130° esercizio

CONCRETICAMENTE INSIEME

Assemblea dei Soci
29 aprile 2017

Banca Popolare di Cividale
Società Cooperativa per Azioni

Report and Financial Statements at 31/12/2016

Draft Financial Statements – B.o.D. 22 March 2017

BANCA POPOLARE DI CIVIDALE
A cooperative joint-stock company – founded in 1886
Registered office and headquarters: Via Sen. Guglielmo Pelizzo n. 8/1;
33043 Cividale del Friuli;
Bank of Italy Register No. 5758.8.0; Italian Banking Association Code 05484;
Taxpayer ID, VAT reg. no. and Udine Companies Register no. 00249360306;
Share capital at 31/12/2016: € 50,913,255, fully paid-in
A member of the Interbank Deposit Protection Fund

Contents

Boards and senior management of Banca Popolare di Cividale at the date of approval of the financial statements for the year ended 31/12/2016

Board of Directors

Chairperson	Michela Del Piero
Deputy Chairpersons	Andrea Stedile Guglielmo Pelizzo
Directors	Massimo Fuccaro Alessia Fugaro Mario Leonardi Renzo Marinig Franco Sala Livio Semolič

Board of Statutory Auditors

Chairperson	Renato Bernardi
Standing members	Gianluca Pico Pietro Cicuttini
Substitute members	Andrea Volpe

Board of Arbitrators

Standing members	Aldo Del Negro Ugo Gangheri Giampaolo Piccoli Eugenio Scarbolo Mario Cicuttini
Substitute members	Alessandro Rizza Giuseppe Bertolo

Senior management

General Manager	Federico Fabbro
Acting Assistant General Manager	Gianluca Picotti
Assistant General Manager	Gabriele Rosin

Manager responsible for preparing financial reports	Gabriele Rosin
Independent Auditors	EY 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 28 April 2017 and second call, if necessary, ***at 09:00 AM on Saturday 29 April 2017****.*

Agenda

Extraordinary business

1. *Proposed amendments to the Articles of Association of Banca Popolare di Cividale S.c.p.A. (articles: 5, 13 and 23)*

Ordinary business

1. *Financial statements for the year ended 31.12.2016 and any related business;*
2. *Information from the Chairperson;*
3. *Proposal to set the criterion for determining share price pursuant to Article 6 of the Articles of Association;*
4. *Appointment of corporate officers and determination of their compensation;*
5. *Remuneration policies.*

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 the shareholders' meeting.

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 del Friuli, 22 March 2017

The Chairperson
Michela Del Piero

Letter from the Chairperson

Dear shareholders,

I would firstly like to take this opportunity to once again extend my gratitude to all of those who in our 130 years of history – shareholders, customers, employees, directors and auditors – have contributed to the Bank's growth and development, at a practical, operational, financial and conceptual level.

Our results for 2016 show strong signs of growth and consolidation. In particular, the Bank is among the soundest firms in the Italian banking industry. Its commitment to the real economy is witnessed by new loans to local businesses and households of €333 million, despite the continuing difficulty experienced by the regional and national Italian economy.

This important local role that we have played for 130 years is also evident in other noteworthy ways: over the past ten years, we have paid €75 million of taxes and duties and made an impressive €12 million of donations to non-profits, without mentioning the recent launch of the first crowd-funding portal in support of local social initiatives in north-eastern Italy. Furthermore, it bears recalling that our Bank has nearly 600 employees, and has not made any personnel cuts, as other banks have instead done intensively.

Following the approval by the Board of Directors of its 2016-2018 Business Plan, the Bank has continued with the process of increasing its efficiency with the aim of improving its business model and expected profitability. Such efforts include the optimisation and innovation of the service model, which will be completed when the Bank migrates to its new IT platform, scheduled to occur in next October. Its goals have been clearly defined and the Bank's entire organisational structure is striving to achieve them fully.

Mention should also be made of recent events in the cooperative banking industry (such as the reform envisaged by the Renzi-Padoan decree and the severe crisis affecting several cooperative banks, some in close geographical proximity to the Bank), which have been the cause of understandable concern among investors, with serious repercussions for the liquidity of the securities of unlisted banks such our own institution.

In accordance with the recommendations from Consob and Community directives, the Board of Directors has resolved to participate in a trading platform, through a multilateral trading facility. This market was regarded as the best suited to the trading of the Bank's shares. During Board meetings, we will have occasion to discuss this important, delicate matter further, to provide the necessary information to the shareholders, which I know they are eagerly awaiting.

In the past, the Bank has shown that it is capable of managing and viewing change as an opportunity. It is in this same spirit that we will face the future, thanks to the Bank's independence, which the shareholders have always guarded and exercised with admirable tenacity and dedication, allowing the Bank to take a crucial role in our local economy and making it a respectable contrast to the rest of the banking industry in north-eastern Italy.

The Chairperson
Michela Del Piero

Financial highlights and balance sheet ratios

BALANCE SHEET DATA	31/12/2016	31/12/2015	Var %
Loans to customers	2,622,176	2,683,711	-2.3%
Financial assets and liabilities	1,370,490	1,197,886	14.4%
Investments in associates and companies subject to joint	3,819	6,427	-40.6%
Total assets	4,271,406	4,168,018	2.5%
Direct funding	2,554,841	2,561,759	-0.3%
Indirect funding	973,682	968,534	0.5%
- of wich: Assets under management	751,902	720,359	4.4%
Total funding	3,528,523	3,530,293	-0.1%
Shareholders' equity	303,500	313,570	-3.2%

Reclassified balance sheet

ASSETS	31/12/2016	31/12/2015	Var %
Cash and cash equivalents	15,844	18,381	-13.8%
Financial assets held for trading	3,192	1,220	161.6%
Financial assets available for sale	1,335,563	1,164,689	14.7%
Financial assets held to maturity	32,529	32,716	-0.6%
Due from banks	52,226	40,385	29.3%
Loans to customers	2,622,176	2,683,711	-2.3%
Investments in associates and companies subject to joint	3,819	6,427	-40.6%
Property, plant and equipment and intangible assets (1)	85,239	92,296	-7.6%
Other assets (2)	120,818	128,192	-5.8%
Total assets	**4,271,406**	**4,168,018**	**2.5%**

LIABILITIES	31/12/2016	31/12/2015	Var %
Due to banks	1,328,119	1,167,164	13.8%
Direct funding from customers (1)	2,554,841	2,561,759	-0.3%
Financial liabilities held for trading	794	740	7.3%
Other liabilities	74,790	110,217	-32.1%
Specific provisions (2)	9,363	14,567	-35.7%
Shareholders' equity (3)	303,500	313,570	-3.2%
Total liabilities	**4,271,406**	**4,168,018**	**2.5%**

Reclassified income statement

INCOME STATEMENT DATA (thousands of Euro)	31/12/2016	31/12/2015	Var %
Net interest income	60,979	65,285	-6.6%
Net commissions	23,918	22,683	5.4%
Dividends	1,413	1,015	39.3%
Net trading income	15,058	80,850	-81.4%
Other operating income (expenses) (4)	(272)	(236)	15.1%
Operating income	**101,096**	**169,596**	-40.4%
Personnel expenses	(40,169)	(40,657)	-1.2%
Other administrative expenses (2)	(28,482)	(30,704)	-7.2%
Net impairment/write backs on property, plant and equipment and intangible assets (3)	(2,502)	(8,179)	-69.4%
Operating cost	**(71,153)**	**(79,540)**	-10.5%
Income (loss) from operating	**29,943**	**90,056**	-66.8%
Charges/w rite-backs on impairment of loans	(22,052)	(55,410)	-60.2%
Charges/w rite-backs on impairment of financial assets	(2,359)	(4,983)	-52.7%
Goodwill impairment and Profit (loss) on equity investments	(5,858)	(10,049)	-41.7%
Net provisions for risks and charges	858	(5,578)	-115.4%
Income (loss) before tax from continuing operations	**532**	**14,036**	-96.2%
Tax on income from continuing operations	701	10,017	-93.0%
Net income for the period	**1,233**	**24,053**	**-94.9%**

BALANCE SHEET RATIOS	31/12/2016	31/12/2015
Indirect funding from customers / Total funding	27.6%	27.4%
Assets under management / Indirect funding from customers	77.2%	74.4%
Direct funding from customers / Total liabilities	59.8%	61.5%
Loans to customers / Direct funding from customers	102.6%	104.8%
Loans to customers / Total assets	61.4%	64.4%

CREDIT RISK INDICATORS	31/12/2016	31/12/2015
Bad Loans / Loans to customers	16.6%	15.6%
Net bad loans / Loans to customers	7.6%	7.5%
Cost of risk / Income (loss) from operating	70.8%	73.3%
Net bad loans / Regulatory capital	65.7%	63.8%
Net non-performing loans / Loans to customers	15.0%	14.8%
Other impaired loans hedging	46.6%	45.3%
Cost of credit (*)	0.84%	2.06%

Profitability ratios	31/12/2016	31/12/2015
Net interest income/Operating Income	60.3%	38.49%
Net commision income/Operating Income	23.7%	13.37%
Cost/income	70.4%	46.90%
Net income for the period/Total Assets	0.03%	0.58%
Net income for the period/RWA	0.06%	1.12%

Productivity ratios	31/12/2016	31/12/2015
Operating cost / N° of employees	122	134
Operating income / N° of employees	174	286
Loans to customers / N° of employees	4,513	4,533
Direct funding / N° of employees	4,397	4,327

Structure ratios	31/12/2016	31/12/2015
Loans to customers / Total net assets	62.2%	65.03%
Direct funding / Total net assets	60.6%	62.07%
Assets under management / Indirect funding from customers	77.2%	74.38%
Loans to customers / Direct funding from customers	102.6%	104.76%
Total assets / Shareholders' equity	1407.4%	1329.21%

Share value	31/12/2016	31/12/2015
Share value	19.60	19.60
N° of shares	16,971,085	16,971,085
Shareholders' equity	303,500,157	313,570,071
P/BV	**1.10**	**1.06**

Operating structure	31/12/2016	31/12/2015
N° of employees	581	592
Branches	67	75

Basic Earning per share	31/12/2016	31/12/2015
Adjusted attributable profit	1,233	24,103
Weighted average number of shares	16,971,085	16,971,085
Basic Earning per share	**0.07**	**1.42**

SOLVENCY RATIOS	31/12/2016	31/12/2015
Common Equity Tier 1 /Risk-weighted assets (CET1 capital ratio)	13,4%	13,0%
Tier 1 Capital / Risk-weighted assets (Tier1 capital ratio)	13,4%	13,0%
RWA	2.120.818	2.150.883
Total own funds / Risk-weighted assets (Total capital ratio)	14,4%	14,6%

Directors' report on operations

Introduction

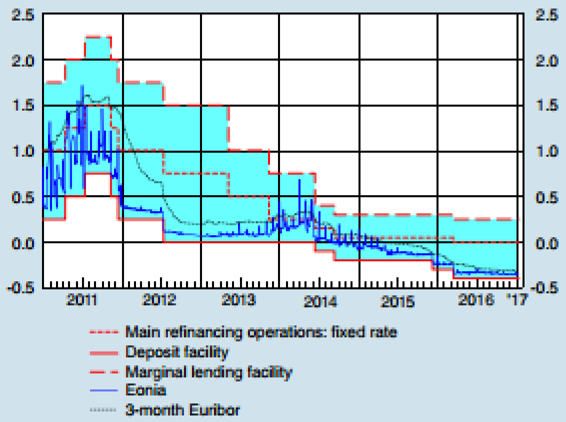
The provisions on disclosure applicable to the preparation of the directors' report on operations are set out in Italian statutes (Art. 2428 of the Italian Civil Code and Legislative Decree No. 58/98, also known as the "Consolidated Finance Act"), in addition to further resolutions and communiques issued by Consob and the other supervisory authorities (such as the Bank of Italy, in its Circular No. 262/2005, as updated), to the extent applicable to listed issuers with Italy as their home Member State, the status of Banca Popolare di Cividale S.c.p.A. (also an issuer of instruments widely held by the public to a significant degree, as defined in Art. 116 of the Consolidated Finance Act). The above provisions are complementary to international accounting standards (IASs/IFRSs).

The macroeconomic scenario[1]

The international economy

Global economic growth has gradually improved, outperforming expectations in advanced economies and remaining stable in emerging nations. The most recent assessments by the International Monetary Fund indicate an increase in global GDP of 3.1% in 2016, with forecast growth of 3.4% in 2017 and 3.6% in 2018. However, the outlook remains subject to various factors of uncertainty. In the United States, the new administration's economic policies have yet to be defined in detail: the actions announced in the realm of budgetary policy could have an expansionary impact, whereas possible measures restricting trade could have opposite effects. Similarly, the strategies that will define relations between the United Kingdom and the European Union post Brexit are not yet clear.

Official interest rates and money market rates in the euro area
(daily data; per cent)



Sources: ECB and Thomson Reuters Datastream.

Euro Area

Economic activity in the Euro Area underwent moderate, gradually consolidating growth. In the third quarter of 2016, GDP in the Euro Area increased by 0.3% on the previous period, primarily due to spending by households and the government and changes in inventory.

The growth trend is believed to have continued in the fourth quarter: the most recent forecasts call for growth of 1.7% in 2017.

Inflation also performed positively, rising gradually, thereby partially reducing the risks of deflationary effects on longer-term expectations. The ECB's Governing Council confirmed its expansionary monetary policy measures and announced plans to maintain official rates at or below their current levels (Figure 1) for a further extended period. Loans to both businesses (+2.3%) and households (+2.2%) recovered, as a direct consequence of the low cost of funding.

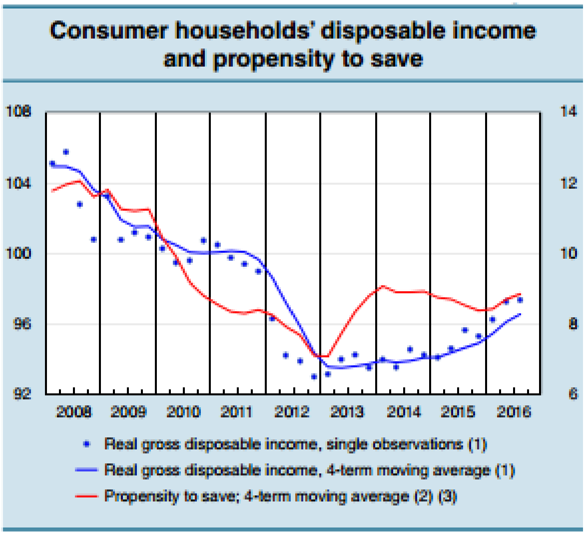
The Italian economy

According to the available indicators, economic activity in Italy is on a par with the rest of the Euro Area. In the third quarter, GDP increased by 0.3% compared to the second quarter, driven in particular by domestic demand and investments. Household spending – and above all spending on durable and semi-durable goods – slowed slightly.

Industrial production is believed to have increased in all major business segments, with the exception of the non-residential segment of construction. Nonetheless, real-estate agents' expectations concerning short-term trends are positive, in view of the constant increase in the number of real-estate transactions, with the ensuing modest rise in home prices (+0.1%).

Household spending in the third quarter of 2016 stabilised at values slightly below those of the previous quarter. Spending on durable and semi-durable goods decreased slightly, in favour of purchases of non-durable goods and services. Disposable income increased by 2.3% in real terms, with the consequent increase in the propensity to save (Figure 2). In late 2016, both permanent and fixed-term employment improved, most likely

[1] Source: The Bank of Italy's Bollettino Economico.



Source: Based on Istat data (seasonally adjusted).

driven by companies' decisions to take advantage of the contribution relief envisaged by the Jobs Act before it is definitively discontinued.

