)	275	2	- 0	- 0	-	-
- Options	0	(0)	- 0	- 0	- 0	- 0	-	-
+ long positions	853	1.125	1.661	2.654	17.534	11.562	2.343	-
+ short positions	853	1.125	1.661	2.654	17.534	11.562	2.343	-
- Other derivatives	-	(13.590)	275	2	-	-	-	-
+ long positions	-	2.887	9.241	2.438	2.118	2.545	1.595	-
+ short positions	-	16.477	8.966	2.435	2.118	2.545	1.595	-

Denominated in other currencies

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years to 10 years	more than 10 years	unspecified maturity
1. Assets	- 2.454	- 2.035	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	- 2.454	- 2.035	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Derivatives	-	14.959	(287)	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	14.959	- 287	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	14.959	- 287	-	-	-	-	-
+ long positions	-	17.917	2.100	2.306	-	-	-	-
+ short positions	-	2.958	2.387	2.306	-	-	-	-

Among "other currencies," the main currency of denomination of the trading portfolio is the US dollar.
The portfolio's sensitivity to changes in interest rates is very limited (the modified duration of the bond component is 1.2).

2. Regulatory trading book: distribution of exposures in equities and equity indices by main country of listing

	Listed			Unlisted
	Italy	USA	Other	
A. Equity instruments				
+ long positions			222	
+ short positions				
B. Forward value equity trades				
+ long positions				
+ short positions				
C. Other derivatives on equity				
+ long positions				
+ short positions				
D. Derivatives on equity indexes				
+ long positions				
+ short positions				

2.2 INTEREST-RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

The banking book consists entirely of financial assets and liabilities not included in the trading book. The largest item consists of loans to and amounts due to banks and customers.

The banking book consists entirely of financial assets and liabilities not included in the trading book. The largest item consists of loans to and amounts due to banks and customers.

A. General aspects, interest rate risk and price risk management processes and measurement methods

The process of managing the interest rate risk associated with the banking book is governed by specific company regulations approved by the Parent Company's Board of Directors and subject to periodic review. Those Regulations aim to set general rules for managing interest rate risk for the assets and liabilities included within the banking book, as defined by supervisory regulations for the purposes of determining pillar two capital requirements (namely, all liabilities and assets other than those allocated to the regulatory trading book) and assign precise responsibilities and tasks to the various organisational units of the Bank and companies involved in the process.

Management of interest rate risk aims to limit the impact of unfavourable changes in the rate curve on both the economic value of assets and on the cash flows generated by line items. Containment of exposure to interest rate risk is pursued primarily by applying consistent parameters to assets and liabilities, and in particular by indexing a large portion of its assets and liabilities on money-market parameters (typically the Euribor rate), as well as the general balancing of the durations of assets and liabilities on low levels.

Measurement of the interest rate risk associated with the banking book is founded upon economic value, defined as the present value of the expected net cash flows generated by assets, liabilities and off-balance sheet positions. In particular, exposure to the interest rate risk associated with the banking book is monitored for the purposes of determining the associated capital absorption on the basis of the Bank of Italy's regulatory model, applied at both a separate and consolidated level.

Exposure to interest-rate risk is calculated by measuring the change in the economic value of the banking book resulting from hypothetical instantaneous shifts in the interest rate maturity curve. The shift in the interest rate structure is quantified in two distinct situations:

- ✓ in ordinary conditions, reference is made to the annual changes for each node of the interest rate structure recorded over an observation period of six years, alternatively considering the 1st percentile (downward shift) and 99th percentile (upwards shift); and
- ✓ in a stress scenario, reference is made to: a) a parallel shift in the interest rate structure of ± 200 basis points; b) the flattening of the interest rate maturity curve (in event of a positively inclined rate curve, an increase in short-term rates and a decrease in medium-/long-term rates, c) the steepening of the interest rate maturity curve (in the event of a positive inclined rate curve, a decrease in short-term rates and an increase in medium-/long-term rates).

The changes are then normalised in relation to own funds.

B. Fair-value hedging

Interest-rate risk hedging activity through OTC derivative financial instruments was entirely discontinued in December 2012 and January 2013. Since then, no hedging derivative contracts have been entered into.

C. Cash-flow hedging

No cash-flow hedges have been undertaken and there are no open cash-flow hedges.

QUANTITATIVE DISCLOSURES

1. Banking book: distribution by residual duration (re-pricing date) of financial assets and liabilities Denominated in euro

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	more than 10 years	unspecified maturity
1. Assets								
1.1 Debt securities	-	48.322	370.240	31.798	589.253	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	48.322	370.240	31.798	589.253	-	-	-
1.2 Loans to banks	83.323	53.542	-	-	2.064	-	-	-
1.3 Loans to customers	450.195	1.630.564	323.136	67.527	149.764	43.151	44.786	-
- current acct.	403.343	20.355	8.314	24.179	33.232	-	-	-
- other loans	46.852	1.610.208	314.822	43.347	116.532	43.151	44.786	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	46.852	1.610.208	314.822	43.347	116.532	43.151	44.786	-
2. Liabilities								
2.1 Due to customers	1.536.603	100.482	91.653	56.276	203.942	-	-	-
- current acct.	1.473.639	93.482	33.929	56.276	149.459	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	62.965	7.000	57.724	-	54.482	-	-	-
2.2 Due to banks	59.149	980.800	16.347	2.137	23.961	31.702	1.884	-
- current acct.	622	-	-	-	-	-	-	-
- other payables	58.527	980.800	16.347	2.137	23.961	31.702	1.884	-
2.3 Debt securities	48.179	125.564	101.204	135.226	278.833	-	-	-
- with early redemption option	-	4.991	40	-	-	-	-	-
- other	48.179	120.573	101.164	135.226	278.833	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- 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 operations	-	-	-	-	-	-	-	-
+ long positions	1.149	2.546	73	117	273	71	-	-
+ short positions	4.229	-	-	-	-	-	-	-

Currency: other

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	more than 10 years	unspecified maturity
1. Assets								
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	6.674	-	-	-	-	-	-	-
1.3 Loans to customers	1.052	1.170	383	-	-	-	-	-
- current acct.	0	1	0	-	-	-	-	-
- other loans	1.052	1.170	383	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	1.052	1.170	383	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Due to customers	22.972	140	83	-	-	-	-	-
- current acct.	22.972	140	83	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	297	-	-	-	-	-	125	-
- current acct.	228	-	-	-	-	-	-	-
- other payables	69	-	-	-	-	-	125	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- 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	-	-	-	-	-	-	-	-

2. Banking book: internal models and other sensitivity analysis methods

The capital requirement for interest-rate risk on the banking book is calculated by applying the simplified model indicated in Schedule C to Part One, Title III, Chapter 1 of Bank of Italy Circular No. 285/2013, in effect from 1 January 2014.

This calculation is performed by classifying fixed-rate assets and liabilities in accordance with the supervisory model into 14 time bands on the basis of their residual lives and classifying floating-rate assets and liabilities into the various time bands according to the date of renegotiation of the interest rate. Within each band, asset and liability positions are multiplied by weighting factors and then set off against one another, resulting in a net position. Exposure to interest-rate risk, for the purposes of determining the capital requirement, is then calculated by measuring the change in the economic value of the banking book resulting from hypothetical instantaneous shifts in the interest rate maturity curve in a scenario of ordinary conditions.

Internal capital for interest rate risk is estimated on the basis of the Bank of Italy model in ordinary conditions at €0.167 million. The exposure is consistent with an exposure for Banca Popolare di Cividale S.c.p.A. below the limits established by internal and regulatory provisions.

2.3 EXCHANGE-RATE RISK
QUALITATIVE DISCLOSURES

Exposure to exchange-rate risk, determined using a method founded upon supervisory regulations, is negligible in extent.

A. General aspects, exchange-rate risk management processes and measurement methods

Exchange-rate risk applies to transactions with customers and banks. Operational management involves real-time monitoring of the exposure in various currencies, systematically hedging positions on the market as required to minimise the exposure to exchange-rate risk.

B. Exchange-rate risk hedging

All foreign currency positions generated by relations with Bank customers are handled together by analysing open gaps (un-netted positions), which are typically kept essentially at zero through market hedging transactions.

QUANTITATIVE DISCLOSURES

1. Distribution by currency of assets, liabilities and derivatives

	Currencies					
	US dollar	Pound sterling	Yen	Canadian dollar	Swiss franc	Other
A. Financial assets	**5.273**	**1.089**	**1.898**	**550**	**185**	**284**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	0	-	-	-	-	-
A.3 Loans to banks	4.070	785	811	549	185	273
A.4 Loans to customers	1.203	304	1.087	0	-	11
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**274**	**119**	**184**	**4**	**12**	**65**
C. Financial liabilities	**20.782**	**1.194**	**746**	**546**	**196**	**152**
C.1 Due to banks	68	206	45	-	0	103
C.2 Due to customers	20.714	988	701	546	196	49
C.3 Due to customers	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	-	-	-	-	-	-
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other	-	-	-	-	-	-
+ Long positions	22.134	5	-	-	61	124
+ Short positions	6.302	-	1.289	-	59	1
Total assets	**27.682**	**1.212**	**2.082**	**554**	**258**	**473**
Total liabilities	**27.084**	**1.194**	**2.035**	**546**	**255**	**152**
Difference (+/-)	**598**	**18**	**46**	**7**	**3**	**321**

2.4 DERIVATIVES

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading portfolio: end-period and average notional amounts

	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	-	-	-	-
a) Options	23.439	-	29.099	-
b) Swaps	13.420	-	15.176	-
c) Forwards	-	-	1.051	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	29.317	-	25.943	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
TOTAL	**66.176**	-	**71.269**	-
AVERAGE VALUES	-	-	-	-

A.2 Banking book: end-period and average notional amounts

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

A.3 Financial derivatives: gross positive fair value – distribution by product

	Positive Fair value			
	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	-	-	-	-
a) Options	33	-	362	-
b) Interest rate swaps	735	-	431	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	591	-	78	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
B. Banking book - hedging	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	**1.358**	-	**871**	-

A.4 Financial derivatives: gross negative fair value – distribution by product

	Negative Fair value			
	31/12/2014		31/12/2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	-	-	-	-
a) Options	33	-	156	-
b) Interest rate swaps	756	-	662	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	247	-	147	-
f) Futures	-	-	-	-
g) Others	-	-	0	-
B. Banking book - hedging	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
Total	1.036	-	965	-

A.5 OTC financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty – contracts not based on netting arrangements

Contracts not based on netting arrangements	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non financial companies	Other counterparties
1. Debt securities and interest rates	-	**8.280**	**19.219**	-	-	**10.918**	-
- notional amount	-	8.021	18.430	-	-	10.409	-
- positive fair value	-	259	33	-	-	476	-
- negative fair value	-	-	756	-	-	33	-
- future exposure	-	50	194	-	-	24	-
2. Equities and stock indices							
- notional amount	-	-	28	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	-	-	**23.831**	-	-	**5.099**	**1.225**
- notional amount	-	-	23.229	-	-	4.896	1.193
- positive fair value	-	-	493	-	-	84	14
- negative fair value	-	-	109	-	-	119	19
- future exposure	-	-	-	-	-	49	12
4. Other values							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty – contracts based on netting arrangements

Contracts based on netting arrangements	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	-	4.100	32.498	470	-	10.171	-
- positive fair value	-	259	33	-	-	476	-
- negative fair value	-	-	1.136	1	-	66	-
2. Equities and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Foreign exchange rates and gold							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
4. Other values							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.7 OTC financial derivatives – banking book: notional amounts, gross positive and negative fair values by counterparty – contracts not based on netting arrangements

Not applicable.

A.8 OTC financial derivatives – banking book: notional amounts, gross positive and negative fair values by counterparty – contracts based on netting arrangements
Not applicable.

A.9 Residual maturity of OTC financial derivatives: notional amounts

	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading book	**33.674**	**10.598**	**21.904**	**66.176**
A.1 Financial derivatives on debt securities and interest rates	4.357	10.598	21.904	36.859
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign exchange rates and gold	29.317	-	-	29.317
A.4 Financial derivatives - other	-	-	-	-
B. Banking book	**-**	**-**	**-**	**-**
B.1 Financial derivatives on debt securities and interest rates	-	-	-	-
B.2 Financial derivatives on equities and stock indices	-	-	-	-
B.3 Financial derivatives on foreign exchange rates and gold	-	-	-	-
B.4 Financial derivatives - other	-	-	-	-
Total 31/12/2014	**33.674**	**10.598**	**21.904**	**66.176**
Total 31/12/2013	**34.410**	**12.836**	**24.023**	**71.269**

B. CREDIT DERIVATIVES

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

C. CREDIT AND FINANCIAL DERIVATIVES

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

SECTION 3 – LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. General aspects, liquidity risk management processes and measurement methods

Liquidity risk is not attributable to specific items of the balance sheet; rather, it arises from mismatches of amount and/or date between cash inflows and outflows generated by all assets, liabilities and off-balance sheet items. It is thus a risk inherent in the Bank’s operations and derives essentially from what is known as the “maturity transformation”.

Liquidity risk generally manifests itself in the form of the breach of payment obligations, which may be caused by the inability to procure funds (funding liquidity risk) or the existence of limits on the liquidation of assets (market liquidity risk). Liquidity risk also includes the risk that an entity may be forced to discharge its payment obligations at non-market costs, meaning that it may be forced to bear a high cost of funding or (in some cases, concurrently) sustain capital losses when liquidating assets.

The process of containing exposure to liquidity risk, which aims to ensure the Bank’s solvency even in especially acute situations of tension, is primarily pursued through a complex set of management decisions and organisational measures, the most significant of which are:

- ✓ a constant focus on the financial situations of the Bank with respect to a balanced structure of asset and liability maturities, especially with regard to shorter-term assets and liabilities;
- ✓ diversification of sources of funding in terms of technical forms as well as counterparties and markets. The Bank intends to maintain high and very stable retail funding level in the form of both deposits and debt securities distributed directly through the branch network, thus pursuing the strategic goal of reducing dependency on market funds (interbank funding and issues intended for institutional investors);
- ✓ a portfolio of highly liquid assets eligible as collateral for financing transactions or directly disposable in situations of tensions, formed in part using securities resulting from the securitisation of the Bank's assets; and
- ✓ the preparation of a Contingency Funding Plan.

Operational management of liquidity risk is the responsibility of the Finance Department, through the Finance Service, in line with the funding policy and directives of a strategic nature laid down by the ALCo, which meets with at least monthly frequency. This activity involves the use of appropriate tools for monitoring and surveying operating profiles for liquidity risk.

Through the Operating and Financial Risks Office, the Risk Management Service is responsible for structural aspects and stress analyses, as well as monitoring of the operational limits set by internal rules and the RAF.

Assessment of liquidity risk exposure aims to evaluate an entity's capacity to respond to an outflow of such resources in the light of the maturity structure of its on-balance sheet assets and liabilities. Liquidity is monitored by determining the maturity ladder, which shows the cumulative total cash balance during each of the forecasting periods. This balance is the sum of cash inflows and outflows for each maturity bracket.

Furthermore, in addition to the ordinary liquidity situation, the Bank conducts simulations of adverse stress scenarios caused by forms of tension in the financial system generally or specific significant changes in the Bank's financial aggregates. Moreover, the Group's Contingency Funding Plan (CFP) defines and formally establishes the organisational escalation procedure, goals and management mechanisms required to protect the company's assets in situations of extreme, unforeseen depletion of liquidity through the preparation of crisis management strategies and fund-raising procedures.

In 2014 the Bank began to monitor the liquidity indicators Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) on the basis of the reporting data periodically produced for supervisory purposes.

QUANTITATIVE DISCLOSURES

1. Distribution of financial assets and liabilities by residual contractual maturity

Denominated in euro

	on demand	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	More than 5 years	Unspecified
On-balance-sheet assets										
A.1 Government securities	-	-	-	-	5.809	8.865	48.642	730.208	155.000	-
A.2 Other debt securities	2.500	-	0	86	3.476	6.260	1.414	36.217	8.488	-
A.4 Units in collective investment undertakings	16.895	-	-	-	-	-	-	-	-	-
A.5 Loans	503.345	4.192	60.952	157.588	86.622	107.824	183.221	747.049	1.074.100	3.789
- banks	83.276	-	51.476	-	0	0	1	2.000	-	3.789
- customers	420.070	4.192	9.476	157.588	86.622	107.823	183.221	745.049	1.074.100	-
On-balance-sheet liabilities	-	-	-	-	-	-	-	-	-	-
B.1 Deposits	1.568.163	4.134	24.867	26.077	41.098	34.923	58.924	148.368	-	-
- banks	66.490	-	-	-	-	30	281	-	-	-
- customers	1.501.673	4.134	24.867	26.077	41.098	34.893	58.644	148.368	-	-
B.2 Debt securities	315	3.051	18.392	5.406	43.116	78.651	131.216	409.842	3.970	-
B.3 Other liabilities	31	7.000	-	190.614	651.807	63.659	15.322	279.620	41.931	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of capita	-	1.437	16.081	2.136	1.504	4.442	4.639	451	-	-
- long positions	-	835	-	1.779	828	2.409	2.251	81	-	-
- short positions	-	601	16.081	357	676	2.034	2.388	370	-	-
C.2 Financial derivatives without exchange of cap	7.399	-	-	-	-	-	-	-	-	-
- long positions	3.689	-	-	-	-	-	-	-	-	-
- short positions	3.710	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	7.181	2	-	-	317	219	354	315	71	-
- long positions	3.339	-	-	-	2	148	354	315	71	-
- short positions	3.842	2	-	-	315	71	-	-	-	-
C.5 Financial guarantees given	16	-	-	0	0	20	12	78	110	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of princip	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Denominated in other currencies

	on demand	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	More than 5 years	Unspecified
On-balance-sheet assets										
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.4 Units in collective investment undertakings	-	-	-	-	-	-	-	-	-	-
A.5 Loans	7.734	38	33	462	647	392	-	0	-	-
- banks	6.674	-	-	-	-	-	-	-	-	-
- customers	1.061	38	33	462	647	392	-	0	-	-
On-balance-sheet liabilities	-	-	-	-	-	-	-	-	-	-
B.1 Deposits	23.200	-	-	90	51	83	125	-	-	-
- banks	228	-	-	-	-	-	125	-	-	-
- customers	22.972	-	-	90	51	83	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	69	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of capital	-	657	16.473	2.180	1.565	4.487	4.612	-	-	-
- long positions	-	378	16.473	365	700	2.100	2.306	-	-	-
- short positions	-	279	-	1.814	865	2.387	2.306	-	-	-
C.2 Financial derivatives without exchange of capita	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

2. Committed on-balance sheet assets

Technical form	Tied up		Not tied up		Total	Total
	BV	FV	BV	FV	31.12.2014	31.12.2013
1. Cash and cash equivalents	0	X	18.486	X	18.486	20.020
2. Debt instruments	1.462.777	1.801.469	289.404	285.351	1.752.180	2.346.653
3. Equity instruments	-	0	56.141	222	56.141	58.879
4. Loans	755.390	X	2.101.941	X	2.857.330	3.211.152
5. Other financial assets	-	X	54.752	X	54.752	56.666
6. Non-financial assets	0	X	193.033	X	193.033	-
Total as at 31/12/2014	**2.218.166**	**1.801.469**	**2.695.269**	**285.574**	**4.931.922**	**-**
Total as at 31/12/2013						**5.693.371**

Key: BV = book value; FV = fair value

3. Owned committed off-balance sheet assets

Technical form	Tied up	Not tied up	Total 31/12/2014	Total 31/12/2013
1. Financial assets				
- Securities	735.966	521.258	1.257.223	1.931.340
- Other				
2. Non-financial assets				
Total as at 31/12/2014	**735.966**	**521.258**	**1.257.223**	**X**
Total as at 31/12/2013	**974.322**	**957.018**	**X**	**1.931.340**

Securitisation

Within the framework of the various measures aimed at enhancing coverage of exposure to liquidity risk, the Group has undertaken securitisation transactions with the goal of increasing the degree of liquidity of its assets and prudentially increasing its pool of financial instruments eligible for refinancing operations with the European Central Bank, or otherwise suited for use as collateral in funding transactions beyond the short term with institutional and market counterparties.

In accordance with these aims, the asset-backed securities issued by the vehicle companies incorporated pursuant to Law 130/99 have been fully subscribed for, for both the senior and junior tranches, by the banks that in turn sold the underlying loans without recourse (Banca Cividale S.p.A., subsequently incorporated into Banca Popolare di Cividale S.c.p.A.).

The following table provides an overview of the securitisation transactions undertaken.

Main information	
Date of transaction	May 2009
Special purpose entities	Quadrivio Finance S.r.l. (spv)
Subject matter of the transaction	mortgages
Banks/ Originator groups	Banca Popolare di Cividale Group Credito Valtellinese Group
Original aggregate amount of transferred loans and receivables	1.366 mln
of which Banca Popolare di Cividale Group	243 mln
Cividale Group and by the Credito Valtellinese Group	1.317 mln
of which senior securities a	1.093 mln
of which junior securities b	224 mln
Rating of senior securities	AAA Fitch
Securities issued and subscribed by the Banca Popolare di Cividale Group	234 mln
of which senior securities a	187 mln
of which junior securities b	47 mln
Overall residual notional amount of the securities as at 31/12/2014	102 mln
Residual values of loans and receivables as at 31/12/2014	110 mln
Rating of senior securities as at 31/12/2014	AA+ Fitch - A2 Moody's

Main information	
Date of transaction	February 2012
Special purpose entities	Civitas Spv Srl
Subject matter of the transaction	Performing residential mortgages
Banks/ Originator groups	Banca Popolare di Cividale Group
Original aggregate amount of transferred loans and receivables of Banca Popolare di Cividale Group	383 mln
Securities issued and subscribed by the Banca Popolare di Cividale Group	398 mln
of which senior securities a	310 mln
of which junior securities b	88 mln
Rating of senior securities	AA+ Standard&poor's - A1 Moody's
Overall residual notional amount of the securities as at 31/12/2014	316 mln
Residual values of loans and receivables as at 31/12/2014	310 mln
Rating of senior securities as at 31/12/2014	AA Standard&poor's - A2 Moody's

Main information	
Date of transaction	July 2012
Special purpose entities	Civitas Spv Srl
Subject matter of the transaction	commercial mortgages
Banks/ Originator groups	Banca Popolare di Cividale Group
Original aggregate amount of transferred loans and receivables	
of Banca Popolare di Cividale Group	410 mln
Securities issued and subscribed by the Banca Popolare di Cividale Group	418 mln
of which senior securities a	273 mln
of which junior securities b	143 mln
Rating of senior securities	A+ Standard&poor's - AL DBRS
Overall residual notional amount of the securities as at 31/12/2014	293 mln
Residual values of loans and receivables as at 31/12/2014	263 mln
Rating of senior securities as at 31/12/2014	A+ Standard&poor's - AL DBRS

Considering that the asset-backed securities currently in issue have been fully subscribed for by the originating banks, the Group has not transferred any credit risk. Accordingly, since essentially all of the risks and rewards associated with the transferred portfolio have been retained, the loans concerned have not been derecognised. However, given the structure of the transactions, there exists the specific risk of cross-collateralisation due to the presence of multi-originator transactions. In fact, the Bank is exposed to a potential additional risk associated with the possible deterioration in excess of expectations of the portfolio of loans securitised by the other banks involved in the transactions. In the case of the Quadrivio Finance S.r.l. transaction, that potential exposure also extends to entities external to the Group (Credito Valtellinese). However, there is no basis for believing that cross-collateralisation risk has undergone significant change.

SECTION 4 – OPERATIONAL RISKS
QUALITATIVE DISCLOSURES

A. General aspects, operational risk management processes and measurement methods

The definition adopted by the Bank, in line with supervisory regulations, identifies operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Such risks include losses resulting from fraud, human error, business disruption, system unavailability, breach of contract and natural disasters. Operational risk includes information technology risk but not strategic or reputational risk. Operational risk management activity is based on the following guiding principles:

- ✓ improving overall operational efficiency;
- ✓ preventing the occurrence or reducing the likelihood of events that could potentially generate operational losses through appropriate regulatory, organisational, procedural and training actions; attenuating the expected effects of such events;
- ✓ transferring risks that the Group does not wish to retain through insurance contracts; and

The Bank adopts the basic method (BIA – Basic Indicator Approach) specified by regulations to determine prudential capital requirements.

In 2014, as part of work aimed at achieving compliance with the new prudential provisions, the Bank adopted internal rules and procedures for managing its operational risks, which lay down the roles, responsibilities and tasks of company bodies and the various functions and units, in addition to outlining the operational risk management process. A specific indicator for monitoring operational risk was identified as part of drawing up the Risk Appetite Framework.

Through the Operational and Financial Risks Office, the Risk Management Service is responsible for measuring and assessing operational risk. The approach adopted for managing operational risk takes a combined, bottom-up view of the components identified by the prudential regulations for the advanced measurement approaches:

- ✓ internal operating loss data: the main component in the construction of an operational risk management system;
- ✓ external operating loss data: given that not all types of events indicated by international regulations are applicable to or of statistical significance for all intermediaries, consortium databases have been established at both an international and domestic level to contain reports of operating losses from participants; in Italy, at the initiative of the Italian Banking Association, the Italian Operating Loss Database was established. The Bank participates in the Database as a “total group member”. The data contained in the Database allow participants to monitor the performance of operating losses within the Italian banking industry by business line and sales channel, as well as to extract parameters concerning

probability distributions, enjoy access to the aggregation of data by homogeneous group for benchmarking purposes and expand the data included in their historical series.