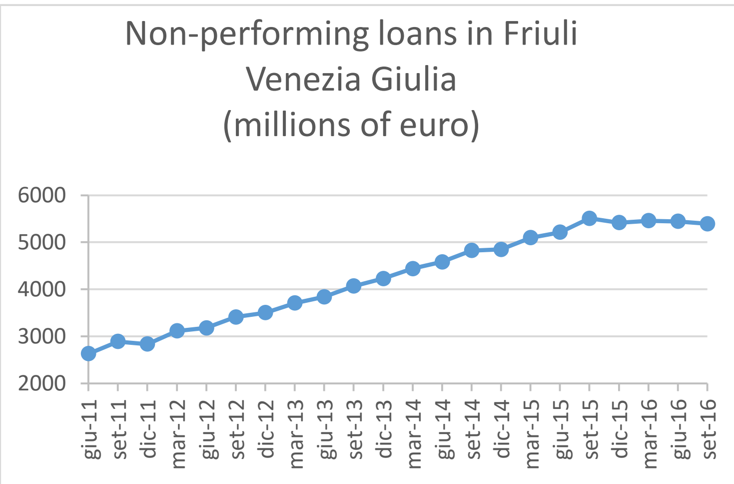
Banking

In recent months, expansionary monetary policies and gradual improvements in the economic scenario have driven an expansion of lending to the non-financial private sector. In lending to families, there were increases in both consumer credit (+2.7%), benefiting in part from the increase in disposable income, and in residential mortgage loans (+2.0%), driven by the increase in real-estate transactions. In lending to businesses, performance differed by business segment: the increase in loans to service companies amounted to 2.3% on an annual basis, whereas the decline in loans to construction companies intensified further (-5.4%).

The credit quality of Italian banks is gradually improving. New non-performing loans, as a percentage of total loans, decreased by 0.3%, falling to 2.6%. The coverage rate reached 47.3%. The improvement in asset quality was accompanied by a decrease in profitability, due in particular to the decline in net interest income and the increase in operating costs, primarily associated with redundancy incentive plans for staff and contributions to deposit protection and resolution funds.

The cooperative banking system[2]

Despite an exceptional scenario, characterised by factors that have changed, and are continuing change, Italy's banking industry, such as the reforms of cooperative banks and the introduction of bail-in rules, cooperative banks continued with their efforts to support local economies. New loans to SMEs remained at the levels of the previous year (approximately €30 billion), whereas new residential mortgage loans for individuals were up by 10% on an annual basis.



In 2016 the number of cooperative bank branches declined by 259 from 8,898 to 8,639, a decrease of 2.9%. The overall Italian banking industry also presented a similar trend, with an analogous decline in percent terms (-2.8%), or 848 fewer branches, bringing total branches to 29,306. Consequently, the market share of cooperative banks remained unchanged on 2015 at 29.5%.

At the industry-wide level, the amount of gross non-performing loans stopped increasing and then began to fall in the second quarter of the current year. A similar trend also occurred in Friuli Venezia Giulia (fig.)

Outlook[3]

The most recent forecasts point to a general improvement in the banking industry in both quantitative and qualitative terms. Total loans are expected to begin to rise as early as the current year, and asset quality is also projected to improve. Lower credit risk and an economic recovery will drive a solid recovery in the demand for credit, which should return to positive territory this year and then gain momentum.

[2] Source: Italian National Association of Cooperative Banks: Overview and Outlook for the Italian Economy
[3] Source: ABI Financial Outlook – 2016-2018 Forecast Report

At the level of bank rates, forecasts call for the cost of funding to continue to fall, benefiting from highly expansionary monetary policy and solid domestic stability, declining from 1.3% to 0.7%. The average lending rate is also expected to fall accordingly.
Within this scenario, which remains uncertain from an economic standpoint as the Italian banking industry undergoes a transformation, forecasts generally call for consolidating growth of the main captions of assets and liabilities. In particular, in 2017 funding is expected to increase by 1.2%, due above all to the deposit component (+2.3%), whereas the bond component is expected to continue to decline, falling by 6.3%. Performing loans are forecast to increase by 1.7%, above all the medium-to-long term component. The situation is similar for cooperative banks, with funding estimated to increase by 1.5%, deposits by 3.9% and performing loans by 1.7%.
At the level of the income statement, net interest income is expected to improve, rising by 1.1% for the banking industry and by 1.7% for cooperative banks, as are operating revenues, forecast to rise by 3.6% and 4.3%, respectively. The modest increase in operating expenses compared to previous years, along with the recovery of margins, is expected to result in an increase in gross operating profit of 8.4% for the Italian banking industry and of 9.4% for Italian cooperative banks.

The branch network of Banca Popolare di Cividale

The Bank's branch network consisted of 67 operational branches at 31 December 2016. Eight branches were closed during the year, in keeping with the goals set in the 2016-2018 strategic plan.

The Bank has a presence in seven provinces in the regions of Friuli Venezia Giulia and Veneto, distributed as follows:

- 35 in the province of Udine;
- 11 in the province of Pordenone;
- 7 in the province of Gorizia;
- 3 in the province of Trieste;
- 5 in the province of Treviso;
- 5 in the province of Venice; and
- 1 in the province of Belluno.

Human resources

At 31 December 2016 the human resources of Banca Popolare di Cividale S.c.p.A. numbered 581, compared to 592 at 31 December 2015.

During the year, 24 employees were hired and 35 left. The sales network (branches) employs a staff of 386, representing 66.4% of the total headcount.

Human resources statistics

Classification of staff by professional category:

	31.12.2016			31.12.2015		
	Men	Women	Total	Men	Women	Total
Senior managers	9	1	**10**	10	1	**11**
Middle managers	181	41	**222**	187	41	**228**
Middle managers – part time	1	10	**11**	-	11	**11**
3rd professional area	146	135	**281**	150	141	**291**
3rd professional area – part time	5	49	**54**	5	43	**48**
2nd professional area	1	2	**3**	1	2	**3**
1st professional area	-	-	-	-	-	-
Total	**343**	**238**	**581**	**353**	**239**	**592**

Incoming and outgoing personnel:

	Changes 2016			Changes 2015		
	Men	Women	Total	Men	Women	Total
Hirings	13	11	**24**	14	8	**22**
of which: business combinations	-	-	-	6	2	**8**
Terminations	23	12	**35**	11	2	**13**

Breakdown of workforce by age, gender and education:

	31.12.2016			31.12.2015		
	Men	Women	Total	Men	Women	Total
No. of employees by gender	343	238	**581**	353	239	**592**
Percentage of employees by gender	59.0%	41.0%	**100.0%**	59.6%	40.4%	**100.0%**
Average age (years)	46.50	42.96	**45.05**	46.45	42.90	**45.05**
Level of education						
University degree	143	111	**254**	139	111	**250**
Secondary school diploma	193	124	**317**	206	124	**330**
Other	7	3	**10**	8	4	**12**

Breakdown of workforce between headquarters and branch network:

	Number of employees			
	31/12/2016	%	31/12/2015	%
Headquarters	195	33.6%	196	33.1%
Branch network	386	66.4%	396	66.9%
Total	**581**	**100.0%**	**592**	**100.0%**

Training

As in previous years, the 2016 Training Plan was drafted according to the guidelines envisaged in the three-year Strategic Plan (2014-2016). 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, finance and products) and initiatives concerning laws and regulations (anti-money laundering, transparency, corporate criminal liability, the internal control system, workplace safety, etc.).

During 2016, the employees of Banca Popolare di Cividale S.c.p.A. were required to attend five days of training per person. Overall, 27,220 hours of training, corresponding to 3,629 man-days, were provided. An average of 6.23 days of training were provided per employee.

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 rules aimed at preventing money-laundering pursuant to Legislative Decree No. 231 of 2007, MiFID regulations concerning investment services and privacy legislation.

Document on 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 Compensation Policies for 2017. This document provides a detailed account of the compensation and incentive policies of Banca Popolare di Cividale 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, this document envisages that a part of the variable compensation of key staff is to be paid in financial instruments, specifically the Bank's shares. Detailed information about compensation policies will be provided during 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 Bank’s human resources.

Mission and values
The mission of Banca Popolare di Cividale S.c.p.A. is to **create value over time** for:
- **shareholders**, who believe in this venture and have placed their trust in us;
- **customers**, i.e. the households and businesses that, in exchange for their loyalty, are entitled to adequate services;
- **employees**, who add value to the Bank 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.

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

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

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

- *Independence*
Banca Popolare di Cividale 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 Bank'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 at our Bank. 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 Banca Popolare di Cividale S.c.p.A. over time leverages the Bank'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 Bank'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, Banca Popolare di Cividale S.c.p.A. intends to foster economic, social and cultural development in the community in which it does business.

- *Identity and history*

The Bank'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 15,106 shareholders at 31.12.2016, the result of the purchase of interests by 66 new investors and the sale of interests by 210 shareholders.

A total of 46 transactions involving a total volume of 2,091 shares were executed during the year. During 2016, 66 applications for the admission of new shareholders were reviewed and approved. Changes in share ownership over the past five years are illustrated below:

Year	Incoming shareholders	Outgoing shareholders
2012	1,012	608
2013	1,236	551
2014	1,831	281
2015	934	228
2016	66	210

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 Bank'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 Bank 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.

In its endeavours the Bank is 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.

In 2016 the Board of Directors continued to steer the institution's operations towards a primary focus on shareholders. Shareholders are of central importance since they are also customers of the Bank. 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 2016 appears significant in this respect, in that it indicates that the shareholders of Banca Popolare di Cividale who are also customers of the Bank represent more than 89% of shareholders.

During 2016, the Bank continued to pursue the principles enunciated above by offering shareholders financial and banking products at better economic conditions than standard prices.

The year also saw the launch of BPC Club, a new programme designed to offer a series of exclusive advantages to the shareholders of Banca Popolare di Cividale.

In addition to existing offers for our banking products, shareholders were able to obtain a large number of products and services offered by members of the local community under special conditions: shopping, dining, travel, well-being, health, cars, leisure time and much more. All customers must do to gain access to discounts is present their personal BPC Club cards to participating merchants.

All participating merchants are published on the dedicated website, soci.civibank.it.

Yet it is not only initiatives aimed at shareholders that bear witness to the Bank's pursuit of the mutual objectives envisaged in its 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.

Social responsibility

Our Bank has always contributed to the sustainable development of the community through an approach to management aimed at strengthening social cohesion. The local focus that has always characterised our Bank binds us to local communities through 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.

A focus on the local community and solidarity are the founding values of cooperative banks, yet they are also the values that inspire our Bank'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 development by supporting its most deserving endeavours. During 2016, Banca Popolare di Cividale continued to support local entities and associations so that they could keep doing their work on behalf of the community. The reporting year marked the significant milestone of 130 years of history for our Bank, an anniversary that fills us with pride and that has a truly special meaning for Banca Popolare di Cividale, which has made development of the community its mission. This important anniversary was celebrated by intensifying the Bank's support for local associations, gatherings and events that contribute to the social, cultural and athletic development of the community.

A total of €182 thousand in charitable donations were made to schools, organisations, athletic and cultural associations and societies of various kinds operating in the region.

An additional €250 thousand was donated to local entities to which the Bank provides treasury service.

Accordingly, the total amount of donations to socially relevant initiatives came to €432 thousand in 2016.

It should also be noted that Banca Popolare di Cividale invested €470 thousand in the community to sponsor cultural, educational and social 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 Bank's annual social commitment in the community came to €902 thousand.

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

Mention should be made of Banca Popolare di Cividale’s participation 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.

Banca Popolare di Cividale also renewed its support for Festival èStoria, an event organised each year in Gorizia involving renowned guests who speak about the great issues of the study of history.

Support was also provided for the organisation of the Near/Far Festival, held in Udine, involving discussions, debates, conversations, conferences, lessons, lectures, exhibits, shows and screenings aimed at analysing

ongoing processes of transformation in a globalised world, from an economic, social, cultural and geopolitical standpoint, in order to inquire into the reasons, mechanisms, meaning and prospects of such changes.
The art exhibit “Bacon and Not Drawing”, involving works by Francis Bacon, hosted by Portopiccolo Sistiana with support from Banca Popolare di Cividale, was also highly successful. Significant support was also provided for the organisation of the multi-media exhibit Fragments of Memories, conceived, designed and executed by the Cividale del Friuli Workers Society (SOMSI) as part of the project “Places of War Seen Through the Eyes of Peace”.
The restored veil of the blessed Benvenuta Bojani (13th-14th centuries) was presented to the public during the year, with a contribution from Banca Popolare di Cividale, as part of the long process of support for optimal exploitation of the local historic and artistic heritage. The saint's veil, housed by the Christian Museum of the Cathedral of Cividale, is one of the ducal city's most important Medieval treasures.
Support also continued for the initiative Carniarmonie, a series of prestigious musical events held in locations of rare beauty in Carnia, and the Sergio Gaggia Musical Association, which organises important musical events and seasons in the area.
Banca Popolare di Cividale supported the Udine Philharmonic Association, which in 2016 put on the opera *The Merry Widow* in major cities in the region. The symphonic orchestra “European Spirit of Youth Orchestra”, composed of very young musicians from over ten countries and coordinated by the School for Young Musicians of Trieste, also enjoyed considerable success in its summer tour. The project carried out in 2016, “Drums of Peace 2.0 / Trains of Europe”, supported by Banca Popolare di Cividale, aimed to use music to spread messages of solidarity and tolerance between peoples.
During the year, Banca Popolare di Cividale continued to support the cultural activities promoted by the Teatro Nuovo Giovanni da Udine Foundation, and in particular the theatrical review Child Theatre, which allows young theatre-goers and their families to experience and become passionate about the theatre, thus stimulating and developing their curiosity, participation and cultural growth. The Bank also contributed to the activity promoted by the Luigi Bon Foundation, the Giuseppe Verdi Municipal Theatre of Pordenone and the Giuseppe Verdi Opera Foundation of Trieste.
The Bank renewed its support for the Udine Cinematographic Expression Centre and the Authors Workshop Association, which are committed to the development of quality cinema and the re-discovery of community cinemas.
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.
In 2016 Banca Popolare di Cividale renewed its membership in the Foundation for Financial Education and Savings (FEDUF), an organisation formed at the initiative of the Italian Banking Association to promote financial education, in keeping with a broader concept of informed, active education of economic citizenship, and to develop and spread financial and economic knowledge within the country.
During the year, the Bank continued to support the Origins course organised by the MIB School of Management of Trieste, which provided an educational experience for descendants of Friulans and Julian-Dalmatians around the world, with the aim of fostering cooperation between the region's businesses and fellow natives of the region living in other countries, thereby strengthening professional and cultural ties. An important contribution was made to the Paolo Diacono of Cividale del Friuli Boarding School, for the project Studying in Friuli, carried out in cooperation with the Friulans in the World Association, which allows students descended from natives of the region now living abroad to study in our community, with the aim of strengthening ties with Friulan expatriates.
The conference organised in Udine in October on the prevention of money-laundering, promoted by the European Centre for Anti-Money Laundering Studies and Banca Popolare di Cividale, also met with great interest.
Local promotion is another of the Bank’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 2016 to organise the international event A Festive Air. In addition, the Bank renewed its support for the Friuli Venezia Giulia Committee of the National Pro Loco Union of Italy for the initiative Christmas at the Villa - Nativity Scenes at the Villa, Tour of Nativity Scenes in Friuli Venezia Giulia, Nativity Scene Competition at Elementary Schools and Preschools in Friuli Venezia Giulia, and for the Association of Managers of Alpine Shelters and Excursionists of Friuli Venezia Giulia and Cadore for the "Shelter Tour 2016", a project aimed at promoting tourism in mountainous areas within our territory.