Some types of operational risk are mitigated using appropriate insurance contracts. In addition, the Bank has implemented a business continuity plan that sets out the principles, establishes the objectives and describes the procedures for managing all the corrective actions for reducing losses resulting from accidents or disasters to an acceptable level.

B. Legal risks

Appropriate provisions are recognised in accordance with international accounting standards to account for financial risks associated with legal proceedings involving the Bank and other Group companies. The amount of such provisions is estimated on the basis of multiple factors, primarily relating to the expected outcome of the suit, and, in particular, the probability of an unfavourable outcome to the proceedings resulting in an adverse judgment for the Bank, and on the basis of factors useful in quantifying the amount that the Bank might be required to pay the counterparty in the event of an adverse judgment.

For each position, the projected outcome of the suit (risk of an adverse judgment) contemplates the legal issues at stake in the proceedings, assessed in the light of case law, the evidence produced in the course of the proceedings and the status of the trial, and, on appeal, the outcome of the proceedings of the first instance, past experience and all other useful elements, including experts' opinions, that allow the foreseeable development of the dispute to be taken adequately into account.

The amount due in the event of an adverse outcome is expressed in absolute terms and includes the value estimated on the basis of the status of the proceedings, considering the amount requested by the counterparty, the technical estimate prepared internally on the basis of accounting evidence and/or evidence brought to light during the trial and, in particular, the amounted estimated by the court-appointed technical expert, where appointed, in addition to legal interest, calculated on the principal from the date of service of the introductory document, and any expenses to be reimbursed in the event of an adverse judgment. Where it is not possible to determine a reliable estimate (the claimant has not quantified its compensation claim, or there are legal or factual uncertainties that would render any estimate unreliable), provisions are not recognised until it is possible to predict the outcome of the trial and arrive at a reliable estimate of the amount of the loss, if any.

Most suits involve claims for compensation due to anatocism and bankruptcy claw-back, as well as indemnity claims for losses on investments in financial instruments and other types of compensation claims.

Disputes involving bond defaults

The insolvency of the Argentinean central and local governments from 2001 to 2003, as well as of major Italian companies such as Parmalat, Cirio and Giacomelli, triggered a series of disputes, including legal action, brought by customers who purchased these defaulted bonds. Banca di Cividale has always been sensitive to criteria of fairness and economy, avoiding futile, wasteful litigation and taking into account the trends in legal interpretation that have emerged over time. Within this context, the Bank has frequently engaged in settlement negotiations in response to claims brought to its attention or in parallel with judicial action. In some cases, given the special circumstances of the dispute, the Bank has decided to pursue the matter in court. In all cases, however, based on an a priori analysis of the dispute and the type of bond involved, the Bank makes the necessary provisions.

SECTION 5 – OTHER RISKS

In addition to the risks described above, the Bank is exposed to the following other material risks.

Excessive financial leverage risk

Excessive financial leverage risk is defined by prudential regulations as “the risk that a particularly high level of indebtedness with respect to equity may render the bank vulnerable, requiring the adoption of corrective measures to its industrial plan, including the sale of assets involving the recognition of losses that could also entail impairment of the remaining assets”.

Excessive financial leverage risk affects the entirety of the financial statements, exposures resulting from the use of derivatives and off-balance sheet assets and is assumed in the conduct of core business. It is closely correlated with planning and capital management activity. Prudential regulations establish that banks are to monitor the level and changes of their leverage ratios (a regulatory parameter), and the risk associated with leverage, as part of their Internal Capital Adequacy Assessment Process (ICAAP). In 2014, as part of work aimed at implementing the new prudential provisions, the financial leverage risk management process was structured and formally drawn up, in the form of rules and procedures approved by the Parent Company's Board of Directors. The risk appetite is monitored on a quarterly basis by the Risk Management Service as part of the Risk Appetite Framework (RAF). At 31 December 2014 the leverage indicator was above the minimum threshold established in supervisory regulations.

Sovereign risk

Investment in Italian government securities, almost all of which are classified to the AFS portfolio, entails the exposure to the credit risk of the Italian Republic, which, as for all other issuers, may manifest itself in the form of decreased creditworthiness or, in the extreme scenario, default. Exposure is regularly monitored and reported on to company bodies. The prospective development of the sovereign risk exposure profile is assessed by considering adverse scenarios of various intensities, based in part on historical simulations, as well as the impact thereof on the value of the portfolio and regulatory capital. In the projected stress scenarios, own funds would remain above the regulatory minimum, even in the absence of prudential filters.

Strategic risk

Strategic risk is defined as the current or prospective risk of a decrease in profits or capital arising from changes in the operating context or poor company decisions, the inadequate implementation of decisions, or insufficient reaction to changes in the competitive scenario. Exposure to strategic risk is not associated with specific operating activities, but rather the adequacy of the decisions made and the efficacy of implementation. The risk is particularly associated with the phases of determining and implementing company strategies represented by the formulation of the business plan, commercial planning, budgeting, management control and monitoring of the markets and competitive scenario, capital allocation and capital management. In its form as pure strategic risk, business risk and equity investment risk, strategic risk is primarily assumed by the Parent Company, which is responsible for drawing up an overarching business plan and coordinating and controlling Group companies as they implement that plan. Through the preparation, approval and monitoring of annual planning and the state of progress of its Strategic Plan, the Parent Company exercises control of a strategic nature over the development of the various areas of activity in which the Group operates and the risks associated with the activities performed. With regard to the strategic planning process, supervisory regulations underwent significant change due to the enactment of Title V, Chapter 7 of Bank of Italy Circular 263/2006 (15th update of 2 July 2013). In those regulations, mention is made of the strategic nature of the internal control system and the necessary integration of the Risk Appetite Framework (RAF), business model and strategic plan. Title IV, added to Circular 285 of 17 December 2013 in the first update of 6 May 2014, provides indications of a general nature concerning corporate governance and furnishes an overview of the context in which the strategic planning process is conducted. On the basis of these principles and regulations, in 2014 the Banca Popolare di Cividale Group update its rules and procedures concerning strategic planning and strategic risk management.

Compliance risk

Compliance risk is the risk of incurring legal or administrative penalties, significant financial losses or damages to reputation due to breaches of compulsory provisions (of laws or regulations) or self-imposed rules (e.g., bylaws, codes of conduct, governance codes).

Under the new supervisory provisions concerning the internal control system, the role of supervising compliance has been extended to all rules and procedures concerning company activity, though with different levels of commitment for the traditional, directly applicable areas and other specialist areas, such as taxation, for which there are other forms of supervision and where the function is nonetheless tasked with assessing the suitability of such supervision.

In 2014 the Compliance function launched various audit processes concerning forms of specialised supervision, and specifically the adequacy of supervision and procedures aimed at preventing the risk of non-compliance extended to the following areas:

- ✓ tax law (bank side and customer side);
- ✓ privacy;
- ✓ workplace health and safety;
- ✓ market abuse;
- ✓ supervisory reporting; and
- ✓ Legislative Decree No. 231/01.

Considering the extent of compliance risk, the many factors that gave risk to it and its significant implications for various company processes, the Bank has a high level of exposure to this type of risk. The Compliance Service also includes the Anti-Money Laundering function, which is responsible for the anti-money laundering compliance activities provided for in the order of the supervisory authority of 10 March 2011, in addition to providing support to the head of the Anti-Money Laundering Service with the process of reviewing suspect transaction reports.

Money-laundering risk

Money-laundering risk is the risk of suffering consequences in legal and reputational terms as a result of possible involvement in illegal transactions associated with money-laundering or financing for terrorism. In order to measure and assess that risk, the money-laundering risks inherent in the Bank’s operational procedures pertaining to the following processes have been mapped:

- ✓ adequate customer verification;
- ✓ dealings in cash and bearer securities;
- ✓ records in the Consolidated Computer Archive; and
- ✓ the reporting of suspicious transactions.

Given the objective significance of money-laundering risk and the increasing complexity of the legislative framework of reference and resulting obligations, the Bank has gradually enhanced its safeguards in terms of rules, organisational measures, procedures, applications and training.

Reputation risk

Reputation risk is defined as "the current or prospective risk of a decline in operating result or capital should customers, counterparties, shareholders of the Bank, investors or supervisors take a negative view of the Bank".

Due to its nature, this risk is not easily measurable. However, for management purposes, it may be subject to qualitative observation, assessment and mitigation processes. Consequently, management of this type of risk is based on a qualitative assessment aimed at directing the necessary prevention, mitigation and management actions. In addition to company bodies, all organisational units of both a business and operational support nature are involved in the process of managing reputation risk, each to the extent of its competence.

The first and most fundamental safeguard against reputation risk is the shared system of values, principles and rules of conduct on which to base behaviour common to all of the Bank’s internal stakeholders (employees, directors, etc.). The system has been given explicit form in a Code of Ethics. The task of supervising compliance with the provisions of that Code is entrusted to the Legislative Decree 231/2001 Supervisory Board Control Committee. The internal rules and procedures concerning reputational risk were drawn up and approved by the Parent Company's Board of Directors as part of the activities promoted in 2014 aimed at achieving compliance with the new supervisory provisions.

Related–party risk

Related-party risk is the risk that the proximity of certain parties to the Bank’s decision-making centres may compromise the objectivity and impartiality of decisions relating to the granting of loans and other transactions with such parties, with possible distortions of the resource-allocation process, exposure of the Bank to inadequately measured or managed risks and potential damages for depositors and shareholders.

In order to safeguard objective, impartial decision-making and avoid distortions of the allocation process, the Bank has adopted rigorous procedures and stricter limits than legally mandated, which are subject to regular monitoring. There were no breaches of authorisation limits or alert levels during the year.

Chapter F – SHAREHOLDERS' EQUITY

Section 1 – Shareholders' equity of the Parent Company

A. Qualitative disclosures

The capital policy adopted by Banca Popolare di Cividale S.c.p.A. is founded upon the following approaches:

a) compliance with regulatory requirements (regulatory approach);
b) appropriate monitoring of risks associated with banking operations (management approach); and
c) support for company development projects (strategic approach).

These approaches correspond to appropriate definitions of capital, specific objectives and particular corporate functions. From a regulatory point of view, the definition of capital is that set out in supervisory regulations for banks. Ongoing compliance with minimum capital requirements, which are monitored on a regular basis and considered a constraint during planning, is an essential precondition for operations.
From the point of view of risk management – one of the key functions in banking – capital is considered the main defence against possible unexpected losses generated by a variety of risks (credit, market and operational risks) that the Bank faces. The amount of capital is optimal if it is sufficient to absorb unexpected losses estimated for a specific confidence interval, thereby guaranteeing the continuity of operations over a specified time period.
From the corporate perspective, capital is a strategic factor of production that enables the Group to pursue its entrepreneurial vocation, while at the same time preserving financial stability. As a cooperative bank with strong local roots, the Bank implements its capital policy primarily through the gradual expansion of the size and geographical spread of its shareholders.

B. Quantitative disclosures

B.1 Shareholders' equity: composition

	31/12/2014	31/12/2013	%
Share capital	50.913	51.068	-0,30%
Share premium reserve	167.022	198.570	-15,89%
Reserves	42.922	92.630	-53,66%
- Retained earnings:	42.922	42.845	0,18%
a) legal reserve	19.208	19.208	0,00%
b) statutory reserve	22.279	29.142	-23,55%
c) treasury shares	-	-	-
d) other	1.435	1.435	0,02%
- other	-	-	-
4. Equity instruments	-	-	-
5. (Treasury shares)	-	(7)	100,00%
6. Valuation reserves:	11.126	8.552	30,10%
- Financial assets available for sale	11.522	5.334	116,01%
- Property and equipment	-	-	-
- Intangible assets	-	-	-
- Hedges of foreign investments	-	-	-
- Cash flow hedges	-	-	-
- Foreign exchange differences	-	-	-
- Non current assets held for sale	-	-	-
- Actuarial gains (losses) on defined benefit plans	(396)	(47)	-742,55%
- Share of valuation reserves connected with investments carried at equity	-	-	-
- Legally-required revaluations	-	3.265	-100,00%
7. Net income (loss)	5.803	(33.850)	117,14%
Total	**277.786**	**267.178**	**3,97%**

B.2 Valuation reserves for financial assets available for sale: composition

	31/12/2014		31/12/2013	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	13.605	-	5.619	-
2. Equities	-	(1.015)	-	-
3. Quotas of UCI	-	(1.068)	-	(285)
4. Loans	-	-	-	-
Total	**13.605**	**(2.083)**	**5.619**	**(285)**

B.3 Valuation reserves for financial assets available for sale: annual changes

	Debts securities	Equities	Quotas of UCI	Loans
1. Opening balance	**5.619**	**-**	**(285)**	**-**
2. Positive fair value differences	**23.463**	**14**	**537**	**-**
2.1. Fair value increases	19.553	-	3	-
2.2 Reversal to the income statement of negative reserves	-	-	-	-
- impairment	-	-	-	-
- disposal	924	-	-	-
2.3 Other changes	2.986	14	534	-
3. Negative fair value differences	**(15.477)**	**(1.029)**	**(1.320)**	**-**
3.1 Fair value decreases	(19)	(299)	(1.135)	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to the income statement of positive reserves: dispos	(8.688)	-	(23)	-
3.4 Other changes	(6.770)	-	(162)	-
4. Closing balance	**13.605**	**(1.015)**	**(1.068)**	**-**

B.4 Valuation reserves related to defined-benefit plans: annual changes
Valuation reserves related to actuarial gains (losses) on defined-benefit plans amounted to -€349 thousand, a decrease of €185 thousand compared to the end of 2013.

Section 2 – Own funds and regulatory ratios

Scope of application of regulations
The new prudential provisions governing banks and investment companies laid down in Regulation (EU) No. 575/2013 (Capital Requirements Regulation, CRR) and Directive 2013/36/EU (Capital Requirements Directive, CRD IV), approved on 26 June 2013, transposing into the European Union the standards established by the Basel Committee on Banking Supervision (the "Basel III Framework"), entered into effect on 1 January 2014. As part of an overall process of revising and simplifying its prudential provisions for banks, the Bank of Italy published Circular 285, Prudential Supervisory Provisions for Banks, which replaced the previous Circular 263 of 27 December 2006 almost entirely, implementing the new Community provisions and introducing supervisory rules concerning unharmonised aspects at the EU level, and Circular 286, Instructions for the Preparation of Prudential Reports for Banks and Securities Brokerage Firms, which replaces the previous Circular 155 and the update to Circular 154 in their entirety.
Banking groups must observe the following minimum ratio requirements with effect from 1 January 2014:

- ✓ a CET1 ratio of 4.5%;
- ✓ a tier 1 ratio of 5.5% (6% from 2015); and
- ✓ a total capital ratio of 8%.

The following CET1 reserves (buffers) are in addition to the above binding minimum levels provided for in the Regulation:

- ✓ with effect from 1 January 2014, a capital conservation buffer of 2.5%;
- ✓ with effect from 2016, the countercyclical buffer in periods of excess credit growth and the systemic risk buffer for global systemically important institutions or other systemically important institutions (G-SII or O-SII).

The sum of regulatory requirements and additional buffers yields the minimum capital conservation level required of banking groups at the consolidated level. For 2014, that level is as follows:

- ✓ CET1 of 7%;
- ✓ tier 1 of 8%;
- ✓ total capital ratio of 10.5%.

If the sum of such buffers does not satisfy the minimum requirement (combined requirement), limitations apply to the distribution of profits and a capital conservation plan must be adopted.
At 31 December 2014, own funds have been calculated by applying the new regulations mentioned above. However, those regulations provide for transitional rules, generally until 2017, under which the new regulatory framework is to be applied gradually, through a transitional period in which certain elements are deductible or eligible for inclusion in common equity tier 1 capital in a certain percentage only, whereas the residual percentage not applicable is included in or deducted from additional tier 1 capital or tier 2 capital, or considered among risk-weighted assets. This transitional system also applies to certain subordinated instruments that do not satisfy the requirements established by the new regulatory provisions, aimed at gradually excluding instruments no longer eligible from own funds (over a period of eight years).

In accordance with the supervisory instructions, the overall amount and composition of own funds differ from the amount and composition of statutory shareholders' equity. The following is a brief account of the main differences:

- ✓ own funds include only the share of profit, net of all expenses and foreseeable dividends; before reaching a formal decision to confirm the final profit or loss result for the year for the entity for the year of reference, banks may only include their annual profits in their common equity tier 1 capital if they have obtained prior permission from the competent authority. Such permission requires that profits be verified by the independent persons responsible for auditing the accounts;
- ✓ companies other than banking, financial and related firms that are fully controlled and consolidated line by line in the consolidated financial statements are consolidated according to the equity method for prudential purposes;
- ✓ goodwill is deducted from common equity tier 1 capital. Goodwill also includes the "positive equity differences" incorporated in the carrying amounts of equity investments in companies subject to significant influence and measured according to the equity method, other intangible assets and the assets of defined-benefit pension funds included in the entity's balance sheet, net of the associated deferred tax liabilities;
- ✓ unrealised gains or losses relating to exposures to central governments classified as financial assets available for sale are not included in any element of own funds. The neutralisation option provided for in Article 467 of the CRR has also been confirmed in Chapter 14 of the new Circular 285 concerning transitional provisions governing own funds, and this treatment will apply until the Commission adopts a regulation approving the international financial reporting standard replacing IAS 39;
- ✓ At 31 December 2014 the AFS reserve relating to securities issued by the central governments of European Union Member States fully neutralises the gains of €13.1 million (compared to €5.5 million at 31 December 2013);
- ✓ significant investments in a financial sector entity, the net tax assets deriving from temporary differences and dependent on future profitability, and non-significant investments in financial sector entities are deducted from the elements of CET1 if they exceed certain CET1 levels provided for in Regulation 575/2013;
- ✓ tier 2 capital includes subordinated loans, which must have an original term to maturity of at least five years and may only be redeemed or repaid early only if the entity requests the prior authorisation of the competent authority, and no earlier than five years from the date of issuance, unless the bank replaces the instruments in question with other own funds instruments of equal or greater quality, under sustainable conditions in terms of the entity's income-generating capacity, and the bank demonstrates to the competent authority's full satisfaction that the minimum capital requirements imposed by the regulations have been observed.

A. QUALITATIVE DISCLOSURES

2.1 Own funds

A. Qualitative disclosures

The components of own funds are:

- common equity tier 1 (CET1) capital;
- additional tier 1 (AT1) capital; and
- tier 2 (T2) capital.

CET1 and AT1 make up total tier 1 capital, which, along with tier 2 capital, comprises total own funds.

1. Common equity tier 1 (CET1) capital

Total common equity tier 1 (CET1) capital, calculated considering the net income for the year ended 31 December 2014, amounted to €232,491 thousand. There were no substantial changes in tier 1 capital compared to 31 December 2013. The changes identified are attributable to the different regulatory approach applied under Regulation (EU) No. 575/2013.

The main CET1 instruments include:

- capital instruments of €50,913 thousand;
- own common equity capital instruments, or common equity instruments for which the Bank has a real purchase obligation, of €3,771 thousand;
- share premium reserves of €167,021 thousand;
- the net income for the year of €5,803 thousand;
- other reserves of €42,922 thousand;
- other comprehensive income attributable to reserves on securities available for sale of €11,522 thousand.

Deductions include goodwill, net of the associated tax liabilities, of €15,322 thousand and assets of defined-benefit pension funds of €396 thousand. The significant investments in common equity tier 1 instruments of financial sector entities and tax assets derived from temporary differences and dependent on future profitability are far below the established limits. Non-significant investments in the common equity tier 1 instruments of financial sector entities exceed the limit and are deducted up to €21,646 thousand.
With respect to the transitional rules, the item in question includes the following adjustments:

- ✓ the positive filter relating to unrealised gains on available-for-sale securities of €1,179 thousand;
- ✓ the negative filter relating to the neutralisation of the AFS reserve on securities issued by the central governments of European Union Member States of €13,118 thousand;
- ✓ the positive filter relating to the deduction of non-significant investments in common equity tier 1 instruments of €8,658 thousand;
- ✓ the negative filter for other filters and deductions of €1,277 thousand.

Additional tier 1 (AT1) capital
At 31 December 2014, Banca Popolare di Cividale S.c.p.A. had not issued any AT1 instruments.

3. Tier 2 (T2) capital
At 31 December 2014, tier 2 capital, according to the final rules, included subordinated loans issued of €626 thousand.
Considering the effects of the transitional rules, tier 2 capital amounted to €14,240 thousand.
In particular, it should be remarked that:

- ✓ the notional amortisation of the loans was calculated daily, in accordance with the provisions of Regulation EU No. 575/2013;
- ✓ the subordinated instruments with amortisation clauses eligible for inclusion in accordance with the transitional rules issued by Banca Popolare di Cividale S.c.p.A. are subject to the grandfathering clause for capital instruments that do not constitute state aid, according to which such instruments are 80% eligible for inclusion in own funds in 2014, resulting in the amount of €24,594 thousand.

Negative elements include own common equity capital instruments or common equity capital instruments for which the bank has a real purchase obligation of €329 thousand and non-significant investments in the tier 2 capital instruments of financial sector entities that exceed the limit and are deducted up to €2,007 thousand.
With respect to the transitional rules, the item in question includes the following adjustments:

- ✓ the negative filter relating to deductions of non-significant investments in tier 2 capital of €8,658 thousand.

With specific regard to this component of regulatory capital, the following is the list of the subordinated liabilities issued by Banca Popolare di Cividale and included in tier 2 capital.

Issuer	Identification Number	Interest rate		Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital
Banca Popolare di Cividale Scpa	IT0004271059	Floating rate	euribor 3m + 0,45%	13/08/2007	13/08/2017	13/08/2013	Euro	S	40.000.000	16.753.560
Banca Popolare di Cividale Scpa	IT0004352917	Floating rate	euribor 3m + 0,35%	07/04/2008	07/04/2018	07/04/2014	Euro	S	15.000.000	7.840.088
Banca Popolare di Cividale Scpa	IT0005072852	Fixed rate	2,75%	19/12/2014	19/12/2019		Euro	N	630.000	625.860

B. Quantitative disclosures

	31/12/2014	31/12/2013	%
A. Tier 1 capital before the application of prudential filters	**274.411**	**258.633**	**6,1%**
B. Tier 1 capital prudential filters:	-	-	**0,0%**
- positive IAS/IFRS prudential filters (+)	-	-	-
- negative IAS/IFRS prudential filters (-)	274.411	258.633	6,1%
C. Tier 1 capital after prudential filters (A+B)	(37.363)	(33.530)	11,4%
D. Elements to deduct from Tier 1 capital	(4.557)	-	-
E. Total Tier 1 capital (C-D)	232.491	225.103	3,3%
F. Tier 2 capital before the application of prudential filters	-	-	-
G. Tier 2 capital prudential filters	-	-	-
G.1 Positive IAS/IFRS prudential filters (+)	-	-	-
G.2 Negative IAS/IFRS prudential filters (-)	-	-	-
H. Tier 2 capital before deductions (G+F)	-	-	-
I. Elements to deduct from Tier 2 capital	**25.219**	**64.910**	-61,1%
L. Total Tier 2 capital (H-I)	24.594	-	-
M. Elements to deduct from Tier 1 and Tier 2 capital	**(2.321)**	**(13.886)**	**-83,3%**
N. Regulatory capital (E+L-M)	(8.658)	-	-
O. Tier 3 capital	14.240	**51.024**	**-72,1%**
P. Regulatory capital included Tier 3 (N+O)	**246.731**	**276.127**	**-10,6%**

The new regulations governing the calculation of own funds entered into effect on 1 January 2014. The figures from the comparative period have been restated according to the table provided in the applicable regulations.

2.2 Capital adequacy

A. Qualitative disclosures

As at 31/12/2014, the ratio of common equity tier 1 capital to risk-weighted assets stood at 11.43%, the ratio of tier 1 capital to risk-weighted assets at 11.43% and the ratio of own funds to risk-weighted at 12.14%. Both values comply with the limits established by the supervisory regulations cited in the previous section.

In determining its capital requirements for credit risk, the Bank uses the standardised approach. This method involves separating exposures into different classes (portfolios) according to the nature of the counterparty or the technical characteristics of the transaction or the manner in which it is carried out and the application of different risk weights to each portfolio.

For the Bank, the most significant segments are as follows: exposures to or guaranteed by central governments and central banks, exposures to or guaranteed by businesses, exposures guaranteed by real properties and retail exposures. In this regard, it should be noted that in accordance with Regulation (EU) No. 575/2013, different weighting coefficients are applied to each class of exposures in relation to the various levels of risk identified in supervisory regulations.

The new regulations for the prudential supervision of banks permit financial institutions to determine the weighting coefficients for calculating the capital requirement for credit risk under the standardised approach based on credit assessments by third-party rating agencies (External Credit Assessment Institutions or ECAIs) recognised by the Bank of Italy. For the Group banks, the agency DBRS was used for the following portfolios with effect from April 2013:

- ✓ exposures to or guaranteed by central governments and banks;
- ✓ exposures to or guaranteed by international organisations;
- ✓ exposures to or guaranteed by multilateral development banks.

To determine its capital requirement for market risk, the Group has elected to use the standardised approach, while the basic indicator approach has been used for operational risk.