The Bank also supported the event Festival Show, held in Cividale, a music and dance celebration that drew a large crowd of spectators interested in listening to big Italian artists performing alongside the country's top new musical entertainers.
In athletic endeavours, for the first time Banca Popolare di Cividale was main sponsor to the International Marathon of the City of Udine, an important foot race for which the starting line was in the city of Cividale del Friuli.
At Barcolana 2016, our Bank supported the Alfa Romeo boat, which won the world's biggest sailing regatta, held in Trieste in October. Our Bank is partnering with the A2 league basketball team Società Amici Pallacanestro Udinese APU-GSA and with Udinese Calcio on the hospitality project for its new stadium. The Bank was also one of the main sponsors of the 13th stage of the 99th Giro d'Italia, Palmanova-Cividale.
Banca Popolare di Cividale continued to play an active role in the areas of sport and free time, maintaining support for racing events (including the Friuli and Eastern Alp Rally, the Verzegnis-Sella Chianzutan race and the Cividale-Castelmonte hill climb race), 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. The Bank has also supported the Udine University Athletic Centre, which cooperates directly with the University of Udine.
In 2016 work continued on the Civibanca 2.0 Project to create the Banca Popolare di Cividale crowdfunding portal for local non-profits. As part of a project, which is meeting with ever-greater success, the Bank organised Crowdfunding Week, a series of meetings focusing on local associations to raise awareness of the crowdfunding portal and its potential.
The initiative A Vote That Counts a Lot and Costs Nothing continued. The Bank provided the additional sum of €70 thousand for the initiative, in the form of a donation to be allocated to the associations that proved able to make the best use of the portal www.progettocivibanca.it, the advantages of the Internet and social networks. The Civibanca 2.0 Project also featured prominently at the Sharitaly event - the annual meeting focusing on the collaborative economy held in Milan - and in case studies considered during a course held at the Catholic University of Milan.
Banca Popolare di Cividale remained committed to assisting local organisations by donating new defibrillators to governments in Prepotto, Povoletto, Attimis, San Pietro al Natisone and Campoformido (the previous beneficiaries were Tavagnacco, San Giovanni al Natisone, Pavia di Udine, Gemona, Grimacco, Pulfero, Drenchia and Remanzacco). Enthusiastic appreciation was expressed for the Bank's constant focus on local communities and its commitment to training on defibrillator use, through its coverage for the costs of the courses on the use of the live-saving device held by the Italian Red Cross for municipal volunteers.
As part of its corporate social responsibility efforts, Banca Popolare di Cividale launched the charitable fund-raising project Arredoniamo in cooperation with the company Natisa S.r.l. of Moimacco. The Children's Allergies and Lung Disease Association (ALPI), which cooperates with the Allergies and Pulmonology Ward of the Udine Teaching Paediatric Hospital Clinic, was named a the beneficiary of the initiative. ALPI needs to purchase a MyLabGamma ultrasound machine, a cutting-edge tool for running tests on children suffering from respiratory illnesses. The sum of €25,000 must be reached to proceed with the purchase of the machine. Fund-raising is moving forward on two fronts: Natisa S.r.l., a company that manufactures and sells furnishings and is attuned to corporate social responsibility issues, has promised to donate 10% of the proceeds of each order placed through the e-commerce site http://shop.legnotecnica.com to ALPI; those who purchase online will receive an additional 10% discount. For its part, Banca Popolare di Cividale has committed to supporting fund-raising for ALPI through the crowdfunding portal www.progettocivibanca.it, through which donations can also be offered by credit card or credit transfer. The initiative is also supported by the business association Confindustria Udine, which has expressed great interest in this charitable project, which proves the importance of cooperation between local businesses.
A conference entitled ConcrEticamente: Applied Ethics was organised in Udine in June to coincide with the 130th anniversary of the foundation of Banca Popolare di Cividale. The neologism "concrEticamante" (a combination of the Italian words for "concrete" and "ethically") served as the common thread that tied together the Bank's local initiatives celebrating this important anniversary. This also extended to the conference on ethics applied to human economic and social activities, featuring a prominent contribution by renowned economist Stefano Zamagni, lecturer at the University of Bologna and member of the Pontifical Academy of the Sciences, chosen by Pope Francis. The event also involved Luigi Alici, of the University of Macerata, who spoke about ethics in social endeavours, and Luca Grion, of the University of Udine, who discussed ethics in sports.

For the 2016 Christmas holidays, Banca Popolare di Cividale decided to continue to donate the sum spent each year on personal organisers and year-end gifts to local associations, organisations and schools committed to important projects focusing on the social and cultural development of the community.
Please refer to the Banca Popolare di Cividale's forthcoming 2016 Social Responsibility Report.

Main aspects of commercial activity

Sales and marketing policy

In 2016 the Bank continued to implement its sales and marketing policy, focusing on rationalising its product catalogue and implementing commercial initiatives aimed at helping bank branches reach their targets within the framework of direct, transparent relations with their customers. The Bank 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 Bank 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 and service products

The Bank's diversified range of current account solutions, aimed at satisfying customers' specific needs, contributed to increasing the number of new customers who decided to choose our Bank. The net balance of new accounts opened and accounts closed came to over 1,480 new current accounts opened, resulting in an increase in the Bank's customers of 2%.
In Internet banking services, following completion of the test phase, the new Internet banking application BPC Online was released in 2016. It has been available to consumers since January 2016 and has gradually been extended to other customers (professionals, enterprises and organisations), with the definitive discontinuation of the previous application, CiviB@nk. Significant technological innovation played a part in driving the increase in the use by individual and business customers of the Bank's Internet information and transaction service, available in a fully secure manner, 24 hours a day, directly from home or on the go from various devices (PCs, tablets and smartphones). At the end of the year, there were approximately 35,000 active users (+20% on the previous year). In addition, the number of active and passive CBI CiviB@nk multi-bank remote banking connections climbed to 3,745, an increase of 3.6%.
The security measures implemented continued to prove effective in 2016, as witnessed by the absence of fraud.
In the electronic payments sector, payment card distribution continued to perform well in 2016: CartaSi credit cards climbed to 20,100 active cards; CiviPay prepaid cards increased to 11,000; and the Bancomat® Maestro debit cards in issue reached 36,200, up by 3%.
The number of POS terminals installed with merchants reached 3,000, up by 9% on the previous year, with transaction volumes rising to €119.4 million (+21.8%).

Consumer credit

In 2016 the Bank continued to focus on maintaining credit offerings appropriate to the needs of households in order to ensure 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 Friuli Venezia Giulia. 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 additional measures supporting and facilitating access to home mortgage credit, the Primary Residence Mortgage Guarantee Fund (Law No. 147/2013) became operational. The programme also provides families with free government guarantees for mortgage loans for their primary residences.
Both mechanisms allow the amount of loans to be raised to 100% of the value of the property.
In order to aid families struggling to make their mortgage payments, the Bank also continued with policies aimed at facilitating mortgage renegotiation, including through the suspension of repayment of the principal portion of instalments for up to twelve months, both within the context of banking industry initiatives and through measures implemented on the basis of specific, justified individual situations.
The volume of mortgage loans granted for home purchases or renovations to consumer households amounted to €111 million (+27.3%).

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 2016 came to €26 million (+7%).

Investment/security products
In 2016 investment products maintained, and, in some cases, improved on, the positive performances recorded in 2015. The monetary policies pursued by the world's major central banks, and by the ECB in particular, as it continued with its market initiative centred on QE, facilitated the stabilisation of interest rates at very low levels, and at zero in Europe. The improvement in the economic conditions of the countries most affected by the severe recession of recent years, combined with the plentiful liquidity available within the financial system, drove investments in both bond and equity markets. Asset management products succeeded in capturing a significant share of this liquidity flow, especially in the investment funds and SICAV sectors, which recorded significant percent increases compared to 2015.
Investment life insurance policies also met with similar interest, posting gains of over 20% compared to the previous year. Yet there also continued to be strong demand for security, and thus for policies – particularly casualty insurance policies – continuing the growth trend of recent years. This demand was met through the distribution of the products offered by the Bank's partner, ITAS Mutua.
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 rate of return reached €244 million. Approximately 10% of such funds was raised through ContoGreen, a deposit account reserved solely for Internet-banking customers, primarily concentrated in large Italian metropolitan areas (Milan, Rome, Naples and Turin).

Loans to businesses
In 2016 initiatives aimed at facilitating access to credit by small and medium enterprises continued in order to mitigate the negative effects of the economic cycle and support the economic recovery.
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.
Mention should be made of the commencement of direct operations with the SME Guarantee Fund (Law No. 662/1996), which facilitates access to credit for SMEs through public guarantees, with costs borne by the Bank. During the year, new loans disbursed to businesses guaranteed by the Fund amounted to €16 million (+3.6%).
Further support for credit was provided by collaboration with the guarantee consortia system. New loans disbursed thanks to guarantees provided by the guarantee consortia for Friuli Venezia Giulia and Veneto exceeded €47 million, consistent with the previous year's levels.
The agreement with the European Investment Bank (EIB) allowed total additional resources of €24.8 million to be obtained (+4.7%) and used to provide financing to SMEs at competitive interest rates, thanks to the financial advantage conferred by the EIB.
The Bank's enhanced efforts to promote the various subsidised credit instruments made available by the region of Friuli Venezia Giulia yielded significant results, bringing additional public resources directly into various sectors of the economy.
The primary sector benefited from a total of €11.4 million disbursed drawing on the revolving funds for agriculture pursuant to Regional Law No. 80/1982.
Subsidised lending to industry, artisans, commerce and services showed a significant rise in the flow of new loans. In lending drawing on the Fund for the Development of SMEs and Services, in its second year of operation, following the completion of the first transaction in the region in 2015, the Bank submitted applications for new loans of €13.4 million (+377%), whereas in the management of the resources of the Revolving Fund for Economic Initiatives (FRIE) applications for new loans of €57 million were submitted (+863%).

Changes in the organisational structure and procedures
As a consequence of the decision reached at the end of 2015 not to renew the full IT outsourcing contract with the current partner, due diligence began to be performed on three national IT outsourcers in the first half of the year. This process involved the central organisational structure, with coordination by a consulting firm. The process, which was completed in September 2016, led the Board of Directors to select the firm Cse Consorzio

Servizi Bancari as its new IT partner. The migration project, launched in the fourth quarter of 2016, is expected to be concluded with migration to the new IT platform in October 2017.
Among the various activities, the project calls for a global review of internal processed aimed at achieving maximum efficiency, adopting the highest level of automation possible to allow the network to constantly improve its performance, with a particular focus on possible innovation in customer contact channels and relationship management.

Significant events during the year
The following is an account of the most important events that shaped the Bank's operations in 2016, in chronological and logical sequence.

Inspections by the supervisory authority
From 8 February 2016 to 17 June 2016, pursuant to Articles 54 and 68 of Legislative Decree No. 385/1993, the Bank of Italy conducted inspections of Banca Popolare di Cividale aimed at assessing its governance, management and monitoring of credit risk, with particular regard to the proper classification of exposures, the adequacy of the related provisions and an analysis of its financial situation.
Following the completion of the inspections, the Board of Directors passed the appropriate resolutions aimed at complying with all of the instructions and recommendations presented in the Inspection Report, which concludes without any finding in favour of imposing penalties.

Approval of the 2016-2018 Strategic Plan
The new 2016-2018 business plan was approved in June. The plan is credible and sustainable for the organisation and allows answers to be provided to the questions envisaged in the EBA guidelines on the definition of the business model. It is consistent with the system of constraints established by prudence, the competitive scenario and the supervisory authority. At the same time, it remains consistent with BPC's cornerstones: acting as a reliable partner for its customers, while supporting the community and employment.

Formation of CiviESCo S.r.l.
In June 2016 Banca Popolare di Cividale formed a new energy service company, CiviESCo, in which a 40% interest is held by Tep Energy Solution of Rome, which provides support in the form of technological know-how. The newly formed company's stated aim is to provide support in terms of the planning, technical, and financial aspects of energy efficiency projects, particularly in the public sector, thus overcoming the limits imposed by the "Stability Pact" and the resulting lack of resources. The investee was not yet operational at the date of preparation of the interim financial statements.

Appointment of the new general manager
On 6 July the Board of Directors appointed Federico Fabbro general manager, following the termination of the previous general manager's employment.

Subsequent events
Approval of the new organisational structure
In order to increase the operational efficiency and simplicity of the chain of command of the head office's organisational structure, the Bank revised its organisation chart, redistributing managerial responsibilities as part of its ongoing process of comprehensive transformation. Pending the complete migration of IT systems, operating processes continue according to the current configuration. The provisions of the set of existing internal regulations and circulars also remain in effect, along with the resulting operating powers.

With the exception of the foregoing, from the end of 2016 to the date of approval of this report there were no material events of a sort that would have a significant effect on either the financial performance and financial position of the Company or the representation thereof.

Operating performance in 2016

The net income for 2016 was €1,233 thousand, driven in part by financial income, which included the capital gain on the sale of a portion of the equity interest in Visa Europe held by ICBPI, relating to the sale of the interest in ICBPI itself closed in 2015.

More generally, the performance for the year is a reflection of the first signs of a recovery in the real economy. Indeed, credit dynamics were positive, with a significant improvement in new disbursements. Operating margins on business with customers were driven by robust net interest income and higher commission revenues.

Loan volumes declined slightly, mirroring conditions in the industry, amounting to €2,622,176 thousand, down by 2.3% on €2,683,711 at 31/12/2015. Total funding amounted to €3,528,523 thousand, essentially unchanged on 31/12/2015 (€3,530,293 thousand). New disbursements during the year exceeded €333 million overall. During the year, new loans to individuals reached €146 million (+27% on the previous year), whereas new loans to businesses climbed to €187 million (+58% on the previous year).

Direct funding, net of the component associated with institutional counterparties (Cassa di Compensazione e Garanzia), stood at €2,554,841 thousand, down by 0.3% compared to December of the previous year.

Analysis of main balance sheet aggregates and earnings results

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

For the purposes of this financial report, amounts payable to institutional counterparties (Cassa Compensazione e Garanzia) have been reclassified from "Due to customers" to "Due to banks" (€809,143 thousand at 31.12.2016 and €760,745 thousand in the comparative period).

ASSETS	31/12/2016	31/12/2015	Var %
Cash and cash equivalents	15,844	18,381	-13.8%
Financial assets held for trading	3,192	1,220	161.6%
Financial assets available for sale	1,335,563	1,164,689	14.7%
Financial assets held to maturity	32,529	32,716	-0.6%
Due from banks	52,226	40,385	29.3%
Loans to customers	2,622,176	2,683,711	-2.3%
Investments in associates and companies subject to joint	3,819	6,427	-40.6%
Property, plant and equipment and intangible assets (1)	85,239	92,296	-7.6%
Other assets (2)	120,818	128,192	-5.8%
Total assets	**4,271,406**	**4,168,018**	**2.5%**

(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".

LIABILITIES	31/12/2016	31/12/2015	Var %
Due to banks	1,328,119	1,167,164	13.8%
Direct funding from customers (1)	2,554,841	2,561,759	-0.3%
Financial liabilities held for trading	794	740	7.3%
Other liabilities	74,790	110,217	-32.1%
Specific provisions (2)	9,363	14,567	-35.7%
Shareholders' equity (3)	303,500	313,570	-3.2%
Total liabilities	**4,271,406**	**4,168,018**	**2.5%**

(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)."

Loans to customers

Total loans to customers amounted to €2,622,176 thousand at year-end, down by 2.3% compared to the end of 2015. In 2016 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 €146 million to households and €187 million to SMEs.

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

(thousands of euro)	31/12/2016	31/12/2015	Var.
Current accounts	269,191	312,781	-13.9%
Mortgage loans	1,391,191	1,419,551	-2.0%
Credit cards, personal loans and loans repaid by automatic deductions from wages	60,392	54,348	11.1%
Finance leases	205,438	220,716	-6.9%
Other	301,917	278,271	8.5%
Total performing loans	**2,228,129**	**2,285,667**	**-2.5%**
Bad debts	200,380	200,473	0.0%
Unlikely to pay	178,026	177,892	0.1%
Past-due loans	15,642	19,678	-20.5%
Total non performing loans	**394,047**	**398,043**	**-1.0%**
Total loans	**2,622,176**	**2,683,711**	**-2.3%**

Quality of customer loans - breakdown

A. ON-BALANCE-SHEET EXPOSURES	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure	Hedging	Net exposure	Hedging
				dic-16	*dic-16*	*dic-15*	*dic-15*
A.1 Bank Group							
Bad loans	493,054	292,674		200,380	**59.4%**	200,473	57.67%
Unlikely to pay	226,375	48,349		178,026	**21.4%**	177,891	22.69%
Past-due loans	17,872	2,230		15,642	**12.5%**	19,678	17.41%
Other assets	2,238,974	X	10,845	2,228,129	**0.48%**	2,285,668	0.74%
TOTAL A.1	**2,976,275**	**343,253**	**10,845**	**2,622,176**	**11.9%**	**2,683,711**	**11.4%**

Credit quality was affected by the ongoing recession. At year-end, total non-performing loans, net of adjustments, amounted to €394,047 thousand (after adjustments of €343,253 thousand), marking an increase of 4.2% on €329,444 thousand in the previous year.
In further detail, bad debt positions, net of adjustments, stood at €200,380 thousand, compared to €200,473 thousand in the previous year, accounting for 7.6% of the total loan portfolio, with a coverage ratio of 59.4%. Other doubtful positions totalled €193,667 thousand, down by 1.98% from €197,569 thousand at the end of 2015, accounting for 7.4% of the total loan portfolio. Of this amount, €178,026 thousand (compared to €177,891 thousand at the end of December 2015) consisted of unlikely to pay positions and €15,642 thousand (compared to €19,678 thousand at the end of 2015) of past-due positions. Due to the reduction of the danger rate and the historical default rate, the generic reserve for performing loans resulted in a decline in the coverage ratio for performing loans. The overall coverage ratio for non-performing positions came to 46.6%.