B. Quantitative disclosures

	Unweighted amounts 31/12/14	Unweighted amounts 31/12/13	Weighted amounts / 31/12/14	Weighted amounts / 31/12/13
A. RISK ASSETS				
A.1 CREDIT AND COUNTERPARTY RISK	**4.945.886**	***6.808.520***	**1.883.701**	***2.188.930***
1. Standard methodology	4.945.886	*6.808.520*	1.883.701	*2.188.930*
2. Methodology based on internal ratings				
2.1 Base				
2.2 Advanced				
3. Securitisations				
B. CAPITAL REQUIREMENTS			-	-
B.1 CREDIT AND COUNTERPARTY RISK			150.696	112
B.2 CREDIT VALUATION ADJUSTMENT RISK			95	-
B.3 SETTLEMENT RISK			-	-
B.4 MARKET RISK			112	112
1. Standard methodology			112	-
2. Internal models			-	-
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			11.754	11.754
1. Base methodology			11.754	-
2. Standard methodology			-	-
3. Advanced methodology			-	-
B.6 Other calculation elements			-	(45.151)
B.7 Total capital requirements			162.657	2.033.206
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2.033.207	3
C.2 Common Equity Tier 1 / Risk-weighted assets (CET 1 capital ratio)			11,43%	13,29%
C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			11,43%	13,29%
C.4 Total own funds / Risk weighted assets (Total capital ratio)			12,14%	16,31%

The new regulations governing the calculation of risk-weighted assets and ratios entered into effect on 1 January 2014. The figures from the comparative period have been restated according to the table provided in the applicable regulations.

At 31 December 2014, risk-weighted assets were €2,033 million, compared to €1,693 million at 31 December 2013, recalculated on the basis of the new rules laid down in Regulation (EU) No. 575/2013 (CRR) and the pertinent implementing documents.

In this regard, it should be noted that the credit value adjustment (CVA) risk began to be calculated with effect from 31 March 2014, in accordance with the new European regulations.

The total capital ratio was 12.14%, compared to 16.31% in 2013. The ratio of the Bank's tier 1 capital to total risk-weighted assets (the tier 1 ratio) was 11.43%, compared to 13.29% in the previous period.

Chapter H – TRANSACTIONS WITH RELATED PARTIES

1. Information concerning the compensation of key management personnel

Information concerning the compensation of key management personnel is provided below.

	2014
a) Short-term benefits *	1.880
b) Post-employement benefits	70
c) Other long-term benefits	-
d) Termination benefits	-
c) Share-based payments	-
Total	**1.950**

** The amount indicated includes the remuneration paid to directors of €414 thousand, to the Board of Statutory Auditors of €102 thousand and to the Supervisory Board of €9 thousand.*

2. Information on transactions with related parties

In accordance with IAS 24, as applied to the organisational and governance structures of the Banca Popolare di Cividale S.c.p.A. Group, the following natural persons and legal entities are considered to be related parties:

- ✓ subsidiaries: companies over which Banca Popolare di Cividale S.c.p.A. directly or indirectly exercises control, as defined in IAS 27;
- ✓ associated companies: companies over which Banca Popolare di Cividale S.c.p.A directly or indirectly exercises a significant influence, as defined in IAS 28;
- ✓ joint ventures: companies over which Banca Popolare di Cividale S.c.p.A. directly or indirectly exercises joint control, as defined in IAS 31;
- ✓ managers with strategic responsibilities and control bodies: the Directors, Statutory Auditors and General Manager of Banca Popolare di Cividale S.c.p.A.;
- ✓ other related parties, including:
    - immediate family members (cohabitants, children, cohabitants' children, dependents of the person concerned or cohabitant) of Directors, Statutory Auditors or the General Manager of Banca Popolare di Cividale S.c.p.A.; and
    - subsidiaries, joint ventures and companies subject to significant influence by the Directors, Statutory Auditors, General Managers and Assistant General Managers of Banca Popolare di Cividale S.c.p.A., in addition to their immediate family members, as defined above.

The effects of transactions with related parties as defined above on the balance sheet are presented in the following summary tables.

	SUBSIDIARIES AND COMPANIES UNDER COMMON CONTROL	ASSOCIATED COMPANIES	EXECUTIVES AND CONTROL BODIES	OTHER RELATED PARTIES	% of
Assets					
Loans to customers	278.287	9.634	300	11.283	11,04%
Liabilities					
Due to customers	361	6.232	1.443	3.719	0,58%
Income statement					
Net interest income	3.406	316	(29)	369	6,28%
Net commission income	4	54	11	130	0,94%
Administrative expense	-	-	1.941	-	6,38%
Guarantees and com	13.764	270	-	504	14,84%
Indirect funding	12	-	2.250	6.622	1,01%

Dealings and transactions between Banca Popolare di Cividale Group companies take place within an organisational model in which the Parent Company is responsible for strategic management and coordination of Group companies. Among other things, this includes providing these companies with key services, thereby achieving significant economies of scale and enabling subsidiaries to focus their resources on their core businesses.

Dealings between Group companies mainly involve the provision of services, deposits and financing as part of ordinary interbank operations, as well as other contractual arrangements for assistance and advisory services and the provisions of specialist services in support of banking and financial operations.

Interbank transactions are settled at arm's-length conditions. Other dealings are settled according to specific contractual agreements that – without prejudice to the goal of optimising synergies and generating economies of scale and scope at the Group level – are founded upon ongoing, objective parameters designed to ensure transparency and substantive fairness. Prices for services rendered are calculated and formalised using proven parameters that take account of actual use by each company.

Transactions with related parties other than companies that are part of the Banca Popolare di Cividale S.c.p.A. Group are treated as normal banking operations and are ordinarily settled at arm's-length conditions for operations or offered on any more favourable terms for which employees are eligible.
Banking transactions with groups controlled by the directors of the Company or other Banca Popolare di Cividale S.c.p.A. Group companies are approved in accordance with Article 136 of the Consolidated Banking Act and supervisory provisions governing associates.
It should be noted that no transactions with related parties considered major transactions pursuant to the Procedures for Related-Party Transactions cited above were undertaken during the reporting period.

The following table shows the effects of transactions undertaken with Group companies on the balance sheet and income statement.

	Balance sheet - Assets		**31/12/2014**	**of which: transaction with Civileasing srl**	**of which: transaction with Tabogan Srl**
10	Cash and cash equivalents		18.486	-	-
20	Financial assets held for trading		3.032	-	-
30	Financial assets measured at fair value		-	-	-
40	Financial assets available for sale		1.033.821	-	-
50	Invetments held to maturity		64.697	-	-
60	Due from banks		158.686	-	-
70	Loans to customers		2.711.728	272.318	6.497
80	Hedging derivatives		-	-	-
90	Change in fair value of assets in macro fair value hedge portfolios		-	-	-
100	Investments in associates and companies subject to joint		36.495	-	-
120	Property and equipment		76.759	-	-
130	Intangible assets		19.136	-	-
	of which:			-	-
	- goodwill	19.136		-	-
140	Tax assets		69.900	-	-
	a) current	18.327		-	-
	b) deferred	51.573		-	-
160	Other assets		27.387	5	-
	Total assets		**4.220.126**	**272.323**	**6.497**

	Balance sheet - Liabilities and shareholders' equity		**31/12/2014**	**of which: transaction with Civileasing srl**	**of which: transaction with Tabogan Srl**
10	Due to banks		1.116.403	-	-
20	Due to customers		2.012.150	363	-
30	Debt securities issued		689.006	-	-
40	Financial liabilities held for trading		1.036	-	-
50	Financial liabilities measured at fair value		-	-	-
60	Hedging derivatives		-	-	-
70	Changhe in fair value of assets in macro fair value hedge portfolios		-	-	-
80	Tax liabilities		28.018	-	-
	a) current	16.871		-	-
	b) deferred	11.148		-	-
90	Liabilities associated with discontinued operations		-	-	-
100	Other liabilities		84.797	9	-
110	Employee termination benefits		6.022	-	-
120	Provisions for risk and charges:		4.907	-	-
	a) post-employment and similar obligations	-		-	-
	b) other provisions	4.907		-	-
130	Technical reserves		11.126	-	-
140	Valuation reserves		-	-	-
150	Equity instruments		-	-	-
160	Reserves		42.922	-	-
170	Share premiums		167.022	-	-
180	Share capital		50.913	-	-
190	Treasury shares (-)		-	-	-
200	Net income (loss) for the period (+/-)		5.803	-	-
	Total liabilities and shareholders' equity		**4.220.126**	**372**	-

Income statement		31/12/2014	of which: transaction with Civileasing srl	of which: transaction with Tabogan Srl
10 Interest income and similar revenues		113.052	3.127	346
20 Interest expense and similar charges		(48.416)	(1)	-
30 Net interest income		**64.636**	**3.126**	**346**
40 Commission income		28.464	4	-
50 Commission expense		(7.390)	-	-
60 Net commission income		**21.074**	**4**	**-**
70 Dividends and similar income		927	-	-
80 Net trading income		705	-	-
90 Net fair value changes in hedge relationships		-	-	-
100 Profit (loss) on disposal or repurchase of:		35.093	-	-
a) loans	-		-	-
b) financial assets available for sale	34.556		-	-
c) financial assets held to maturity	-		-	-
d) financial liabilities	45		-	-
110 Profit (loss) on financial assets and liabilities measured at fair value		-	-	-
120 Total income		**122.434**	**3.130**	**346**
130 Charges/write-backs on impairment of:		(34.793)	-	-
a) loans	(32.052)		-	-
b) financial assets available for sale	(2.039)		-	-
c) financial assets held to maturity	-		-	-
d) other financial transactions	(702)		-	-
140 Net Financial income		**87.641**	**3.130**	**346**
150 G&A expenses:		(69.505)	(123)	-
a) personnel expenses	(39.067)		(103)	-
b) other administrative expenses	(30.437)		(20)	-
160 Net provisions for risks and charges		(5.223)	-	-
170 Net impairment/write-backs on property, plant and equipment		(1.717)	-	-
180 Net impairment/write-backs on intangible assets		-	-	-
190 Other operating income (expenses)		7.680	188	-
200 Operating cost		**(66.185) -**	**58**	**-**
210 Profit (loss) on equity investments		(5.223)	-	-
220 Net adjustment to fair value of property, plant and equipment and intangible assets		-	-	-
230 Goodwill impairment		-	-	-
240 Profit (loss) on disposal of investments		-	-	-
250 Income (loss) before tax from continuing operations		**16.233**	**3.072**	**346**
260 Tax on income from continuing operations		(10.430)	-	-
270 Income (loss) after tax from continuing operations		**5.803**	**3.072**	**346**
280 Income (loss) after tax from discontinued operations		-	-	-
290 Net income for the period		**5.803**	**3.195**	**346**

Chapter I – SHARE-BASED PAYMENTS

This item is not applicable to the financial statements of Banca Popolare di Cividale S.c.p.A.

Chapter L – SEGMENT REPORTING

Segment reporting is provided in the notes to the consolidated financial statements.

Cividale del Friuli, 18 March 2015

Banca Popolare di Cividale S.c.p.A.
The Board of Directors

Shareholders and share performance: historical information

FINANCIAL YEAR	YEAR	BALANCE AT END OF YEAR						INCOME ALLOCATED TO THE SHAREHOLDERS	SHARES		
		SHAREHOLDERS	SHARES	SHARE CAPITAL AND RESERVES			NET INCOME		DIVIDENDS	NOMINAL VALUE	PRICE
				SHARE CAPITAL	RESERVES	TOTAL					
1	1887	216	1.357	33.925	110	34.035	1.276	-	-	25	-
5	1891	468	1.607	40.175	2.451	42.626	4.734	2.410	1,50	25	-
10	1896	798	1.936	48.400	19.456	67.856	6.131	2.904	1,50	25	-
15	1901	767	1.995	49.875	36.631	86.506	11.717	3.990	2,00	25	-
20	1906	649	5.347 (1)	133.675	16.209	149.884	14.330	6.683	1,25	25	-
25	1911	623	5.434	135.850	69.771	205.621	29.391	10.868	2,00	25	-
30	1916	606	5.458	136.450	96.491	232.941	20.669	9.551	1,75	25	-
35	1921	116	6.440	161.000	197.162	358.162	166.236	19.320	3,00	25	-
40	1926	190	6.753 (2)	337.650	267.251	604.901	82.155	20.259	3,00	50	-
45	1931	1095	6.755	337.750	1.500.472	1.838.472	85.117	47.285	7,00	50	-
50	1936	1.022	6.755	337.750	1.310.436	1.648.186	60.626	33.775	5,00	50	-
51	1937	1.004	6.755	337.750	1.316.473	1.654.223	59.963	33.775	5,00	50	-
52	1938	994	6.755	337.750	1.321.161	1.658.911	64.716	40.530	6,00	50	-
53	1939	987	6.755	337.750	1.325.007	1.662.757	71.259	40.530	6,00	50	-
54	1940	982	6.755	337.750	1.328.891	1.666.641	73.638	35.463	5,25	50	-
55	1941	985	6.755	337.750	1.332.931	1.670.681	75.230	35.463	5,25	50	-
56	1942	986	6.755	337.750	1.336.810	1.674.560	75.230	35.463	5,25	50	-
57	1943	986	6.755	337.750	1.625.605	1.963.355	79.684	31.748	4,70	50	-
58	1944	994	6.755	337.750	1.651.210	1.988.960	88.103	31.748	4,70	50	-
59	1945	1.004	6.755	337.750	1.666.568	2.004.318	78.105	31.748	4,70	50	-
60	1946	1.008	6.755	337.750	1.711.204	2.048.954	76.164	40.530	6,00	50	-
61	1947	1.006	6.755	337.750	1.670.447	2.008.197	86.192	47.285	7,00	50	-
62	1948	1.002	6.755	337.750	1.678.400	2.016.150	112.468	47.285	7,00	50	-
63	1949	502 (3)	2.675	1.337.500	4.085.967	5.423.467	305.359	200.625	75	500	150
64	1950	518	2.890	1.445.000	4.331.502	5.776.502	388.939	260.100	90,00	500	1.500
65	1951	564	4.084	2.042.000	5.564.395	7.606.395	562.026	408.400	100,00	500	1.500
66	1952	603	4.777	2.388.500	6.343.517	8.732.017	723.370	525.470	110,00	500	1.500
67	1953	632	12.386	6.193.000	17.444.844	23.637.844	1.950.438	1.486.320	120,00	500	2.000
68	1954	674	17.668	8.834.000	25.690.506	34.524.506	3.150.246	2.120.160	120,00	500	2.000
69	1955	698	17.862	8.931.000	26.326.200	35.257.200	3.685.346	2.143.440	120,00	500	2.000
70	1956	685	17.991	8.995.500	27.481.784	36.477.284	4.179.478	2.518.740	140,00	500	2.000
71	1957	710	18.604	9.302.000	29.910.721	39.212.721	4.330.825	2.604.560	140,00	500	2.000
72	1958	717	22.161	11.080.500	36.038.073	47.118.573	4.399.344	3.102.540	140,00	500	2.500
73	1959	729	23.141	11.570.500	38.556.682	50.127.362	4.667.216	3.471.150	150,00	500	2.500
74	1960	753	25.249	12.624.500	43.428.462	56.052.362	4.996.161	3.787.350	150,00	500	2.500
75	1961	766	28.862	14.313.000	50.948.418	65.261.418	6.162.724	4.580.160	160,00	500	2.500
76	1962	815	38.404	19.202.000	72.117.113	91.319.113	7.715.255	6.144.640	160,00	500	2.500
77	1963	806	43.757	21.878.500	84.206.128	106.084.628	8.840.789	7.001.120	160,00	500	3.000
78	1964	821	45.500	22.750.000	89.671.806	112.421.806	9.119.804	7.280.000	160,00	500	3.000
79	1965	761	46.367	23.183.500	93.012.146	116.195.646	10.188.113	7.418.720	160,00	500	3.000
80	1966	811	52.210	26.105.000	109.282.367	135.387.367	11.034.445	8.353.600	160,00	500	3.000
81	1967	829	57.570	28.785.000	124.157.332	152.942.332	12.607.249	9.211.200	160,00	500	3.000
82	1968	900	65.794	32.897.000	146.713.621	179.610.621	13.668.150	10.527.040	160,00	500	3.000
83	1969	932	81.805	40.902.500	188.581.596	229.484.096	19.077.305	14.724.900	180,00	500	3.000
84	1970	1.018	107.782	23.891.000	256.110.456	310.001.456	25.335.679	19.400.760	180,00	500	3.000
85	1971	1.099	191.737	95.869.500	471.327.686	567.196.186	45.537.000	34.512.660	180,00	500	3.500
86	1972	1.141	26.875	108.437.500	552.843.506	661.281.006	53.674.995	40.831.000	190,00	500	3.500
87	1973	1.349	269.556	134.778.000	731.735.552	866.513.552	73.791.120	56.606.760	210,00	500	3.500
88	1974	1.415	394.255	197.127.500	1.176.987.612	1.374.115.112	132.757.890	102.506.300	260,00	500	4.000
89	1975	1.426	405.366	202.683.000	1.162.047.211	1.364.730.211	182.552.600	113.502.480	280,00	500	5.000
90	1976	1.373	471.195	235.597.500	1.754.649.114	1.990.247.114	257.662.700	169.630.200	360,00	500	6.000
91	1977	1.436	534.846	267.423.000	2.452.631.055	2.720.054.055	348.185.700	224.635.320	420,00	500	7.000
92	1978	1.477	594.676	297.338.000	3.004.937.110	3.302.275.110	445.773.800	303.284.760	510,00	500	8.500
93	1979	1.636	747.084	373.542.000	4.905.540.410	5.279.082.410	785.347.580	537.900.480	720,00	500	12.000

FINANCIAL YEAR	YEAR	BALANCE AT END OF YEAR					NET INCOME	INCOME ALLOCATED TO THE SHAREHOLDERS	SHARES		
		SHAREHOLDERS	SHARES	SHARE CAPITAL AND RESERVES					DIVIDENDS	NOMINAL VALUE	PRICE
				SHARE CAPITAL	RESERVES	TOTAL					
94	1980	1.990	1.028.417	514.208.500	9.061.346.120	9.575.554.620	1.355.743.850	863.870.280	840,00	500	14.000
95	1981	2.174	1.027.102	513.551.000	9.386.487.005	9.900.038.005	1.898.540.250	1.109.270.160	1.080,00	500	18.000
96	1982	2.427 (4)	2.065.656	1.032.828.000	16.846.160.124	17.878.988.124	2.885.151.000	1.735.151.040	840,00	500	14.000
97	1983	2.570	2.072.454	1.036.227.000	17.672.620.254	18.708.847.254	3.302.500.000	1.958.469.030	945,00	500	15.750
98	1984	2.674 (5)	2.062.142	1.031.071.000	18.379.150.754	19.410.221.754	3.807.750.000	2.165.249.100	1.050,00	500	17.500
99	1985	2.828	5.182.775	2.591.387.500	27.581.878.254	30.173.265.754	4.130.537.500	2.720.956.875	525,00	500	8.750
100	1986	3.137	5.186.519	2.593.259.500	28.567.413.919	31.160.673.419	6.018.402.100	3.215.641.780	620,00	500	9.500
101	1987	3.660	5.391.402	2.695.701.000	33.036.039.552	35.731.740.552	6.050.859.000	3.180.927.180	590,00	500	10.150
102	1988	4.242	5.742.967	2.871.483.500	39.272.308.522	42.143.792.022	6.890.919.945	3.618.069.210	630,00	500	10.850
103	1989	4.767	6.078.404	3.039.202.000	45.975.098.284	49.014.300.284	7.900.114.293	4.133.314.720	680,00	500	11.500
104	1990	5.290	6.420.059	3.210.029.500	53.490.059.950	56.700.089.450	8.700.000.000	4.686.643.070	730,00	500	12.200
105	1991	5.777	7.069.673	3.534.836.500	70.169.883.285	73.704.719.785	9.400.000.000	5.443.648.210	770,00	500	12.900
106	1992	5.870	7.245.997	3.622.998.500	75.999.169.935	79.622.168.435	6.700.000.000	5.579.417.690	770,00	500	13.500
Amounts in thousands											
107	1993	6.295	4.972.532	24.863	79.484	104.347	7.150	5.967	1.200	5.000	25.200
108	1994	6.880	5.493.731	27.469	91.586	119.054	6.300	4.944	900	5.000	26.000
109	1995	6.928	5.550.567	27.753	95.428	123.181	8.500	5.828	1.050	5.000	26.500
110	1996	6.896	5.619.808	28.099	101.450	129.549	9.000	6.463	1.150	5.000	27.500
111	1997	6.925	5.658.775	28.294	106.750	135.044	9.050	5.659	1.000	5.000	28.250
112	1998	7.274	5.792.802	28.964	116.158	145.122	12.050	6.951	1.200	5.000	29.000
113	1999	7.228	5.792.802	28.964	110.307	139.271	27.090	110.063	19.000	5.000	30.500
114	2000	7.167	5.792.802	28.964	28.814	57.778	16.900	5.793	1.000	5.000	30.500
115	2001	8.653	6.362.711	36.960	51.744	88.704	7.670	6.160	968	5.809	35.008
Amounts in euros											
116	2002	9.257	8.284.320	24.853	62.815	87.668	5.200	4.275	0,516	3,00	18,50
117	2003	9.357	8.331.320	24.994	65.162	90.156	5.930	4.299	0,516	3,00	18,75
118	2004	9.277	8.331.320	24.994	67.316	92.310	6.825	4.582	0,55	3,00	19,25
119	2005	9.748	9.400.000	28.200	93.366	121.566	12.127	5.170	0,70	3,00	20,00
First time adoption of the new international accounting standards IAS-IFRS											
120	2006	9.766	11.750.000	35.250	120.525	155.775	7.448	5.758	0,60	3,00	20:25
121	2007	10.223	14.934.824	44.804	182.336	227.140	9.650	7.972	0,60	3,00	21,75
122	2008	10.070	14.934.824	44.804	183.846	228.650	11.640	8.961	0,60	3,00	23,00
123	2009	10.574	15.484.145	46.452	197.608	244.060	10.500	6.968	0,45	3,00	23,50
124	2010	11.719	16.634.078	49.902	225.217	275.119	10.100	7.485	0,45	3,00	24,00
125	2011	11.905	16.929.341	50.788	223.549	274.337	11.630	7.618	0,45	3,00	24,50
126	2012	12.309	16.927.763	50.783	244.885	295.668	14.103	5.925	0,35	3,00	24,50
127	2013	12.994	17.022.649	51.068	249.959	301.027	- 33.850	0	-	3,00	24,50
128	2014	14.544	16.971.085	50.913	221.631	272.544	5.803	0	-	3,00	24,50

Other documents

Board of Statutory Auditors' report on the separate financial statements of Banca Popolare di Cividale S.c.p.A. at and for the year ended 31 December 2014

Shareholders,
The Board of Statutory Auditors presents to you the following report on its activity during the year ended 31.12.2014, the financial statements for which have been submitted for your approval, and which the Board of Directors has made available, along with the Report on Operations and the other prescribed documents, within the terms established in applicable legislation.
The Board of Statutory Auditors in office at the date of this report was appointed by the shareholders' meeting on 25 April 2014 and is composed of its chairman, Renato Bernardi, standing auditors Giovanni Dal Mas and Gianluca Pico, and substitute auditors Pietro Cicuttini and Andrea Volpe.

* * *

The reporting documents presented to the shareholders' meeting contain a description and adequate illustration of the performance of the Bank and its subsidiaries and associates.

* * *

In performing its supervisory and control activity, the Board of Statutory Auditors complied with the law, supervisory regulations for banks, the circulars and communiqués from the Bank of Italy, and the principles of conducted recommended by Italy's National Council of Accountants and Accounting Experts.
We participated in all meetings of the Board of Directors and observed the development of company decisions and the course of the Bank's performance. The frequency with which the meetings of the Board of Directors were held permitted thorough fulfilment of the disclosure obligations imposed by the law and Articles of Association.
Timely interaction with the Auditing Service and meetings with the Auditing, Compliance, Risk Management and Loan departments and the Bank's various other services resulted in a flow of information that permitted adequate evaluation of the various issues subject to supervision and control within the purview of the Board of Statutory Auditors.
We examined the information flows resulting from the Auditing Service's reports concerning the Group's ordinary and extraordinary activities.
The Board of Statutory Auditors was in constant contact with the independent auditors, Reconta Ernst & Young S.p.A., not only with regard to analysis of the separate and consolidated financial statements, but also for specific inquiries.
Our review extended to the proper application of accounting and administrative principles and the best presentation and representation in the financial statements of elements with a material impact at the level of financial performance and financial position.
In our capacity as internal control and auditing committee, pursuant to art. 19, par. 1, of Legislative Decree 39/2010, we supervised the financial reporting process, the efficacy of internal control systems, the independent auditing of the annual accounts and the independence of the auditing firm.
With respect to the pursuit of the common objective, as established in art. 2545 of the Italian Civil Code and art. 3 of the Articles of Association, please refer to the description and details provided in the Report on Operations. In this regard, the Board of Statutory Auditors confirm that the criteria adopted by the Bank in managing its business were not aimed exclusively at company profitability, but also at achieving the specific social function intrinsic to cooperative banks, inspired by the principles of mutual interest.
In their report, the directors exhaustively illustrated the operating performance of the Bank and Group in 2014.

* * *

Intra-group and related-party transactions
The Board of Statutory Auditors confirms that intra-group and related-party transactions are subject to thorough assessment of compatibility by the Board of Directors. Such transactions reflect the criteria of competence and substantial and procedural propriety indicated in the legislation of reference and are part of normal banking operations.
The transactions undertaken with persons serving in positions of administration, management and control at the Bank or Group companies were always carried out in accordance with art. 136 of the Consolidated Banking Act, regulatory provisions and the obligations laid down in art. 2391 and 2391-bis of the Italian Civil Code.