Customer funding

Direct and indirect funding reached €3,528,523 thousand at the end of 2016, essentially unchanged on the previous year.

	31/12/2016	31/12/2015	VAR	VAR %
Direct funding	2.554.841	**2.561.759**	(6.918)	-0,3%
Due to customers	2.230.634	2.086.029	144.605	6,9%
Debt securities issued	324.206	475.730	(151.523)	-31,9%
Indirect funding	973.682	**968.534**	5.149	**0,5%**
Assets under administration	221.780	248.175	**(26.395)**	-10,6%
Assets under management	751.902	720.359	**31.544**	4,4%
Total funding	**3.528.523**	**3.530.293**	**(1.770)**	**-0,1%**

Direct funding

Direct funding from the Bank's customers comprises item 20 “Due to customers” and item 30 “Debt securities issued” on the liabilities side. At year-end, the aggregate amounted to €2,554,841 thousand, down by 0.3% compared to 31 December 2015.

Direct funding from customers – figures at 31 December 2016 in thousands of euros

	31/12/2016	31/12/2015	VAR	VAR %
Direct funding	**2,554,841**	**2,561,759**	**(6,918)**	**-0.3%**
Due to customers	2,230,634	2,086,029	144,605	6.9%
Debt securities issued	324,206	475,730	(151,523)	-31.9%

The aggregate may be broken down into “Debt securities issued” (12.7%) and “Due to customers” (87.3%). The aggregate “Due to customers”, already net of the component relating to institutional customer deposits, as described above, was down by 0.3%.

Breakdown of "Due to customers" in thousands of euros

Breakdown	31/12/2016	31/12/2015	%
Current accounts and demand deposits	1,628,732	1,573,078	3.5%
Time deposits	243,986	284,813	-14.3%
Other borrowings	-	-	-
Other payables	357,916	228,138	56.9%
Total	2,230,634	2,086,029	6.9%

An analysis of the trends that shaped the performance of the components of amounts due to customers shows growth of current accounts and a decline in time deposits. The component "Other payables" increased due to the sale to third parties of senior notes issued in the Civitas1 securitisation.

Breakdown of "Debt securities issued" in thousands of euros

Breakdown	31/12/2016	31/12/2015	%
Bonds	295,892	443,934	-33.3%
Other	28,314	31,796	-11.0%
Total	324,206	475,730	-31.9%

Indirect funding and asset management

Indirect funding, which comprises assets under management and administration, came to €973,682 thousand at the end of 2016, a decrease of 0.5%.

Indirect funding from customers – figures at 31 December 2016 in thousands of euros

	31/12/2016	Comp. %	31/12/2015	Comp. %	VAR %
Assets under management	**751,902**	**77.2%**	**720,359**	**74.4%**	**4.4%**
investment funds and ICVCs	414,207	42.5%	390,252	40.3%	6.1%
insurance savings products	125,344	12.9%	99,743	10.3%	25.7%
portfolio products	212,351	21.8%	230,364	23.8%	-7.8%
Assets under administration	**221,780**	**22.8%**	**248,175**	**25.6%**	**-10.6%**
Total indirect funding	**973,682**	**100.0%**	**968,534**	**100.0%**	**0.5%**

An analysis of the components of indirect funding shows that assets under management came to €751,902 thousand at 31 December 2016, up by 4.4% 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 77.22% of total indirect funding at the end of 2016. In further detail, the securities- and funds-based portfolio management schemes operated by the Bank came to €212,351 thousand at 31 December 2016, down by 7.8% compared to the previous year. The bancassurance component increased by 25.7% compared to the previous year to reach €125,344 thousand, whereas investment funds and investment companies with variable capital stood at €414,207 thousand, up by 6.1% compared to 31 December 2015.
Assets under administration decreased by 10.6%, or €18,013 thousand, compared to the previous year.

Interbank market activities

At 31 December 2016, the Bank's fund-raising and lending activity on the interbank market stood at a net debtor position of €1,260,049 thousand (compared to a net debtor position of €1,108,398 thousand at 31 December 2015).

Interbank position	31/12/2016	31/12/2015	Assolute	Var %
Cash and cash equivalents	15,844	18,381	(2,537)	-13.8%
Loans to banks	52,226	40,385	11,841	29.3%
Due to banks	(1,328,119)	(1,167,164)	(160,955)	13.8%
NET INTERBANK POSITION	**(1,260,049)**	**(1,108,398)**	**(151,651)**	**13.7%**

Finance

Management of the Bank'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 €2,398 thousand, compared to €480 thousand at the end of the previous year, and consisted largely of debt securities. 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	31/12/2016	31/12/2015	%
Debt securities	2.107	66	3110,1%
Equity securities and UCIs	375	391	-4,0%
Trading assets	**2.482**	**457**	**443,6%**
Financial deriatives	710	764	-7,1%
Financial assets held for trading	**3.192**	**1.220**	**161,6%**
Financial liabilities held for trading	794	740	7,3%
Net financial assets/liabilities held for trading	**2.398**	**480**	**399,2%**

Financial assets available for sale

Financial assets available for sale amounted to €1,335,563 thousand, compared to €1,164,689 thousand in December 2015. Breaking down the total at 31 December 2016, €1,279,257 thousand consisted of debt securities (primarily government bonds of €1,200,396 thousand and bank bonds of €78,861 thousand) and €20,602 thousand 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 €32,529 thousand 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, below is a breakdown of exposures of this nature held by Banca Popolare di Cividale as at 31 December 2016. 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 Bank's exposure to sovereign credit risk by carrying amount, broken down by type of instrument.

Exposure to sovereign debt - book value	Italy
Financial assets available for trading	
- Debt securities	2,060
Financial assets available for sale	
- Debt securities	1,200,396
Financial assets held to maturity	
- Debt securities	22,119
Total	**1,224,575**

Liquidity and the proprietary securities portfolio

Brexit, the election of Trump as U.S. president and the referendum against constitutional reform in Italy were all important events that had a significant influence on the course of financial markets in 2016. The slight improvement in the macroeconomic scenario in the Euro Area and expectations of new tax policies in the U.S. resulted in an increase in European government bond yields. The Italian domestic political crisis caused Italian government bonds to underperform German bonds with identical maturities.

Despite this highly uncertain scenario, the proprietary portfolio continued to reach its planned targets in 2016, providing an important contribution to both net interest income and operating revenues. Exposure to interest rate risk was further reduced. The absence of government positions with residual maturities of more than five years brought the portfolio's average duration to less than two years at the end of the year. Available-for-sale (AFS) financial assets came to €1,336 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 €33 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.

The restructuring of CIVITAS 2 – SME was completed in October through the sale to the vehicle of an additional portfolio of performing loans to SMEs. This allowed an increase in the level of senior ECB-eligible bonds, and thus an improvement of the Bank's liquidity profile.
At 31 December 2016 liquidity reserves eligible for refinancing operations with the European Central Bank amounted to €1,516 million, with one-month net liquidity reserves of €285 million and a liquidity coverage ratio significantly above the regulatory limits. Refinancing with the European Central Bank is represented by participation in the TLTRO II auctions.
Favourable conditions on the securitisation market – above all for securitisations having as their underlying residential mortgage loans – were exploited for the sale on the secondary market of an additional senior tranche of the Civitas 1 – RMBS securitisation.

Financial assets and liabilities held for trading	31/12/2016	31/12/2015	Change %
Debt securities	2.107	66	3092,42%
Equities and Quotas of UCI	375	391	-3,99%
Derivative financial instruments with positive fair value	710	763	100,00%
Total assets	**3.192**	**1.220**	**161,6%**
Financial assets available for sale	**-**	**-**	**0,0%**
Debt securities	1.279.257	1.113.812	14,85%
Equities and Quotas of UCI	56.306	50.877	10,67%
Total assets	**1.335.563**	**1.164.689**	**14,7%**

Property, plant and equipment and intangible assets
Property, plant and equipment amounted to €81,271 thousand, down by 2% compared to 31 December 2015. The details are set out below.

Used in operations	31/12/2016	31/12/2015	Change %
Land	4,933	4,933	0.0%
Buildings	68,706	69,568	-1.2%
Movables	4,220	4,784	-11.8%
Electrical plant	640	871	-26.5%
Other	1	2	-66.7%
Totale Property and equipment used in operations	**78,501**	**80,159**	**-2.1%**
Investment property	-	-	-
Land	2,770	2,770	0.0%
Total investment property	**2,770**	**2,770**	**0.0%**
Total	**81,271**	**82,929**	**-2.0%**

The intangible assets on the books at 31 December 2016 amounted to €3,968 thousand, compared to €9,367 thousand at 31 December 2015. The change was primarily attributable to goodwill, which fell from €9,136 million to €3,796 thousand due to the recognition of an impairment loss in the income statement. The impairment test conducted on the goodwill carried in the balance sheet showed a need to write down goodwill by €5,340 thousand. The reasons for the above impairment loss lie in the combined effects of the prolonged economic recession and the uncertain prospects of a recovery, which had a particular influence on the Bank's areas of operation. The results of the analysis conducted to determine the recoverable amount of the CGU referring to the full scope of the Bank indicated a considerably lower contribution to cash flow generation – over a significant time horizon – than considered when estimating the original cash flows.

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.

Shareholders' equity and capital adequacy

At year-end, shareholders' equity, including the net income for the year, amounted to €303,500 thousand. 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 €304,782 thousand as at 31 December 2016.

The level of own funds ensures compliance with capital requirements under applicable regulations. Risk-weighted assets came to €2,120,818 thousand.

Capital ratios were as follows:

- ✓ the phased-in **Common Equity Tier 1** ratio was 13.4% (13.0% at 31/12/2015);
- ✓ the phased-in **Tier 1 ratio** was 13.4% (13.0% at 31/12/2015);
- ✓ the phased-in **Total Capital ratio** was 14.4% (14.6% at 31/12/2015).

These ratios are far above the minimum levels established by the supervisory authority for Banca Popolare di Cividale within the framework of SREP and put the Bank at the top of the Italian banking industry.

Art. 136 of Directive 2013/36/EU (Capital Requirements Directive, CRD4) also established an obligation for national authorities to define a countercyclical capital buffer with effect from 1 January 2016. This ratio is revised with quarterly frequency. The European regulation was implemented in Italy by Bank of Italy Circular No. 285/2013, which contains specific provisions on this subject, and is applicable at both the individual and consolidated level. The Bank of Italy, as the authority designated to adopt macro-prudential measures in the banking sector, decided to set the countercyclical buffer (relating to exposures to Italian counterparties) for 2016 at 0%.

Financial performance

The results for the period are illustrated below in condensed, reclassified form, according to the presentation criteria deemed best suited to representing operating performance. The aggregations and reclassifications applied with respect to the items of the tables envisaged in Bank of Italy Circular No. 262/05 are detailed in the notes to the tables.

INCOME STATEMENT DATA (thousands of Euro)	**31/12/2016**	**31/12/2015**	**Var %**
Net interest income	60.979	65.285	-6,6%
Net commissions	23.918	22.683	5,4%
Dividends	1.413	1.015	39,3%
Net trading income	15.058	80.850	-81,4%
Other operating income (expenses) (4)	(272)	(236)	15,1%
Operating income	**101.096**	**169.596**	-40,4%
Personnel expenses	(40.169)	(40.657)	-1,2%
Other administrative expenses (2)	(28.482)	(30.704)	-7,2%
Net impairment/write backs on property, plant and equipment and intangible assets (3)	(2.502)	(8.179)	-69,4%
Operating cost	**(71.153)**	**(79.540)**	-10,5%
Income (loss) from operating	**29.943**	**90.056**	-66,8%
Charges/write-backs on impairment of loans	(22.052)	(55.410)	-60,2%
Charges/write-backs on impairment of financial assets	(2.359)	(4.983)	-52,7%
Goodwill impairment and Profit (loss) on equity investments (1)	(5.858)	(10.049)	-41,7%
Net provisions for risks and charges	858	(5.578)	-115,4%
Income (loss) before tax from continuing operations	532	**14.036**	-96,2%
Tax on income from continuing operations	701	10.017	-93,0%
Net income for the period	**1.233**	**24.053**	**-94,9%**

(1) Impairment of equity investments measured at equity includes 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" (€7,213 thousand in 2016 and €7,306 thousand in 2015);

(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 operating income/expenses net of the reclassifications presented above.

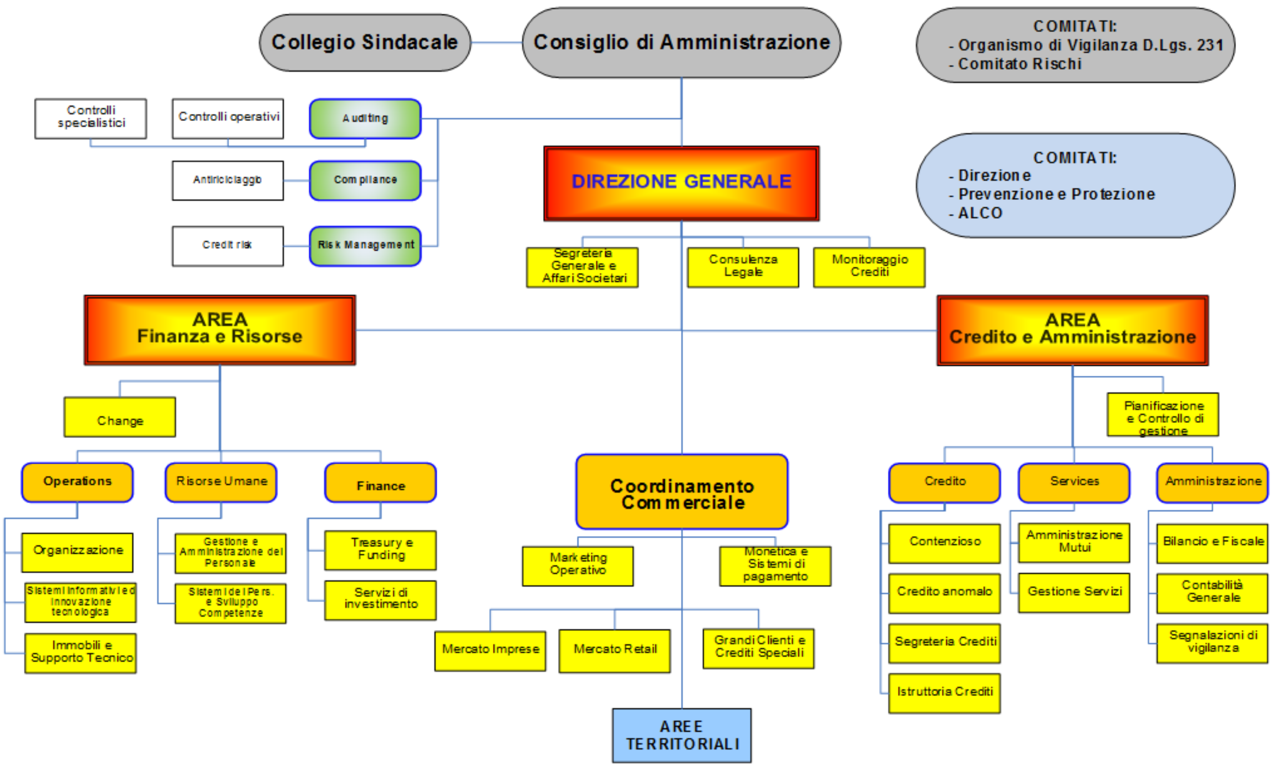
Net interest income amounted to €60,979 thousand, down by 6.6% from €65,285 thousand in 2015. Net interest income on business with customers was stable, primarily due to the effect of repricing measures affecting funding. The commercial spread improved to 2.0%, despite increasing competitive pressure on the rates of return on assets, while commercial loans remained essentially stable. The change was thus primarily attributable to the carry trade component relating to the shift in the composition of the securities portfolio.