The same procedure was also observed by persons serving in positions of administration, management and control at Group companies, with regard to transactions undertaken with the Bank.
In accordance with applicable legislation, the Board of Directors approved the Procedures for Transactions with Related Parties and Associated Parties and published the document on the Bank's website.
During the year, no atypical or unusual transactions, as defined in art. 2427, par. 2, of the Italian Civil Code, or the international accounting standards adopted by the European Union, with a material impact on the financial performance or financial position were undertaken with Group companies, related parties, or other parties.

* * *

Information concerning the checks performed:

Compliance with the law and charter

As mentioned above, we participated in all meetings of the Board of Directors and obtained adequate information regarding the activity performed and transactions with the greatest impact on financial performance and financial position undertaken by the Bank.
We may reasonably affirm, on the basis of the information obtained, that such transactions were undertaken in accordance with the law and Articles of Association, were always in the Bank's interest and did not appear manifestly imprudent or excessively risky, were not in conflict of interest, did not conflict with the resolutions passed by the shareholders' meeting and were not otherwise such as to compromise the integrity of the Bank's assets.
We supervised compliance with the law, charter and principles of sound management, and we determined that the directors' actions were consistent with the law and Articles of Association, compliant with the principles of sound and prudent management and in accordance with the need to achieve the Bank's interests.

Atypical or unusual transactions

No atypical or unusual transactions were undertaken with third parties, Group companies and/or related parties.

Intra-group transactions and transactions with other related parties

As mentioned above, intra-group transactions were of an ordinary nature.

Complaints pursuant to art. 2408 of the Italian Civil Code

In 2014 the Board of Statutory Auditors did not receive complaints from shareholders pursuant to art. 2408 of the Italian Civil Code.

Principles of sound management

We investigated and supervised compliance with the principles of proper administration, sound and prudent management, transparency of information and operating performance, obtaining information from function heads, and we do not have any observations on this subject.

Adequacy of the organisational structure

The organisational structure and delegated powers assigned by the Board of Directors are consistent with the size of the Bank and the specific nature of banking business.

Adequacy of the internal control system and administrative and accounting system

The Board of Statutory Auditors assessed the completeness, adequacy, functionality and reliability of the internal control system and Risk Appetite Framework (RAF), the adequacy of ICAAP and the work done by persons responsible for control through direct observations and information obtained from the Auditing, Compliance, and Risk Management departments, and from the periodic reports drawn up concerning specific activity, performed by the aforementioned Group departments.
It may reasonably be affirmed, to the extent of our competence and on the basis of information obtained from the independent auditors and the manager responsible for preparing financial reports, that the administrative and accounting system is adequate and reliable.

Annual Corporate Governance Report

The Annual Corporate Governance Report, which has been drafted and included among the documents aimed at providing information to the shareholders' meeting, provides proper information regarding the current situation.
To the extent of their competence, the auditors expressed a positive judgement of the consistency of the Report on Operations.

Evaluation of independence requirements

The Board of Statutory Auditors does not have any observations with regard to the application of the evaluative criteria adopted by the Board of Directors to assess the independence of its members.
The statutory auditors confirm that they remain independent.

Organisation, Supervision and Control Model pursuant to Legislative Decree 231/2001

In September 2014, the supervision and control function identified in Legislative Decree No. 231/2001 was assigned to the Board of Statutory Auditors, as indicated by the Bank of Italy.
The organisational model provided for in the above Legislative Decree was implemented and updated in 2014, so as to comply with the amendments to the law.
The supervisory activity performed thus far has not brought to light any critical issues relating to operating and internal control activities.

Independent auditors

During meetings with the independent auditors, the Board of Statutory Auditors was not informed of any aspects requiring mention and/or circumstances deserving censure.
On today's date, the independent auditors issued their report on the separate and consolidated financial statements for the year ended 31.12.2014, in which they express a positive opinion, without any remarks or exceptions.
To the extent of their competence, the independent auditors also expressed a positive opinion of the consistency of the Report on Operations.

Specific observations

Pursuant to art. 2426, par. 1, 6), of the Italian Civil Code, the Board of Statutory Auditors expressed its consent to continuing to carry goodwill in the balance sheet. The indications provided by the Bank of Italy, Consob and ISVAP were taken into account when assessing goodwill.
With the aid of an external consultant, the Bank conducted impairment tests on the goodwill resulting from the acquisition of the former Banca Agricola di Gorizia business unit and a former Deutsche Bank branch in Trieste. The analysis resulted in confirmation of the carrying amount of such goodwill.

* * *

Shareholders,
On the basis of the information provided in this report, the Board of Statutory Auditors may reasonably assure you that the activity performed and the information obtained have not brought to light any circumstances requiring censure and/or irregularities or omissions to be reported or mentioned in this report.
The statutory auditors may thus conclude that through the supervisory and control activity performed during the year they were able to determine:

- ✓ compliance with the law and Articles of Association;
- ✓ observance of the principles of proper administration;
- ✓ the adequacy of the organisational structure and, to the extent of their competence, the internal control system and administrative and accounting system, and the reliability of that system in properly representing operating events.

The Board of Statutory Auditors confirm that the financial statements have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and have been drafted in compliance with the instructions issued by the Bank of Italy.
With respect to the separate financial statements, it is acknowledged that the manager responsible for preparing accounting and company documents has formally confirmed that the Bank has duly fulfilled its obligations, without any remarks and without identifying any problems and/or anomalies.
In their reports, the independent auditors express a positive opinion, without remarks, objections and/or requests for information, concerning both the separate and consolidated financial statements. To the extent of their competence, the independent auditors also express a positive opinion concerning the consistency of the Report on Operations with the financial statements.
To the extent of our competence, on the basis of the information obtained, we have determined that the **separate financial statements** were prepared in accordance with general preparation principles and measurement criteria consistent with accounting standards, and that the notes to the financial statements provide ample, detailed information.
In consideration of the foregoing, in light of the confirmation provided by the manager responsible for preparing accounting and company documents, and also in consideration of the positive opinion, without remarks, exceptions and/or requests for information expressed by the independent auditors, we hereby express our consent to the approval of the separate financial statements for the year ended 31.12.2014 and have no objections concerning the proposed allocation of net income for the year, as formulated by the Board of Directors.

Cividale del Friuli, 1 April 2015

The Board of Statutory Auditors

(Renato Bernardi)
(Giovanni Dal Mas)
(Gianluca Pico)

Certification of the separate financial statements pursuant to Article 81-ter of Consob Regulation No. 11971 of 14 May 1999, as amended

1. We, the undersigned, Graziano Tilatti, in the capacity of Chairman of the Board of Directors, and Gabriele Rosin, in the capacity of manager responsible for the preparation of financial reports, of Banca Popolare di Cividale S.c.p.A., do hereby certify, pursuant to Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998, that the administrative and accounting procedures used to prepare the separate financial statements during the period 1 January – 31 December 2014:

- were adequate with respect to the characteristics of the enterprise; and
- were effectively applied.

2. Our review of the adequacy and effective application of the administrative and accounting procedures used to prepare the separate financial statements at and for the year ended 31 December 2014 was based on a model established by Banca Popolare di Cividale S.c.p.A. in accordance with the *Internal Control – Integrated Framework (CoSO)* and the *Control Objectives for Information and Related Technologies (COBIT)*, which represent generally accepted international standards of reference for the internal control system and financial reporting in particular.

3. Furthermore, we do hereby certify that:

3.1. the separate financial statements

a) have been prepared in accordance with the applicable international accounting principles endorsed by the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002;
b) correspond to the results of accounting books and records; and
c) are suited to furnishing a true and fair representation of the financial performance and financial position of the issuer.

3.2. The report on operations includes a reliable analysis of operating performance and results, as well as the situation of the issuer, in addition to a description of the main risks and uncertainties to which it is exposed.

Cividale del Friuli, 18 March 2015

The Chairman of the Board of Directors
Graziano Tilatti
[signed]

Manager responsible for financial reports
Gabriele Rosin
[signed]

Independent Auditors' Report on the separate financial statements of Banca Popolare di Cividale S.c.p.A. at and for the year ended 31 December 2014

EY
Building a better working world

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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of Banca Popolare di Cividale S.c.p.A.

1. We have audited the financial statements of Banca Popolare di Cividale S.c.p.A. as of and for the year ended December 31, 2014, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Banca Popolare di Cividale S.c.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 9, 2014.

3. In our opinion, the financial statements of Banca Popolare di Cividale S.c.p.A. at December 31, 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Banca Popolare di Cividale S.c.p.A. for the year then ended.

4. The management of Banca Popolare di Cividale S.c.p.A. is responsible for the preparation of the Directors' Report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Directors' Report on operations and the specific section on Corporate Governance, regarding the information included therein in compliance with art. 123-bis paragraph 2, letter b) of Legislative Decree n. 58/1998, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In our opinion the Directors' Report on operations and the information reported therein in compliance with article 123-bis paragraph 2, letter b) of the Legislative Decree n. 58/1998 in the specific section of the report are consistent with the financial statements of Banca Popolare di Cividale S.c.p.A. as of December 31, 2014.

Milan, April 1, 2015

Reconta Ernst & Young S.p.A.
signed by: Marco Bozzola, Partner

Attachments to the consolidated financial statements of Banca Popolare di Cividale
Property, plant and equipment subject to revaluation