Net commission income amounted to €23,918 thousand, up by 5.4% on the previous period, driven by the performance of the commission income generated by the bancassurance area, which improved by 48%. Commissions on payment systems also recovered (+6%), whereas commissions on the management of current accounts declined (-2%).
Net trading income amounted to €15,058 thousand, compared to €80,850 thousand in the comparative period, and included an earn-out of €8,190 thousand generated by the sale (by ICBPI) of Visa Europe, whereas the remainder referred to gains realised on proprietary securities. It bears emphasising that comparison between 2016 and the previous year is difficult since the 2015 figure includes non-recurring items (€66,486 thousand) relating to the sale of the equity interest (4.44%) in ICBPI.
Operating revenues amounted to €101,096 thousand, down by 40.4% from €169,596 thousand in the previous year.
Operating expenses totalled €71,153 thousand, compared to €79,540 thousand in the comparative period, and included €4,571 thousand of non-recurring expenses associated with the resolution process for four Italian banks (Banca Popolare Etruria e Lazio, Banca Marche, CariFerrara and CariChieti) initiated in November 2015 and the costs of contributions to the Interbank Deposit Protection Fund of €804 thousand. Net of the non-recurring components, costs declined by 4.1%. Personnel expenses reached €40,169 thousand, whereas other administrative expenses amounted to €28,482 thousand. Net adjustments to property, plant and equipment and intangible assets came to €2,502 thousand.
Net operating income was €29,943 thousand, compared to €90,056 thousand in 2015.
Net impairment losses on loans and other financial assets totalled €22,052 thousand, with a loan loss rate of 84 basis points, with the clear objective of significantly improving the overall level of coverage of non-performing loans, which stands at 46.6%. Net impairment losses on financial assets amounted to €2,359 thousand and referred to impairment losses on equity securities and funds classified to the AFS portfolio.
Net provisions for risks and charges amounted to net releases of €858 thousand and included releases of €1 million from provisions set aside in previous years to cover suits brought by former employees, on the basis of the judgements of the first instance, which resulted in re-assessment of the provisions carried to cover the risk of an adverse outcome.
More conservative assumptions regarding the development of the macroeconomic scenario and the industry – in light of the persistent risks surrounding the prospect of consolidation of the current recovery – entailed the recognition of **impairment of goodwill** of €5,340 thousand, on the basis of the impairment test conducted at the end of the period on the goodwill carried in the balance sheet (€9,136 thousand at 31 December 2015), and **impairment of equity investments** of €518 thousand, attributable solely to the impairment of the equity investment in Acileasing S.p.A.
Income before tax from continuing operations thus amounted to €532 thousand. Income taxes for the year came to a positive €701 thousand.
Net income for the year thus was €1,233 thousand.

Statement of cash flows
Performance of main items of the statement of cash flows

a) Financial assets available for sale (-€173.4 million); the change was largely due to the purchase of debt securities.
b) Loans to customers (€42.1 million); the change was primarily the result of the decrease in current accounts and mortgage loans to customers.
c) Due from banks on demand (+€13.4 million); the change was primarily due to the increase in demand bank deposits;
d) Due from banks – other (-€25.3 million); the change was primarily due to the increase in the mandatory Bank of Italy reserve;
e) Due to banks on demand (+€16.2 million); the change was primarily due to the increase in current accounts and sight deposits;
f) Due to banks: other (+€96.4 million); the change was primarily due to the increase in current accounts and term deposits;
g) Due to customers (+€193.0 million); the change was primarily due to transactions with the Cassa di Compensazione e Garanzia and the representation in the financial statements of the sale to third parties of the senior notes issued in the Civitas1 mortgage loan securitisation;
h) Debt securities in issue (-€151.6 million); the change was due to the redemption of bonds in issue.

Organisational structure



The organisational structure of Banca Popolare di Cividale S.c.p.A. is as follows:

- ✓ senior management;
- ✓ committees;
- ✓ areas;
  - sectors;
  - functions;
  - staff functions;
  - line functions.

Strategic management of the Bank'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, offering 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.

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.

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 maturities.

ACIRENT S.p.A.
The company operates in the short-term rental sector and holds the Herz L.t.d. licence for Friuli Venezia Giulia and part of eastern Veneto. Airport rental stations (Treviso and Ronchi dei Legionari) were both operated under an agency scheme, whereas city offices are operated under franchise arrangements (Udine, Trieste, Pordenone and Feltre). The termination of the agreement between Hertz Ltd and Ryan Air, which resulted in a significant decline in operating margins in 2016 and part of 2017, entailed a switch late in the year of the management of Ronchi dei Legionari airport from agency to franchising, to restore balance to the economic relations between the parties. 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 (garages, roadside assistance, logistical support, etc.).

CiviESCO SRL
CiviEsco is a non-capital intensive partnership launched in 2016 to support energy efficiency in the private and regional public sector through the formation of business networks. The company is owned by Banca Popolare di Cividale and TEP Energy Solutions srl, one of the top private ESCOs in Italy.

Risk management and monitoring
Risk management
Banca Popolare di Cividale takes a particularly conservative approach to risk management, implemented within a specific organisational framework consisting of internal rules, operating procedures and control units, structured 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 accordance with supervisory regulations, the Bank has developed and standardised specific risk management processes broken down into various logical phases: determination of the risk appetite, assumption of risk, drafting of risk management and control policies, definition of limits, measurement of risk, monitoring and reporting, stress tests and critical situation management.
Risks are primarily identified and their significance assessed within the framework of the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), which in accordance with prudential regulations relate to what are known as "first and second pillar obligations". The significance of the risks to be assessed is determined by considering both supervisory regulations and specific company considerations such as the products and services offered to customers, the scope and characteristics of business with associated parties in respect of company operations, the volumes of financial aggregates and the corresponding capital requirements, the markets of reference and vulnerability to the economic situation.
The risk appetite, an important parameter to be referred to in drawing up the strategic plan and a logical foundation for planning, is determined for the Bank's significant risks when defining the Risk Appetite

Framework (RAF), in a manner that takes account of existing prudential rules, the business model adopted, the Bank's core funding and lending methods and the ability of control units to monitor and measure risks.
With regard to the Risk Appetite Framework (RAF), an outline has been prepared and introduced, including a definition of the risk appetite, tolerance thresholds, exposure limits, risk governance policies and the processes of reference for setting 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 Board of Directors. The process requires a high level of consistency and thorough reconciliation of the RAF, business model, strategic plan, ICAAP, ILAAP, budgets, company organisation and internal control system. The Board of Directors reviews the system of risk targets at least annually and then updates it, when the requirements for so doing have been met.
A clear identification of the risks to which Banca Popolare di Cividale is potentially exposed (the "risk map") represents the essential foundation for an informed assumption and effective management of such risks.
Given the Bank'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 (country risk, transfer risk and securitisation risk), with the addition of compliance risk, money-laundering risk and real-estate risk.
At the end of the year, the exposure to the various risks was consistent with the risk appetite defined by the Board of Directors and with risk assumption and management policies.

Credit risk
In accordance with its mission and business model, the Bank is primarily exposed to credit risk, which remains at historically high levels, although there are concrete signs of improvement at the level of annual performance.

Concentration risk
Exposure to concentration risk, at the level of both individual counterparties and groups of customers related by business segment or geographical area, is modest and consistent with the Bank's current targets.

Market risk (including sovereign risk)
The portfolios classified as held for trading and the associated market risk profile are modest in extent. The current composition of assets entails an exposure to sovereign risk related to the size of the portfolio invested in Italian government securities and, to a lesser extent, in securities issued by banks, nearly all of which are classified as AFS. The exposure to the Italian Republic changed at the annual level as a function of the size of the portfolio, which increased temporarily in the second quarter and fell in the second half of the year. Italian government securities remain exposed to the elements of volatility typical of the market. With respect to the interest rate risk and price risk associated with the securities in portfolio, the greatest risk is represented by a possible increase in short-term rates, which would entail a decline in net interest income. By contrast, a rise in medium-to-long term interest rates would result in a depreciation of the values of the portfolios and a decline in the unrealised component. This risk is mitigated by the relatively short duration of the Bank's proprietary portfolio.

Operational risks (including IT risk)
Operational risk is inherent in banking business and is associated with all organisational and production processes. Consequently, all processes carried out by the Bank generate such risk. Exposure to operational risks remained essentially constant over the course of the year, in terms of both the number and type of events and the amount of the operating losses sustained. Exposure to IT risk is consistent with the Bank's strategic orientation.

Interest-rate risk
Considering the interest rate levels witnessed during the year and the continuation of the European Central Bank's monetary policy, the Bank's exposure to instantaneous rate shocks remained modest throughout the year. Internal capital, calculated according to the regulatory method, increased in both ordinary conditions and stress scenarios. This means that internal capital for the interest-rate risk inherent in the banking book was nil; compliance was maintained for both the alert level established by supervisory regulations and the prudential limits set in internal regulations.

Liquidity risk
The Bank's liquidity situation did not present any particular critical issues during the year, despite the complex market scenario reflecting existing European regulations, bail-in rules and increasing reputational risk for the banking industry, tied to the failure of several Italian banks. The main objective of the Bank's funding policies remains the pursuit of a structural balance between loans to customers and the various forms of funding (known as the "funding gap") through the diversification of funding sources by maturity, form, counterparty and market.

Residual risk
Residual risk is primarily generated by the lending process and represents the component of the inefficacy of credit risk measurement. Exposure to such risk in terms of "unexpected loss" stands at low levels.

Reputational risk
During the year there not found to be any elements that modified – or that might significantly modify in the near term – the positive perception of the Bank by the various groups of its stakeholders (customers, counterparties, shareholders, investors and supervisory authorities). The overall assessment of this type of risk is tied to the specific activity carried out by the banking industry at large and the many potential processes capable of generating reputational risks, in the current general scenario of distrust of the system by customers, relating to the crisis affecting several Italian banks and other elements of uncertainty in the industry and regulations.

Strategic risk
The level of exposure to strategic risk is moderate to high. This view is based on assessments relating in particular to factors external to the Bank, such as a complex economic scenario, low interest rates, a limited economic recovery and a troubled banking market at large, considering constantly changing European regulations and the reputational risk associated with the crisis affecting Italian banks.

Associated party risk
Exposure to associated parties decreased during the year and is fully consistent with the limits established by prudential regulations and company policies.

Securitisation risk
In reference to the risk associated with securitisation, the Bank has not undertaken any transfer of credit risk. Consequently, it is not exposed to the risk that "the economic substance of a transaction is not fully reflected in risk assessment and management decisions."

Property risk
The current or prospective risk of potential losses due to fluctuations in the value of the Bank's proprietary real-estate portfolio, or to the reduction of the income generated by that portfolio, remains at modest levels.
Excessive leverage risk
The leverage indicator falls within the range of values deemed normal at the company level and far exceeds the minimum level according to supervisory regulations.

Compliance risk
Exposure to compliance risk, in light of the increasing complexity of the regulatory framework and resulting obligations, is modest overall and consistent with the orientations expressed by company bodies. The risk management process is deemed adequate to the Bank's operational complexity and structure.

Money-laundering risk
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. The risk management process is deemed adequate to the Bank's operational complexity and structure.
In accordance with Art. 2428 of the Italian Civil Code, more extensive and detailed information about financial risk management objectives and policies and the Bank's exposure to risks is provided in Chapter E to the notes – Risks and hedging policies.
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 Chapter E of the notes, Risks and hedging policies.
With regard to the third pillar public disclosure, 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 3"). 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 available from the Bank's website, www.civibank.it.

The internal control system

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 Bank's Board of Directors plays a fundamental role in risk management, establishing strategic guidelines, approving risk management policies and assessing the degree of efficiency and adequacy of the internal control system, with particular regard to risk control.
For the preliminary and advisory phases of internal control and monitoring of company risk management, the Board of Directors relies on the internal Risk Committee, composed of a majority of independent directors. The Committee interfaces with the Bank's three control functions, whose work it analyses and whose adequacy it assesses.
The Board of Statutory Auditors also plays a central role, attending meetings of the Risk Committee and performing supervisory duties relating to the efficacy and adequacy of the risk management and control system, in addition to internal auditing of the functioning and adequacy of the overall internal control system.
As required by prudential supervisory regulations, the internal control system of a banking intermediary includes, in addition to line controls performed by operating units and incorporated into procedures (level-one controls), specific organisational units dedicated to level-two controls (Risk Management and Compliance) and level-three controls (Audit). These functions must be autonomous and independent of business units, instead reporting to the body charged with strategic supervision (the Board of Directors).
In particular, the three levels of control are as follows:

- ✓ 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;
- ✓ 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;
- ✓ 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.

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 Banca Popolare di Cividale 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 Board of Directors reiterate that they are reasonably certain that the Bank will remain profitable for the foreseeable future. Accordingly, the 2016 financial statements have been prepared on a going-concern basis, considering, among other factors, the adequate capital structure and prospective profitability outlined in the three-year plan approved in June 2016. It should further be noted that there is no basis for doubt on the specific issue of the going-concern principle in the Bank’s financial position or operating performance.

With respect to the disclosure concerning financial risks, such risks are analysed in the 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 Bank 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 has the mission of preventing and combating transactions involving the laundering of money and financing for terrorism. To this end, it ensures that IT and organisational procedures 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 Chapter E of the notes, Risks and hedging policies (Section 4 - Operational risks).

Administrative liability (Legislative Decree No. 231/2001)

In consideration of the provisions of Legislative Decree No. 231/01, the Bank adopted a specific Organisational Model, which was updated in 2015 to comply with the changes to the law.

That Model pursues 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 anti money laundering legislation.

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

Corporate governance report (Art. 123-bis, Legislative Decree No. 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 Bank has implemented an internal control system aimed at constantly monitoring the main risks associated with its core business, 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.

Banca Popolare di Cividale'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:

a) 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;

b) tier two/level one, 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

c) tier two/level 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 Bank'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.

In accordance with supervisory regulations, and in order to enhance coordination, interaction and transparency between the Board of Directors and company control functions, Banca Popolare di Cividale has established a specific committee within the Board of Directors known as the "Risk Committee", assigned an advisory and propositional role in supporting the Board of Directors with guidance and supervision of the Bank's overall internal control system and with determining risk management policies.

Tier-two/level 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 Chairman of the Board of Directors, in conjunction with the manager responsible for preparing financial reports, issues a specific report on the annual and interim financial statements attesting to the adequacy and effective application of the administrative and accounting procedures for the preparation of the annual and interim 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 annual and interim financial statements attesting to the adequacy and effective application of administrative and accounting procedures for the preparation of the annual and interim 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 through:

- ✓ analysis 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
- ✓ 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.

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 Bank regulations with the aim of ensuring the centrality of customers' interests, market integrity, the prevention of money-laundering and market abuse, the protection of the Bank, 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
At Banca Popolare di Cividale, 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 annual financial statements in a specific report, in addition to drafting a limited audit report on the half-yearly financial report.
At present, the firm EY S.p.A. has been engaged to conduct statutory auditing of the Bank.

Related-party transactions
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 substantive 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 lays down 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 2016 Banca Popolare di Cividale, in accordance with the combined provisions of the regulations cited above, adopted its Procedures for Transactions with Related Parties and Associated Parties (the "BPC RPT 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.civibank.it/investor-relations/corporate-governance/procedura-parti-correlate.

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 2016 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 2016 with related parties are part of the Bank's ordinary operations, are normally subject to market conditions and meet the requirement of mutual economic expedience in accordance with the internal procedures cited above.
Detailed information regarding related-party transactions, including information on the impact of outstanding transactions and positions with related parties on the Bank's financial performance and financial position, accompanied by tables summarising those effects, are set forth in Chapter H of the Notes.