		Use	Historic cost	Revaluation from cotribution	Law 576/75	Law 72/83	Law 413/91	Law 266/05	Depreciation	Carrying amount
BPC SCpA	**ATTIMIS**	-	-	-	-	-	-	-	-	-
	Via Cividale 2	FUNZ.	245	-	-	-	123	182	324	**226**
BPC SCpA	**BUTTRIO**	-	-	-	-	-	-	-	-	-
	Via Div. Julia 26	FUNZ.	247	-	-	53	286	532	524	**594**
BPC SCpA	**CIVIDALE**	-	-	-	-	-	-	-	-	-
	Piazza Duomo 8	FUNZ.	5.353	727	101	398	1.016	7.878	5.085	**10.387**
	Piazza Duomo 9	FUNZ.	108	-	-	-	-	113	52	**169**
BPC SCpA	**CIVIDALE**	-	-	-	-	-	-	-	-	-
	Via Cavour	FUNZ.	25	-	2	66	54	347	221	**273**
	Via Cavour	FUNZ.	62	-	-	99	194	289	71	**573**
BPC SCpA	**PAVIA DI UDINE**	-	-	-	-	-	-	-	-	-
	Via Persereano 7	FUNZ.	236	-	-	-	-	181	160	**257**
	Via Persereano 8	FUNZ.	25	-	-	-	-	20	10	**35**
	Via Persereano 9	FUNZ.	3	-	-	-	-	2	2	**3**
BPC SCpA	**POVOLETTO**	-	-	-	-	-	-	-	-	-
	Piazza Libertà 4/5	FUNZ.	353	-	-	-	184	439	513	**463**
BPC SCpA	**REMANZACCO**	-	-	-	-	-	-	-	-	-
	Piazza P. Diacono	FUNZ.	346	-	-	101	169	840	631	**825**
	Piazza P. Diacono	FUNZ.	21	-	-	-	5	29	24	**31**
	Piazza P. Diacono	CIVILE	36	-	-	3	-	52	-	**91**
BPC SCpA	**S. GIOVANNI AL NATI**	-	-	-	-	-	-	-	-	-
	Via L. da Vinci 7	FUNZ.	486	-	25	105	502	1.240	1.057	**1.301**
BPC SCpA	**S. LEONARDO**	-	-	-	-	-	-	-	-	-
	Via Scrutto 114	FUNZ.	181	-	-	-	78	140	241	**158**
BPC SCpA	**TAVAGNACCO**	-	-	-	-	-	-	-	-	-
	Via Udine 51	FUNZ.	1.046	-	-	-	-	360	613	**793**
BPC SCpA	**UDINE**	-	-	-	-	-	-	-	-	-
	Piazzale XXIV Luglio n.	FUNZ.	1.279	-	-	-	-	173	528	**924**
BPC SCpA	**UDINE**	-	-	-	-	-	-	-	-	-
	Via Marsala 62	FUNZ.	546	-	-	-	-	9	216	**339**
BPC SCpA	**GRADO**	-	-	-	-	-	-	-	-	-
	Via Marina 16	FUNZ.	399	-	-	-	-	89	179	**309**
BPC SCpA	**SPILIMBERGO**	-	-	-	-	-	-	-	-	-
	Corso Roma 37	FUNZ.	320	-	-	-	-	73	146	**247**
BPC SCpA	**PALMANOVA**	-	-	-	-	-	-	-	-	-
	Piazza Grande 12	FUNZ.	546	-	-	-	-	73	221	**398**
BPC SCpA	**S. VITO AL TAGLIAM**	-	-	-	-	-	-	-	-	-
	Viale del Mattino 2	FUNZ.	616	-	-	-	-	16	156	**476**
	Viale del Mattino 2	FUNZ.	19	-	-	-	-	1	5	**15**
BPC SCpA	**PORDENONE**	-	-	-	-	-	-	-	-	-
	Corso Garibaldi 59	FUNZ.	717	-	-	-	-	92	274	**535**
BPC SCpA	**PRATA DI PORDENONI**	-	-	-	-	-	-	-	-	-
	Via Dante 3 - Fraz. Puj	FUNZ.	207	-	-	-	-	10	67	**150**
BPC SCpA	**SACILE**	-	-	-	-	-	-	-	-	-
	Viale Lacchin 34	FUNZ.	280	-	-	-	-	66	102	**244**
BPC SCpA	**MANZANO**	-	-	-	-	-	-	-	-	-
	Via della Stazione	FUNZ.	929	-	-	-	-	53	293	**689**
BPC SCpA	**GORIZIA**	-	-	-	-	-	-	-	-	-
	Corso Verdi 40	FUNZ.	913	-	-	-	-	133	327	**719**
BPC SCpA	**SAN GIORGIO DI NOG.**	-	-	-	-	-	-	-	-	-
	Viale Europa Unita 15	FUNZ.	277	-	-	-	-	21	83	**215**
BPC SCpA	**CIVIDALE**	-	-	-	-	-	-	-	-	-
	Corso Mazzini	FUNZ.	1.815	-	-	-	-	72	231	**1.656**
BPC SCpA	**CORDENONS**	-	-	-	-	-	-	-	-	-
	Via Martiri della Libertà	FUNZ.	660	-	-	-	-	-	110	**550**
BPC SCpA	**UDINE**	-	-	-	-	-	-	-	-	-
	Via Marco Volpe	FUNZ.	138	-	-	-	-	-	6	**132**
BPC SCpA	**Cividale del Friuli**	-	-	-	-	-	-	-	-	-
	Corso Mazzini 36	FUNZ.	601	-	-	-	-	-	85	**516**
BPC SCpA	**Udine**	-	-	-	-	-	-	-	-	-
	Via Vittorio Veneto	FUNZ.	3.803	-	-	-	-	-	494	**3.309**
BPC SCpA	**Cormons**	-	-	-	-	-	-	-	-	-
	Corte Leon Bianco	FUNZ.	809	-	-	-	-	-	102	**707**
BPC SCpA	**Porcia**	-	-	-	-	-	-	-	-	-
	Calle del Carbon n. 15	FUNZ.	467	-	-	-	-	-	59	**408**
BPC SCpA	**Tolmezzo**	-	-	-	-	-	-	-	-	-
	Via Matteotti	FUNZ.	1.034	-	-	-	-	-	136	**898**
BPC SCpA	**Udine**	-	-	-	-	-	-	-	-	-
	Via della Prefettura	FUNZ.	112	-	-	-	-	-	12	**100**
BPC SCpA	**San Daniele**	-	-	-	-	-	-	-	-	-
	Viale Venezia	FUNZ.	760	-	-	-	-	-	98	**662**
BPC SCpA	**Cividale del Friuli**	-	-	-	-	-	-	-	-	-
	Via Carlo Alberto	FUNZ.	1.080	-	-	-	-	-	143	**937**
BPC SCpA	**Sacile**	-	-	-	-	-	-	-	-	-
	Viale Lacchin n. 36	FUNZ.	217	-	-	-	-	-	18	**199**
BPC SCpA	**Mestre**	-	-	-	-	-	-	-	-	-
	Riviera XX Settembre	FUNZ.	2.051	-	-	-	-	-	148	**1.903**
BPC SCpA	**Cividale del Friuli**	-	-	-	-	-	-	-	-	-
	Via dei Miani	FUNZ.	282	-	-	-	-	-	21	**261**
BPC SCpA	**Cervignano**	-	-	-	-	-	-	-	-	-
	Via XX settembre 9	FUNZ.	350	-	-	-	-	-	3	**347**
BPC SCpA	CIVIDALE	-	-	-	-	-	-	-	-	-
	Via Foramitti	FUNZ.	38.331	-	-	-	-	-	374	**37.957**
CVL Spa	**Gorizia**	-	-	-	-	-	-	-	-	-
	Via del Monte Santo m.	FUNZ.	1.400	-	-	-	-	-	84	**1.316**
CVL Spa	**Castion di Strada**	-	-	-	-	-	-	-	-	-
	Via Napoleonica n. 9	FUNZ.	2.973	-	-	-	-	-	562	**2.411**
TBG Srl	**Cividale del Friuli**									
	Via Foramitti	INV	2.770	-	-	-	-	-	-	**2.770**
	TOTAL		**75.474**	**727**	**128**	**825**	**2.611**	**13.525**	**14.811**	**78.478**

Disclosure of fees for services rendered by the independent auditors pursuant to Article 149-duodecies of Consob Regulation No. 11971/1999

Type of service	Fees paid in 2014
Services provided to the Parent ank Banca Popolare di Cividale Scpa	**248.069**
Independent auditors: Reconta Ernest & Young	
- Auditing services	201.069
- Inspection services for the purpose of issuing certification (**)	20.000
- Other services	-
Companies belonging to the independent auditors' network: Ernst & Young FBA S.p.A:	-
- Other services - Support services to activities of reporting, analysis and formalisation of the administrative/accounting procedures	
- Other services - Support services to the implementation of the process of internal capital adequacy assessment (ICAAP) Basel 2	
- Other services - Support services for project analysis model for the evaluation of unlisted debt securities of the Group	
Total	**248.069**

Reconciliation of consolidated balance sheet and reclassified consolidated balance sheet

RECLASSIFIED BALANCE SHEET - Assets	Balance sheet - Assets	31/12/2014	31/12/2013
Cash and cash equivalents	10 - Cash and cash equivalents	18.487	20.021
Financial assets held for trading	20 - Financial assets held for trading	3.032	3.512
Financial assets available for sale	40 - Financial assets available for sale	1.033.838	1.472.132
Financial assets held to maturity	50 - Invetments held to maturity	64.697	105.413
Due from banks	60 - Due from banks	159.347	163.750
Loans to customers	70 - Loans to customers	2.735.250	3.113.834
Hedging derivatives	80 - Hedging derivatives	-	-
Equity investments	100 - Investments in associates and companies subject to joint	7.776	7.529
Property and equipment and intangible assets	120 - Property and equipment	84.621	86.998
	130 - Intangible assets	19.350	19.379
Other assets	140 - Tax assets	74.171	73.893
	150 - Non-current assets held for sale and discontinued operations	-	-
	160 - Other assets	28.261	30.797
Total assets		**4.228.830**	**5.097.258**

RECLASSIFIED BALANCE SHEET - Liabilities	Balance sheet - Liabilities and shareholders' equity	31/12/2014	31/12/2013
Due to banks	10 - Due to banks	1.121.823	1.010.863
Direct funding from customers	20 - Due to customers	2.013.024	2.968.412
	30 - Debt securities issued	689.006	730.284
Financial liabilities held for trading	40 - Financial liabilities held for trading	1.036	965
Hedging derivatives	60 - Hedging derivatives	-	-
Other liabilities	80 - Tax liabilities	28.813	27.056
	90 - Liabilities associated with discontinued operations	-	-
	100 - Other liabilities	89.222	89.277
Specific provisions	110 - Employee termination benefits	6.040	5.658
	120 - Provisions for risk and charges:	3.690	3.436
Shareholders' equity pertaining to minority interests	210 - Minority interest (+/-)	-	-
Shareholders' equity	140 - Valuation reserves	11.124	8.552
	170 - Reserves	37.054	38.920
	180 - Share premiums	167.022	198.570
	190 - Share capital	50.913	51.068
	200 - Treasury shares (-)	-	(7)
	220 - Net income (loss) for the period (+/-)	10.065	(35.793)
Total liabilities		**4.228.830**	**5.097.258**

Reconciliation of consolidated income statement and reclassified consolidated income statement

RECLASSIFIED INCOME STATEMENT	Consolidated income statement	31/12/2014	31/12/2013
Net interest income (including result of hedging)	30 - Net interest income	69.516	82.460
	90 - Fair value adjustments in hedge accounting	-	(54)
Total Net interest income (including result of hedging)		**69.516**	**82.406**
Dividends and net income (loss) of equity investments accounted for using equity method	70 - Dividends and similar income	927	996
	240 - Profit (loss) on equity investments	247	282
	270 - Profit (loss) on disposal of investments	-	-
Total Dividends and net income (loss) of equity investments accounted for using equity method		**1.174**	**1.278**
Net commissions	**60 - Net commission income**	**21.741**	**22.287**
Other operating income (net of recovered expenses)	220 - Other operating income (expenses)	9.615	6.595
	220 (partial) - Other operating income (expenses) - Recovery of indirect taxes	(7.595)	(7.006)
Total Other operating income (net of recovered expenses)		**2.020**	**(411)**
Net trading income	**80 - Net trading income**	**705**	**423**
Gains (losses) from purchase/sale of loans and financial assets	100 - Profit (loss) on disposal or repurchase of:		
	a) loans	(173)	852
	b) financial assets available for sale	34.556	51.586
	c) financial assets held to maturity	-	-
	d) financial liabilities	537	(1.806)
Total Gains (losses) from purchase/sale of loans and financial assets		**34.919**	**50.633**
OPERATING REVENUES		**130.075**	**156.615**
Personnel expenses	180 a) personnel expenses	(39.879)	(41.308)
Other administrative expenses (net of recovered expenses)	180 b) other administrative expenses	(31.501)	(32.702)
	220 (partial) - Other operating income (expenses) - Recovery of indirect taxes	7.595	7.006
Total Other administrative expenses (net of recovered expenses)		**(23.906)**	**(25.696)**
Net impairment/write backs on property, plant and equipment and intangible assets (excluding	200 - Net impairment/write-backs on property, plant and equipment	(3.429)	(1.266)
	210 - Net impairment/write-backs on intangible assets	(44)	(108)
Total Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill)		**(3.473)**	**(1.374)**
OPERATING COST		**(67.258)**	**(68.378)**
INCOME (LOSS) FROM OPERATING		**62.817**	**88.237**
Goodwill impairment	260 - Goodwill impairment	-	(1.051)
Charges/write-backs on impairment of loans	130 a) loans	(36.209)	(118.911)
Charges/write-backs on impairment of other assets	130 b) financial assets available for sale	(2.039)	(9.281)
	130 c) financial assets held to maturity	-	-
	130 d) other financial transactions	(702)	42
Total Charges/write-backs		**(38.950)**	**(128.150)**
Net provisions for risks and charges	190 - Net provisions for risks and charges	(1.286)	(2.410)
INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**22.581**	**(43.374)**
Tax on income from continuing operations	290 - Tax on income from continuing operations	(12.517)	7.581
INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS		**10.065**	**(35.793)**
Income (loss) after tax from discontinued operations	310 - Income (loss) after tax from discontinued operations	-	-
Minority interest	330 -Minority interest	-	-
NET INCOME FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY		**10.065**	**(35.793)**

Country-by-country reporting

In accordance with Circular 285 of 17 December 2013 (Supervisory Provisions for Banks), fourth update of 17 June 2014, the Banca Popolare di Cividale Group publishes the following information concerning its place of business in Italy:

a) Name of the local company and nature of its business

Name:
Banca Popolare di Cividale S.c.p.A., with office in Cividale del Friuli at Via Sen. Guglielmo Pelizzo 8/1, tax code and Udine Companies Register no. 0249360306, registration in the Bank of Italy register no. 5758.8.0, Parent Company of the Banca Popolare di Cividale Group, Register of Banking Groups no. 05484.1

Nature of its business:
Financial intermediation (financial services for businesses, trading and sale, retail intermediation, commercial banking services, retail banking services, payment and settlement, fiduciary management, asset management and leasing).
The Group's customers traditionally consist of families, craftsmen, professionals and small and medium enterprises.

Consolidated amounts as at 31/12/2014	
b) Sales (1)	127.807
c) Number of full-time equivalents (2)	444
d) Profit or loss before taxes (3)	22.580
e) Income taxes (4)	(12.517)
f) Public grants received (5)	-

(1) "Sales" are defined as operating revenues (item 120 of the consolidated income statement) (cf. Circular 262).
(2) "Number of full-time equivalents" is determined as the total hours worked overall by all employees, excluding overtime, divided by the total annual number of hours to be worked by a full-time employee by contract.
(3) "Profit or loss before taxes" is calculated as the sum of items 280 and 310 (the latter gross of taxes) of the consolidated income statement, pursuant to Circular 262.
(4) "Income taxes" are defined as the sum of the taxes presented in item 260 of the income statement, pursuant to Circular 262.
(5) The item "Public grants received" must include grants received directly from public administrations. This item does not include transactions undertaken by central banks for financial stability purposes or transactions with the aim of facilitating the monetary policy transmission mechanism. Similarly, any transactions part of government aid schemes approved by the European Commission are not to be taken into consideration.