Business outlook
The global economy is improving, but the outlook remains uncertain. Overall growth forecasts for the global economy are essentially stable, but the gap between the performances of advanced economies is widening. Among the advanced economies, the United States is benefiting from the net expansionary effect of the new Trump administration. However, the adoption and spread of policies restricting trade could have an unfavourable impact. The increase in long-term yields in the United States also extended to the other advanced economies, although to an extent thus far mitigated by the differences in monetary policies.
In Europe, growth gained momentum in the fourth quarter, with encouraging signs pointing to further improvement, and with inflation expected to rise further. However, risks to the outlook are oriented to the downside, primarily due to significant uncertainty of a political nature. The calendar of electoral events in 2017 in Europe (including Italy, in the event of early elections) is packed. This is the context for the ECB's decision to extend quantitative easing measures beyond the March 2017 endpoint.
The Italian economy continues to grow moderately. Accordingly to currently available indicators, the Italian economy continued to recover in the autumn, albeit moderately, driven by the resumption of investments and the expansion of household spending. Forecasts call for growth to continue over the next three years, driven by domestic demand and, as early as 2017, the gradual intensification of foreign demand. The economic scenario is based on the assumption that credit conditions will remain lax and that the implementation of the reform process initiated in recent years will not be interrupted.
Monetary policy continues to provide significant support to the Italian banking system, where market valuations are reflective of the high level of non-performing loans carried by banks and the resulting effects on their earnings prospects. The non-performing loans issue is central for most Italian banks, in light of the strident demands from regulators to draw up specific plans for managing NPLs to be implemented over a very short period. At the same time, concerns relating to certain specific critical aspects seem to have abated, benefiting the banking industry at large. This forms the background for the measures recently enacted by the Italian government aimed at supporting the liquidity and capital of Italian banks, which will initially be involved in the process of restructuring MPS.
In 2017 loans are expected to increase slightly, more robustly for the households component, driven by rates remaining at minimal levels and the improvement in the real-estate market, but loans to businesses could also grow once again, driven by the expected nominal GDP growth rate. Supply conditions should become looser

as non-performing loans progressively improve and funding conditions remain favourable. However, rates will remain low for a further extended period, with the resulting pressures on margins.
In the scenario outlined above, the profitability of Italian banks will remain modest and the focus will continue to be on two general areas of activity: the first of these is the management of non-performing loans and the reduction of the cost of credit risk, and the second is the improvement of operating efficiency, in a situation characterised by increasingly rapid technological development and the resulting need to take action to optimise physical structure and adapt service models. The banking industry's ROE is expected to rise slightly, while remaining below the cost of equity. During the year, management of the Bank will be focused on achieving the objectives set out in the 2016-2018 Business Plan, consistent with the guidelines indicated above, with the aim of ensuring sustainable profitability in the medium term.

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 EY 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	4,271,405,991	
Liabilities		3,967,905,834
Share capital		50,913,255
Share premiums		167,021,739
Reserves		66,985,633
Valuation reserves		17,346,530
Total liabilities and shareholders' equity (excluding Income for the period)		**4,270,172,991**
Net income (loss) for the period		**1,233,000**

The Board of Directors, in its resolution on the allocation of profit, in light of the notice from the Bank of Italy of 8 March 2017 concerning "2016 Financial Statements: Dividend Policy", in which the supervisory authority requests that intermediaries "adopt policies for the distribution of profits that allow current and prospective conditions of capital adequacy to be maintained, in accordance with the overall risks assumed", decided not to proceed with the distribution of dividends drawing on the net income in 2016.

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

Allocation of net income	31/12/2016
To Legal reserve	123,300
To Statutory reserve	1,109,700

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

	Amounts to 31/12/2016	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	66,985,633	1,233,000	68,218,633
Valuation reserves	17,346,530		17,346,530

Proposal for the identification and assessment of criteria for setting the price of shares pursuant to Art. 6 of the Articles of Association

Shareholders,
After having consulted with the Board of Statutory Auditors on the subject, this Shareholders' Meeting is also called upon to approve the Directors' proposal for setting the share premium to be paid in addition to the value of shares (par value), pursuant to Art. 6 of the Articles of Association.
In this regard, the Board of Directors:

with regard to:

- ✓ the upcoming transition to the market organised and managed by Hi MTF Sim S.p.A. for the trading of the ordinary shares of Banca Popolare di Cividale S.c.p.A.;
- ✓ the fact that prior to the commencement of such trading, pursuant to the rules for the order-driven segment of that market, the Bank must establish the opening price of trading (the reference price) and report it to the market management company Hi MTF Sim S.p.A., and that this price must be determined by the Board of Directors, with a favourable opinion from the Board of Statutory Auditors, on the basis of an appraisal report drafted by an independent expert meeting the established professionalism requirements.

Considering, furthermore:

- ✓ the moment of transition from the current trading system for the shares to the new market Hi MTF SIM S.p.A.;
- ✓ the substantive inapplicability of Art. 6 of the Articles of Association, as currently formulated, which will need to be revised soon;
- ✓ the fact that from entry into the new market share price will be determined by the trading value;
- ✓ the opinion of a major consulting firm;

having consulted the Board of Statutory Auditors, proposes to the Shareholders' Meeting that share value, as established by Art. 6 of the Articles of Association (composed of the par value of €3 and the share premium pursuant to Art. 2528 of the Italian Civil Code), be determined *per relationem*, adopting the price identified above for the commencement of trading on the new market Hi MTF Sim S.p.A. and then the price determined from time to time in the most recent transaction.

Cividale del Friuli, 22 March 2017
The Board of Directors

Board of Statutory Auditors' report on the financial statements of Banca Popolare di Cividale S.c.p.A. at and for the year ended 31 December 2016

Shareholders,
The Board of Statutory Auditors presents to you its report on its activity during the year ended 31 December 2016, 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 is composed of its chairman, Renato Bernardi, standing auditors Gianluca Pico and Pietro Cicuttini and substitute auditor Andrea Volpe.

* * *

The Bank's performance has been appropriately illustrated in the documents submitted to the Shareholders' Meeting, with an account of financial performance and financial position and the operating result achieved in 2016. The key events for the year have also been reported.

* * *

In performing its supervisory and control activity, the Board of Statutory Auditors complied with the law, supervisory regulations for banks, the circulars and communiques from the Bank of Italy, applicable legislation and the principles of conduct recommended by Italy's National Council of Accountants and Accounting Experts.
The Board of Statutory Auditors would like to emphasise that the frequency and methods 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. By participating in all meetings of the Board of Directors, the Board of Statutory Auditors was able to monitor the course of decisions and the ongoing evolution of the Bank, while also consistently reporting on its own activity.
Meetings with heads and/or liaisons at the Bank's various functions allowed the information necessary to the performance of the supervisory and control duties performed by the Board of Statutory Auditors to be obtained.
There was significant interaction with the heads of control functions (Internal Auditing, Risk Management, Compliance and Anti-Money Laundering), who provided the Board with access to the results of their activities and the reports prepared by their functions.
The Board of Statutory Auditors' participation in the Risk Committee allowed for the exchange, in accordance with supervisory regulations, of all information of mutual interest and the ensuing coordination for the performance of their respective duties.
During meetings with the external auditors, the statutory auditors also reviewed proper application of accounting and administrative principles and the best allocation and representation in the financial statements of elements with a material impact at the level of financial performance and financial position. The external auditors did not report any aspects deserving of mention and/or facts to be censured.
The Board of Statutory Auditors supervised the financial reporting process, the efficacy of the internal control systems, the statutory auditing of the annual accounts and the independence of the independent auditors.
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.

* * *

Significant events during the year
For further information about the significant events during the year cited below, refer to the Directors' report on operations:

Inspections by the supervisory authority
The Bank of Italy subjected Banca Popolare di Cividale to the customary periodic inspection, which was completed on 17 June 2016. The Board of Directors passed the appropriate resolutions to adopt the instructions and recommendations formulated in the Inspection Report, which concludes, as mentioned above, without the imposition of any penalties.

Approval of the 2016-2018 Strategic Plan

The new 2016-2018 Strategic Plan, which allows answers to be given to the questions set out in the EBA guidelines for defining the business model, was approved in June.

Formation of CiviESCo S.r.l.

In June 2016 Banca Popolare di Cividale formed an energy service company, CiviESCo, in which a 40% interest is held by Tep Energy Solution of Rome, which provides support in the form of technological know-how. Its objective is to support energy efficiency projects.

Appointment of the new general manager

On 6 July the Board of Directors named Federico Fabbro general manager.

* * *

Subsequent events

For further information about the significant events after the balance sheet date discussed below, refer to the Directors' report on operations:

Approval of the new organisational structure

As part of its ongoing comprehensive transformation, and in accordance with the new 2016-2018 Strategic Plan, which provides a better definition of the business model, the Bank revised its organisational structure and thus its organigram.

* * *

Related-party transactions

The Board of Statutory Auditors notes that, in respect of related-party transactions, the Board of Directors has adopted rules, pursuant to Art. 2391-*bis* of the Italian Civil Code and applicable legislation, that ensure "*the transparency and substantive and procedural propriety of transactions*."

The transactions in question are part of normal banking business and generally are subject to arm's length conditions and concluded in accordance with Art. 136 of the Consolidated Banking Act and supervisory regulations.

Information about the transactions concluded is provided in Section H of the notes.

* * *

Information about the activity performed

Compliance with the law and Articles of Association

We supervised compliance with the law, Articles of Association 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.

Having obtained adequate information about the business conducted and the most significant transactions from the standpoint of financial performance, cash flow 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 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.

Atypical or unusual transactions

There were no atypical and/or unusual transactions in 2016.

Complaints pursuant to art. 2408 of the Italian Civil Code

In 2016 the Board of Statutory Auditors did not receive any 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

To the extent of our competence, we supervised the organisational structure, acknowledging the changes made and planned and, on the basis of the information obtained from the various company functions, considering the Bank's size and complexity, it is our opinion that the organisational structure is essentially adequate. We agree with the need, as also perceived by the Bank, to continue with the process of adapting the organisational structure to the changed context in which the Bank finds itself and must operate.

Adequacy of the administrative and accounting system

We supervised the suitability of the administrative and accounting system and its ability to identify and properly represent operating events in the financial statements, and we may reasonable state, to the extent of our competence and on the basis of the information obtained from the independent auditors and the manager responsible for preparing financial reports, that the administrative and accounting system is adequate and reliable. In this regard, it should be noted that the manager responsible for preparing financial reports has certified "*the adequacy and effective application of administrative and accounting procedures for the preparation of the annual and interim financial statements and all other notices of a financial nature, as well as the correspondence between documents and accounting books and records*".

Risk management and monitoring

The Bank takes a particularly conservative approach. Its organisational system consists of a set of internal rules, operating procedures and control units, which is organised by integrating control methods at various levels. The organisational structure is intended to ensure that operating processes are efficient and effective, so as to safeguard the integrity of the company's assets, guard against losses, guarantee that information is reliable and complete and verify that business is conducted properly, in accordance with internal and external rules.

In compliance with supervisory regulations, the Bank has developed and codified specific risk management processes and launched a series of reporting measures to manage any critical issues.

It bears recalling that risk appetite – an important parameter for defining the strategic plan and for planning – is set by the Board of Directors when defining the Risk Appetite Framework (RAF).

With regard to the significance of risks, in accordance with prudential regulations, the Board of Statutory Auditors also supervised compliance with the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

Adequacy of the internal control system

The Board of Statutory Auditors assessed and supervised the adequacy of the internal control system. Refer to the corporate governance report prepared by the Board of Directors, which shows that the internal control and risk management system is adequate to the Bank's characteristics.

The supervisory activity performed by the Board of Statutory Auditors involved constant interaction with control functions (Internal Auditing, Risk Management, Compliance and Anti-Money Laundering) to supervise compliance with company rules and procedures and the adequacy and efficacy of the overall control system.

Control functions embarked on a process of sharing according to uniform, more thoroughly codified methods. This process, which also takes account of supervisory instructions, includes a review of reporting documents and is based on a uniform view of the criteria for analysis, with effective integration of the risk management process.

Attention should be drawn to the autonomy and independence of control functions, which in accordance with the company's organisational structure, report directly to the Board of Directors, thus ensuring that they enjoy the necessary autonomy from the other company units.

The Risk Committee plays a significant role within the control system, permitting the exchange with the Board of Statutory Auditors of all information of mutual interest and the necessary coordination for the performance of their respective duties.

In accordance with the proportionality principle, the Board of Statutory Auditors believes that there is room for further improvement, but that the internal control system is effective on the whole, while emphasising the importance of uniform, adequate and timely internal information flows.

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

The supervision and control function identified in Art. 6 of Legislative Decree No. 231/2001 has been assigned to the Board of Statutory Auditors, as indicated by the Bank of Italy.

The supervisory activity performed did not bring to light any critical issues relating to the operating and internal control activities carried out.

Independent auditors

The independent auditors, EY S.p.A., issued their report on the financial statements at and for the year ended on 31 December 2016 on today's date.

In their report, they give an unqualified positive opinion.

To the extent of their competence, the auditors expressed a positive judgment of the consistency of the report on operations.

During meetings with the independent auditors, the Board of Statutory Auditors was not informed of any aspects requiring mention and/or circumstances deserving censure.

Remuneration policies

The Board of Statutory Auditors has examined the document on the Bank's remuneration policies, approved by the Board of Directors on 5 April 2017. In this regard, on the basis of available information, the Board of Statutory Auditors believes that the principles set out in the document are not in conflict with the company's objectives, strategies and policies for prudent risk management.

Specific observations

Pursuant to Art. 2426 (1) (5) of the Italian Civil Code, the Board of Statutory Auditors reports that the assets recognised in the balance sheet do not include any start-up and expansion costs, research and development costs or capitalised advertising costs.

Pursuant to Art. 2426 (1) (6), of the Italian Civil Code, the Board of Statutory Auditors expressed its consent to the recognition of total goodwill of €3,968 thousand. The results of the impairment test were taken into account when measuring goodwill.

Tax dispute

On 20 December 2016 (see Chapter E), Section 4 of the notes), the Bank was served an auditors' report based on the audit conducted by the Italian Agency of Revenue – Regional Department for Friuli Venezia Giulia concerning 2013.

With the support of opinions from the qualified professionals retained, the Bank reasonably believes that it can prove that the allegations are baseless. The Board of Directors has not called for accruals to provisions, in the belief that the risk may be regarded as merely "possible".

The results of the impairment test

The impairment test conducted on the goodwill carried in the balance sheet indicated a need for an impairment loss on goodwill of €5,340 thousand. As in the previous year, the reasons for the above impairment loss lie in the combined effects of the prolonged economic recession and the uncertainty of a recovery. The results of the tests conducted to determine the recoverable amount confirm a much lower contribution to the generation of cash flow – for a significant period of time – than considered when measuring the original flows.

* * *

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 cited in this report.

The Board of Statutory Auditors confirms that the annual financial statements have been prepared in accordance with the IASs/IFRSs issued by the International Accounting Standards Board (IASB) and have been also drafted in compliance with the instructions issued by the Bank of Italy.

It is hereby confirmed that the manager responsible for financial reports has certified that the obligations have been fulfilled with respect to the annual financial statements, without any remarks and without identifying any problems and/or anomalies.

In their report, the independent auditors express an unqualified positive opinion, without objections and/or requests for information. 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 annual financial statements have been prepared in accordance with general preparation principles and measurement criteria consistent with accounting standards. The notes complete the financial statements with the necessary figures and information and provide extensive, detailed information.

In consideration of the foregoing, in light of the statements by the manager responsible for financial reports and the unqualified positive opinion, without objections and/or requests for additional information, expressed by the independent auditors, we hereby grant our consent to the approval of the annual financial statements at and for the year ended on 31 December 2016, and further acknowledge that the proposed allocation of net

income for the year put forth by the Board of Directors is not in contrast with the law, regulations or the Articles of Association.
In conclusion of this report, the Statutory Auditors express their gratitude to the Board of Directors, the management and all other company personnel for the competence, dedication and professionalism they have all shown.

Cividale del Friuli, 7 April 2017

The Board of Statutory Auditors
(Renato Bernardi)
(Gianluca Pico)
(Pietro Cicuttini)

Certification of the financial statements pursuant to Article 81-ter of Consob Regulation No. 11971 of 14 May 1999, as amended

1. We, the undersigned, Michela Del Piero, 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 financial statements during the period 1 January – 31 December 2016:

- ✓ 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 financial statements at and for the year ended 31 December 2016 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 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 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, 22March 2017

The Chairman of the Board of Directors
Michela Del Piero
[signed]

Manager responsible for financial reports
Gabriele Rosin
[signed]

Independent auditors' report on the financial statements of Banca Popolare di Cividale S.c.p.A. at and for the year ended 31 December 2016

EY
Building a better working world

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INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLES 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.

Report on the financial statements

We have audited the financial statements of Banca Popolare di Cividale S.c.p.A., which comprise the balance sheet as at December 31, 2016, and the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and the related explanatory notes.

Directors' responsibility for the financial statements

The Directors of Banca Popolare di Cividale S.c.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005 and art. 43 of Legislative Decree n. 136, dated 18 August 2015.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banca Popolare di Cividale S.c.p.A. as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005 and art. 43 of Legislative Decree n. 136, dated 18 August 2015.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on operations and of specific information of the Corporate governance report with the financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion on the consistency of the Report on operations and of specific information of the Corporate governance report as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the financial statements, as required by the law. The Directors of Banca Popolare di Cividale S.c.p.A. are responsible for the preparation of the Report on operations and of the Corporate governance report in accordance with the applicable laws and regulations. In our opinion the Report on operations and the specific information of the Corporate governance report are consistent with the financial statements of Banca Popolare di Cividale S.c.p.A. as at December 31, 2016.

Verona, April 7, 2017

EY S.p.A.
Signed by: Marco Bozzola, partner

This report has been translated into the English language solely for the convenience of international readers.

ANNUAL FINANCIAL STATEMENTS

Balance sheet

	Balance sheet - Assets		31/12/2016		31/12/2015
10	Cash and cash equivalents		15,844,098		18,381,417
20	Financial assets held for trading		3,191,925		1,220,268
40	Financial assets available for sale		1,335,562,968		1,164,689,305
50	Invetments held to maturity		32,528,761		32,715,895
60	Due from banks		52,226,040		40,384,674
70	Loans to customers		2,622,175,773		2,683,710,632
100	Investments in associates and companies subject to joint		3,819,320		6,427,469
110	Property and equipment		81,270,934		82,928,755
120	Intangible assets		3,968,085		9,367,321
	of which:				
	- goodwill	3,795,975		9,135,900	
130	Tax assets		78,775,271		78,984,982
	a) current	15,678,474		15,778,146	
	b) deferred	63,096,797		63,206,836	
	b1) of which convertible into tax credit (Law no. 214/2011)	*52,213,806*		*54,961,901*	
150	Other assets		42,042,816		49,207,070
	Total assets		**4,271,405,991**		**4,168,017,788**

	Balance sheet - liabilities and shareholders' equit		31/12/2016		31/12/2015
10	Due to banks		518,976,218		406,419,324
20	Due to customers		3,039,777,468		2,846,774,190
30	Debt securities issued		324,206,384		475,729,690
40	Financial liabilities held for trading		793,710		739,806
80	Tax liabilities		6,847,672		13,894,972
	a) current	1,683,103		5,128,327	
	b) deferred	5,164,569		8,766,645	
100	Other liabilities		67,941,850		96,322,372
110	Employee termination benefits		5,684,816		5,588,607
120	Provisions for risk and charges:		3,677,716		8,978,756
	b) other provisions	3,677,716		8,978,756	
130	Valuation reserves		17,346,530		23,308,118
160	Reserves		66,985,633		48,273,959
170	Share premiums		167,021,739		167,021,739
180	Share capital		50,913,255		50,913,255
200	Net income (loss) for the period (+/-)		1,233,000		24,053,000
	Total liabilities and shareholders' equity		**4,271,405,991**		**4,168,017,788**

Income statement

Income statement			31/12/2016		31/12/2015
10	Interest income and similar revenues		84,518,873		96,865,632
20	Interest expense and similar charges		(23,540,281)		(31,580,690)
30	**Net interest income**		**60,978,592**		**65,284,942**
40	Commission income		28,638,366		28,373,099
50	Commission expense		(4,719,944)		(5,690,543)
60	**Net commission income**		**23,918,422**		**22,682,556**
70	Dividends and similar income		1,413,131		1,014,637
80	Net trading income		173,022		604,290
100	Profit (loss) on disposal or repurchase of:		14,885,274		80,245,874
	a) loans	(146,385)		30,336	
	b) financial assets available for sale	15,321,385		81,322,521	
	d) financial liabilities	(289,726)		(1,106,983)	
120	**Total income**		**101,368,441**		**169,832,299**
130	Charges/write-backs on impairment of:		(24,410,910)		(60,392,656)
	a) loans	(22,052,049)		(55,409,577)	
	b) financial assets available for sale	(2,528,237)		(4,930,281)	
	d) other financial transactions	169,376		(52,798)	
140	**Net Financial income**		**76,957,531**		**109,439,643**
150	G&A expenses:		(75,864,275)		(78,666,947)
	a) personnel expenses	(40,168,939)		(40,656,531)	
	b) other administrative expenses	(35,695,336)		(38,010,416)	
160	Net provisions for risks and charges		858,064		(5,578,195)
170	Net impairment/write-backs on property, plant and equipment		(2,442,796)		(8,119,917)
180	Net impairment/write-backs on intangible assets		(59,310)		(59,310)
190	Other operating income (expenses)		6,941,080		7,070,048
200	**Operating cost**		**(70,567,237)**		**(85,354,321)**
210	Profit (loss) on equity investments		(518,149)		(49,000)
230	Goodwill impairment		(5,339,925)		(10,000,000)
250	**Income (loss) before tax from continuing operations**		**532,220**		**14,036,322**
260	Tax on income from continuing operations		700,780		10,016,678
270	**Income (loss) after tax from continuing operations**		**1,233,000**		**24,053,000**
290	**Net income for the period**		**1,233,000**		**24,053,000**

Statement of comprehensive income

		31/12/2016	31/12/2015
10	**Net profit for the year**	**1,233,000**	**24,053,000**
	Other income net of income taxes without transfer to profit and loss account		
40	Actuarial gains (losses) from defined benefit plans	(268,359)	80,287
100	AFS financial assets	(5,693,229)	12,101,746
130	**Total other income, net of income taxes**	**(5,961,588)**	**12,182,033**
140	**Comprehensive income (10 + 130)**	**(4,728,588)**	**36,235,033**

Statement of changes in shareholders' equity (2016)

Year 2016	Balance at 31/12/2015	Change in opening balance	Balance at 01/01/2016	Allocation of result for previous period: Reserves	Allocation of result for previous period: Dividends and other uses	Changes during the year: Changes in reserves	Equity transactions: New share issues	Equity transactions: Purchase of treasury stoc	Equity transactions: Extraordinary dividend distribution	Equity transactions: Change in equity instruments	Equity transactions: Derivatives on own shares	Equity transactions: Stock options	Total comprehensive income for the period	Shareholders' equity at 31/12/2016
Share capital	**50,913,255**		**50,913,255**	-	-	-	-	-	-	-	-	-	-	**50,913,255**
a) ordinary shares	50,913,255		50,913,255	-	-			-	-	-	-	-	-	50,913,255
b) other shares	-		-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**167,021,739**		**167,021,739**		-			-	-	-	-	-	-	**167,021,739**
Reserves	**48,273,959**		**48,273,959**	**18,711,675**	-	-	-	-	-	-	-	-	-	**66,985,633**
a) income	48,273,959		48,273,959	18,711,675	-			-	-	-	-	-	-	66,985,633
b) other	-		-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves:	**23,308,118**		**23,308,118**										**(5,961,588)**	**17,346,530**
Equity instruments	-		-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares			-					-						
Net income (loss) for the	**24,053,000**		**24,053,000**	**(18,711,675)**	**(5,341,325)**	-	-	-	-	-	-	-	**1,233,000**	**1,233,000**
Shareholders' equity	**313,570,071**		**313,570,071**	-	**(5,341,325)**	-	-	-	-	-	-	-	**(4,728,588)**	**303,500,157**

Statement of changes in shareholders' equity (2015)

Year 2015	Balance at 31/12/2015	Change in opening balance	Balance at 01/01/2015	Allocation of result for previous period: Reserves	Allocation of result for previous period: Dividends and other uses	Changes during the year: Changes in reserves	Equity transactions: New share issues	Equity transactions: Purchase of treasury st	Equity transactions: Extraordinary dividend distribution	Equity transactions: Change in equity instruments	Equity transactions: Derivatives on own shares	Equity transactions: Stock options	Total comprehensive income for the period	Shareholders' equity at 31/12/2015
Share capital	**50,913,255**		**50,913,255**	-	-	-	-	-	-	-		-	-	**50,913,255**
a) ordinary shares	50,913,255		50,913,255	-	-			-	-	-		-	-	50,913,255
b) other shares	-		-	-	-	-	-	-	-	-		-	-	-
Share premium reserve	**167,021,739**		**167,021,739**		-			-	-	-		-	-	**167,021,739**
Reserves	**42,922,245**		**42,922,245**	**5,803,000**	-	**(451,286)**	-	-	-	-		-	-	**48,273,959**
a) income	42,922,245		42,922,245	5,803,000	-	(451,286)		-	-	-		-	-	48,273,959
b) other	(0)		(0)	-	-	-	-	-	-	-		-	-	(0)
Valuation reserves:	**11,126,085**		**11,126,085**										**12,182,033**	**23,308,118**
Equity instruments	-		-	-	-	-	-	-	-	-		-	-	-
Treasury shares	-		-					-						
Net income (loss) for the period	**5,803,000**		**5,803,000**	**(5,803,000)**		-	-	-	-	-		-	**24,053,000**	**24,053,000**
Shareholders' equity	**277,786,324**		**277,786,324**	-	-	**(451,286)**	-	-	-	-		-	**36,235,033**	**313,570,071**

Statement of cash flows - direct method

CASH FLOW STATEMENT				
OPERATING ACTIVITY	**31/12/2016**		**31/12/2015**	
1. Operations		**23,081,101**		**108,852,655**
- interest income received (+)	82,311,667		97,126,384	
- interest expense paid (-)	(23,439,281)		(27,697,449)	
- net commissions (+/-)	17,468,433		25,451,136	
- staff costs	(39,237,156)		(39,295,689)	
- other expenses (-)	(36,153,967)		(35,034,461)	
- other revenues (+)	22,131,405		88,302,734	
2. Liquidity generated/absorbed by financial assets: (+/-)		**(129,405,543)**		**(65,164,019)**
- financial assets held for trading	(1,971,657)		1,811,743	
- financial assets available for sale	(173,401,900)		(135,725,641)	
- loans to custumers	42,148,646		(28,222,500)	
- due from banks: repayable on demand	13,490,511		83,323	
- due from banks: other	(25,331,877)		118,216,917	
- other assets	15,660,733		(21,327,861)	
3. Liquidity generated/absorbed by financial liabilities: (+/-)		**112,184,746**		**(104,028,335)**
- due to banks: repayable on demand	16,183,936		(59,149)	
- due to banks: other	96,372,958		(710,552,473)	
- due to customers	193,003,278		831,368,851	
- securities issued	(151,624,306)		(213,456,003)	
- financial liabilities held for trading	53,904		(296,337)	
- other liabilities	(41,805,025)		(11,033,224)	
Net liquidity generated/absorbed by operating activity A (+/-)		**5,860,303**		**(60,339,699)**
INVESTING ACTIVITY				
1. Liquidity generated by: (+)		**3,690,265**		**63,013,749**
- disposal of equity investments	2,090,000		30,018,346	
- dividends received on equity investments	1,413,131		1,014,637	
- disposal of financial assets held to maturity	187,134		31,980,766	
2. Liquidity absorbed by: (-)		**(784,975)**		**(14,580,670)**
- purchase of property, plant and equipment	(784,975)		(14,289,939)	
- purchase of intangible assets	-		(290,731)	
Net liquidity generated/absorbed by investing activity B (+/-)		**2,905,290**		**48,433,079**
FUNDING ACTIVITY				
- issue/purchase of own shares	(5,961,588)		11,801,737	
- distribution of dividends and other uses	(5,341,326)		-	
Net liquidity generated/absorbed by funding activity C (+/-)		**(11,302,914)**		**11,801,737**
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD D = A +/- B +/- C		**(2,537,320)**		**(104,883)**

RECONCILIATION		
Financial statement items		
Cash and cash equivalents at the start of the period E	18,381,417	18,486,299
Total net liquidity generated/absorbed during the period D	(2,537,320)	(104,883)
Cash and cash equivalents at the end of the period G = E +/-D+/-F	**15,844,098**	**18,381,417**

NOTES TO THE SEPARATE 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 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 2016, 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 2016 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 – fourth update of 15 December 2015), 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 2016 (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 with effect from financial year 2016, as limited to the cases relevant to the Bank’s business, for which an early application option was not exercised in previous years:

- ✓ Commission Regulation (EU) 2015/2113 of 23 November 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards 16 and 41;
- ✓ Commission Regulation (EU) 2015/2231 of 2 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards 16 and 38;
- ✓ Commission Regulation (EU) 2015/2343 of 15 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standards 5 and 7 and International Accounting Standards 19 and 34;
- ✓ Commission Regulation (EU) 2015/2406 of 18 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 1;
- ✓ Regulation (EC) No 2015/2441 of 18 December 2015 amending IAS 27 *Separate Financial Statements: Equity Method in Separate Financial Statements*. These amendments are intended to allow entities to apply the equity method, as described in IAS 28, *Investments in Associates and Joint Ventures*, when accounting for investments in subsidiaries, joint ventures and associates in their respective separate financial statements.
- ✓ Regulation No 2016/1703 of 22 September 2016 amending IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*. The amendments aim to clarify the requirements for the accounting treatment of investment entities and establish exemptions in special circumstances.

Application of these new standards did not have a significant impact on the Bank's financial performance or financial position for the period.

Furthermore, in 2016 work was done on assessing the potential impact on the Bank of the new international accounting standards issued by the IASB subject to deferred application (from 1 January 2018). In particular, these standards include IFRS 9 *Financial Instruments*, endorsed by Regulation No 2016/2067 of 22 November 2016, and IFRS 15 *Revenue from Contracts with Customers*, endorsed by Regulation No 2016/1905 of 22

September 2016. It should also be noted that the IASB has published IFRS 16 *Leasing*, which has not yet been endorsed by the European Union.

IFRS 9 *Financial Instruments*

In July 2014 the IASB issued IFRS 9 *Financial Instruments*, the accounting standard that will replace IAS 39 *Financial Instruments: Recognition and Measurement*. The process of revising IAS 39 is divided into three stages: “classification and measurement”, “impairment” and “hedge accounting”.

The “classification and measurement” of financial assets will depend on the business model and the cash flow characteristics of the financial instrument. These elements will determine the method of measuring the financial instrument, which may be amortised cost, fair value through profit or loss or fair value through other comprehensive income.

In most cases, the results of classification and measurement may be regarded as consistent with those resulting from the application of IAS 39, but potential differences currently cannot be excluded.

The combined effect of the application of the business model and cash flow characteristics of the instrument may entail a different allocation among instruments at fair value and amortised cost than under IAS 39.

It should also be noted that embedded derivatives no longer need to be separated for all financial assets.

The classification of financial liabilities has not changed substantially compared to IAS 39. For financial liabilities at fair value, changes in the creditworthiness of the instruments are to be accounted for in an equity reserve rather than in profit or loss, as instead required by IAS 39.

The Standard sets out a single impairment model to be applied to all financial assets not measured at fair value through profit or loss, with a particular emphasis on setting rules for calculating impairment losses according to a uniform concept of expected loss. Specifically, upon initial recognition, impairment losses will be determined on the basis of the expected loss in 12 months. However, if there is a significant increase in credit risk compared to the date of initial recognition, impairment losses must be determined on the basis of the expected loss calculated for the entire life of the financial instrument. Financial instruments are classified to three distinct "stages" on the basis of the above elements:

- ✓ stage 1 includes performing financial instruments for which a significant decrease in credit risk compared to the date of initial recognition has not been observed. Impairment is determined collectively on the basis of the expected credit loss at one year;
- ✓ stage 2 includes performing financial instruments for which a significant increase in credit risk compared to the date of initial recognition has been observed. Impairment is determined collectively on the basis of the lifetime expected credit loss;
- ✓ stage 3 includes non-performing financial instruments, assessed individually on the basis of the lifetime expected credit loss of each instrument.

The expected loss used must consider all available information, including information concerning past events, current conditions and forecast economic conditions.

In terms of impact on the income statement, recognition of impairment will be more focused on the forward-looking component and, at least upon initial application, will entail an increase in impairment losses compared to the current provisions of IAS 39 (incurred loss model).

The impact on the balance sheet of initial application of the new standard currently cannot be reliably estimated.

The revised standard aims to simplify hedge accounting by creating a stronger link to risk management strategies. The standard does not govern macro hedge accounting, which will be handled in a separate project. In addition, on this subject IFRS 9 also allows for the use of certain accounting treatments within the scope of IAS 39.

Application of IFRS 9 is mandatory from 1 January 2018, with the possibility of early application of all of the standard or of just those parts relating to the accounting treatment of creditworthiness for financial liabilities at fair value.

In 2016 the Bank began a process aimed at updating internal procedures and processes to ensure compliance with the provisions of the new accounting standard. The project has several main pillars, defined on the basis of the three stages of the process of revising the standard. Each branch of the project involves various work teams relating to the accounting framework, impacts and planning, measurement models and analysis of the impact on the loan portfolio, in addition to the organisational and IT work that will be necessary, to be analysed with the new IT outsourcer. The project envisages the joint responsibility of Administration and Loans and Risk, with the involvement of Organisation, IT and the operating services.

With respect to classification and measurement, the work being done concerns the analysis of the portfolios created for the purposes of definition of the new classification, definition of the process for implementing the new rules (SPPI Test and Business Model) and the drafting of the first guidelines. The analysis of the characteristics of the contractual cash flows of the instruments (SPPI Test) was performed on the Bank's securities and loans portfolios as at 30 June 2016. The analyses needed to update the results of the test through 31 December 2016 are currently in progress. The results of the classification and measurement may be regarded as consistent with those deriving from the application of IAS 39, with the exception of some residual types of instruments, which must be reclassified as financial assets designated at fair value through profit or loss.
In the case of impairment, specific analyses were conducted for transactions in loans and securities. The analyses conducted primarily concerned the definition of the factors that trigger reclassification from stage one to stage two and the parameters and models to be used to calculate expected loss, particularly with regard to the lifetime component. The factors that will represent the main determinants considered for the purposes of the transitions between the various stages will be the change in the likelihood of lifetime default compared to the time of initial recognition, the presence, if any, of amounts past due by more than 30 days and the presence of forbearance measures, if any. Finally, the rest of the analyses will assess, where appropriate, some indicators of credit monitoring systems specifically used by the Bank. The main impact of the application of the new standard will derive from the adoption of the provisions concerning impairment. In particular, for performing financial assets not designated at fair value through profit or loss, previously subject to impairment on the basis of the provisions of IAS 39, incurred but not reported loss will give way to the expected credit loss (stage one) or the lifetime expected credit loss, with significant increases in impairment losses, above all for financial assets classified to stage two. As specified above, the Bank is currently working on the definition of calculation models, and the rules for classification between the various stages are being defined. The impact, recognised in equity on the initial application of the standard, cannot yet be definitively determined. There are two general possibilities once the standard is in full effect:

- ✓ the impact resulting from the determination of the lifetime expected loss on loans classified to stage two increases as the residual duration of the portfolio grows;
- ✓ the income statement is more volatile, due to the reclassification of financial instruments from stage one to stage two, and vice versa.

The aspects relating to own funds and capital ratios are still being defined. In response to the Basel Committee's proposal, a revision of Regulation (EU) No 575/2013 – still in draft form – has been prepared.
The project will continue in the coming months, with the involvement of the new IT outsourcer, so as to adapt and modify existing operating processes, design new processes and adjust their size, where necessary.
Finally, the Bank intends to perform a parallel calculation of the application of IFRS 9 after the IT migration.

IFRS 15 Revenue from Contracts with Customers
The IASB published IFRS 15 *Revenue from Contracts with Customers* in May 2014. Application of the Standard, which replaces the standards and interpretations previously issued in this area (IAS 18 *Revenues* and IAS 11 *Construction Contracts*, and the interpretations IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenues - Barter Transactions Involving Advertising Services)* is mandatory from 1 January 2018, and early application is permitted.
The Standard introduces a single model for recognising revenues, applicable to all contracts with customers, with the exception of lease contracts, insurance contracts and financial instruments that call for the recognition of revenues on the basis of the consideration that is expected to be received for the goods and services rendered. The new Standard introduces a method divided into five steps for analysing transactions and defining the recognition of revenue on the basis of both the timing and amount of revenue: identification of the contract with the customer; identification of the performance obligations envisaged in the contract; identification (where necessary, according to estimates) of the consideration for the transaction; allocation of the consideration for the transaction to the contractual performance obligations; and recognition of revenue on the basis of the fulfilment of the contractual performance obligations. In 2017 the Bank will begin an impact assessment process.

IFRS 16 Leasing
In January 2016 the IASB issued IFRS 16 Leasing, application of which is mandatory from 1 January 2019. The Standard introduces new rules for accounting for lease contracts for both lessors and lessees and replaces the standards and interpretations previously issued in this area (IAS 17 Leasing, IFRIC 4 Determining Whether

an Arrangement Contains a Lease, SIC 15 Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease). A lease is defined as a contract that grants the lessee the right to use an asset for a period of time in exchange for a fee.
IFRS 16 eliminates the distinction between operating and finance leases for the lessee and establishes a new accounting treatment. Lessees must recognise liabilities on the basis of the present value of future rent, with a contra entry recognising the right to use the leased property. The current accounting rules essentially remain in effect for the lessor.
Once it has changed its IT outsourcer, the Bank will begin a process of identifying outstanding lease agreements for which accounting rules different from those currently in force will need to be applied in order to assess the impact thereof on the income statement and balance sheet.

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 2015. 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 2015) 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 2016 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. No exceptions to the application of IASs/IFRSs were made in these financial statements. The directors' report on operations and notes contain the disclosures required by international accounting standards, Italian law, the Bank of Italy and Consob, in addition to voluntary disclosures deemed necessary to a truthful, accurate account of the Bank's situation.
The publication of the financial statements for the year ended 31 December 2016 was authorised by the Board of Directors on 22 March 2017. Banca Popolare di Cividale is a cooperative company limited by shares, registered and domiciled in Italy.

Business outlook and the going-concern assumption
The Board of Directors confirm that they may reasonably expect that the Company will continue to operate as a going concern for the foreseeable future, and that the 2016 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).

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 (fourth update of 15 December 2015).
The financial statements and notes include figures for the period under review as well as comparative data at 31 December 2015.

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).

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 2016 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 complex 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 Bank 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 Bank 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.

Finance leases
Loans to customers in respect of leased assets are recognised upon the commencement of the contracts in question, i.e. when the assets are formally delivered. Loans to customers in respect of leased assets are recognised at amortised cost, i.e. the initial value of the investment, inclusive of the initial direct costs incurred and directly attributable commissions, less principal repayments and adjusted by the depreciation calculated according to the effective interest rate method, i.e. by discounting estimated future payment flows over the expected term of the financing by the effective interest rate. Criteria similar to those previously illustrated were adopted for impairment losses and recoveries.

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 Bank, directly or indirectly, holds at least 20% of voting rights, or if the Bank 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 items 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;
- ✓ trademarks and licences; 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.

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 positions of the Bank with respect to 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.

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.

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 - Payables 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.

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 - 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 amount at maturity, 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 12 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.

Chapter A.3 – TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

In 2016, the Bank did not undertake transfers between portfolios of financial assets, as envisaged in IAS 39. There were no residual assets reclassified in previous years at 31 December 2016.

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 entails 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 judgment 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

Financial assets / liabilities at fair value	31/12/2016 L1	31/12/2016 L2	31/12/2016 L3	31/12/2015 L1	31/12/2015 L2	31/12/2015 L3
1. Financial assets held for trading	2,435	47	-	391	66	-
2. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
3. Financial assets available for sale	1,279,227	2,405	53,931	1,113,812	-	50,877
4. Hedging derivatives	-	-	-	-	-	-
5. Property and equipment	-	-	2,770	-	-	2,770
6. Intangible assets	-	-	-	-	-	-
Total	**1,281,662**	**2,452**	**56,701**	**1,114,203**	**66**	**50,877**
1. Financial liabilities held for trading	-	794	-	-	740	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	**794**	-	-	**740**	-

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

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

	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	-	-	**50,877**	-	**2,770**	-
2. Increasese	-	-	**10,736**	-	-	-
2.1. Purchases	-	-	9,959	-	-	-
2.2. Gains recognised in:	-	-	-	-	-	-
2.2.1.Income statement	-	-	-	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2. Shareholders' equity	X	X	95	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	-	-	683	-	-	-
3. Decreases	-	-	**7,682**	-	-	-
3.1. Sales	-	-	4,848	-	-	-
3.2. Redemptions	-	-	-	-	-	-
3.3 Losses recognized in:	-	-	-	-	-	-
3.3.1. Income statement	-	-	2,528	-	-	-
- of which capital losses	-	-	-	-	-	-
3.3.2. Shareholders' equity	X	X	137	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	169	-	-	-
4. Closing balance	-	-	**53,931**	-	**2,770**	-

A.4.5.3 Annual changes in financial liabilities designated 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

Financial assets / liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2016 BV	31/12/2016 L1	31/12/2016 L2	31/12/2016 L3	31/12/2015 BV	31/12/2015 L1	31/12/2015 L2	31/12/2015 L3
1. Financial assets held to maturity	32,529	32,529	-	-	32,716	32,716	-	-
2. Due from banks	52,226	-	-	52,226	40,385	-	-	40,385
3. Loans to customers	2,622,176	-	-	2,400,471	2,683,711	-	-	2,730,319
4. Investment property	2,770	-	-	2,770	2,770	-	-	2,770
5. Non-current assets or groups of assets being divested	-	-	-	-	-	-	-	-
Total	**2,709,701**	**32,529**	-	**2,455,467**	**2,759,581**	**32,716**	-	**2,773,473**
1. Due to banks	518,976	-	-	518,976	406,419	-	-	406,419
2. Due to customers	3,039,777	-	-	3,039,386	2,846,774	-	-	2,846,774
3. Securities issued	324,206	-	324,206	-	475,730	-	475,730	-
4. Liabilities associated to assets being divested	-	-	-	-	-	-	-	-
Total	**3,882,960**	-	**324,206**	**3,558,362**	**3,728,923**	-	**475,730**	**3,253,194**

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

It is assumed that the carrying amounts of non-performing loans classified to level three of the fair value hierarchy are a reasonable approximation of their fair values. This assumption is based on the fact that the calculation of fair value is primarily influenced by the expectation of a recovery, based on subjective assessment by the manager.
Similarly, the fair value of performing loans classified to level three is based on models that rely on primarily non-observable inputs (e.g., internal risk parameters).
As a result, and due to the lack of a secondary market, the fair value presented in the financial statements, for disclosure purposes only, could differ significantly from the prices of any sales.

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

1.1 Cash and cash equivalents: composition

	31/12/2016	31/12/2015	%
a) Cash	15,844	18,381	-13.8%
b) Free deposits with Central banks	-	-	-
Total	**15,844**	**18,381**	**-13.8%**

Section 2 - Financial assets held for trading - item 20

2.1 Financial assets held for trading: composition by type

	31/12/2016			31/12/2015			%
	L1	L2	L3	L1	L2	L3	
A. Cash assets							
1. Debt securities	2,060	47	-	-	66	-	3092.4%
1.1 structured securities	-	-	-	-	-	-	-
1.2 other debt securities	2,060	47	-	-	66	-	3092.4%
2. Equities	0	-	-	391	-	-	-100.0%
3. Quotas of UCI	375	-	-	-	-	-	100.0%
4. Loans	-	-	-	-	-	-	-
4.1 reverse repurchase agreements	-	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-	-
Total A	**2,435**	**47**	-	**391**	**66**	-	**443.2%**
B. Derivatives							
1. Financial derivatives	-	710	-	119	-	644	-7.0%
1.1 trading	-	710	-	119	-	644	-7.0%
1.2 fair value option	-	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-	-
2.2 fair value option	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-
Total	-	**710**	-	**119**	-	**644**	**-7.0%**
TOTAL (A+B)	**2,435**	**757**	-	**510**	**66**	**644**	**161.6%**

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

	31/12/2016	31/12/2015	%
A. ON-BALANCE-SHEET FINANCIAL ASSETS			
1. Debt securities	**2,107**	**66**	3110.1%
a) Governments and central banks	2,060	-	100.0%
b) Other government agencies	0	-	-
c) Banks	1	1	0.3%
d) Other issuers	46	65	-29.1%
2. Equity securities	**0**	**391**	**-100.0%**
a) Banks	-	-	-
b) Other issuers	**0**	391	-100.0%
- insurance undertakings	-	-	-
- financial companies	-	-	-
- non-financial companies	0	391	-100.0%
- other	-	-	-
3. Units in collective investment undertakings	**375**	-	**100.0%**
4. Loans	-	-	-
a) Governments and central banks	-	-	-
b) Other government agencies	-	-	-
c) Banks	-	-	-
d) Other	-	-	-
Total (A)	**2,482**	**457**	**443.6%**
B. DERIVATIVES	**710**	**764**	**-7.1%**
a) Banks	160	148	8.6%
b) Customers	549	616	-10.8%
Total (B)	710	**764**	-7.1%
Total (A + B)	**3,192**	**1,220**	**161.6%**

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

	31/12/2016			31/12/2015			%
	L1	L2	L3	L1	L2	L3	
1. Debt securities	1,276,852	2,405	-	1,051,192	-	62,620	14.9%
1.1 Structured securities	-	-	-	-	-	-	-
1.2 Other debt securities	1,276,852	2,405	-	1,051,192	-	62,620	14.9%
2. Equities	-	-	35,704	-	-	34,698	2.9%
2.1 Measured at fair value	-	-	32,213	-	-	34,094	-5.5%
2.2 Measured at cost	-	-	3,491	-	-	604	478.0%
3. Quotas of UCI	2,375	-	18,227	-	-	16,179	27.3%
4. Loans	-	-	-	-	-	-	-
TOTAL	1,279,227	2,405	53,931	1,051,192	-	113,498	14.7%

The financial assets available for sale included in “2.1 Equity investments designated at fair value” include a position of €171 thousand classified as unlikely to pay. 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.

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

	31/12/2016	31/12/2015	%
1.Debt securities	**1,279,257**	**1,113,812**	**14.9%**
a) Governments and central banks	1,201,221	1,088,497	10.4%
b) Other governments agencies	-	-	-
c) Banks	69,705	13,968	399.0%
d) Other issuers	8,331	11,347	-26.6%
2. Equity securities	**35,704**	**34,698**	**2.9%**
a) Banks	22,548	23,919	-5.7%
b) Other issuers	13,157	10,779	22.1%
- insurance undertakings	2,500	-	100.0%
- financial companies	395	7	5512.8%
- non financial companies	10,262	10,772	-4.7%
- other	-	-	-
3. Units in collective investment u	**20,602**	**16,179**	**27.3%**
4. Loans	-	-	-
a) Governments and central banks	-	-	-
b) Other governments agencies	-	-	-
c) Banks	-	-	-
d) Other	-	-	-
Total	**1,335,563**	**1,164,689**	**14.7%**

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 indicator 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 twelve 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 €2,528 thousand.

Section 5 - Financial assets held to maturity - item 50

5.1 Financial assets held to maturity: composition by type

	31/12/2016				31/12/2015			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Debt securities	**32,529**	**32,529**	-	-	32,716	32,716	-	-
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	32,529	32,529	-	-	32,716	32,716	-	-
2. Loans	-	-	-	-	-	-	-	-
Total	**32,529**	**32,529**	-	-	**32,716**	**32,716**	-	-

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

	31/12/2016	31/12/2015
1. Debt securities	32,529	32,716
a) Governments and central banks	22,119	22,293
b) Other government agencies	-	-
c) Banks	10,410	10,423
d) Other issuers	-	-
2. Loans	-	-
a) Governments and central banks	-	-
b) Other governments agencies	-	-
c) Banks	-	-
d) Other	-	-
Total	**32,529**	**32,716**
Total fair value	**32,529**	**32,716**

Section 6 - Due from banks - item 60

6.1 Due from banks: composition by type

	31/12/2016				31/12/2015				%
	BV	FV			BV	FV			
		L1	L2	L3		L1	L2	L3	
A. Claims on central banks	28,488	-	-	-	5,406	-	-	-	427.0%
1. Time deposits	-	X	X	X	-	X	X	X	-
2. Reserve requirement	28,488	X	X	X	5,406	X	X	X	427.0%
3. Repurchase agreements	-	X	X	X	-	X	X	X	-
4. Other	-	X	X	X	-	X	X	X	-
B. Due from banks	23,738	-	-	-	34,978	-	-	-	-32.1%
1. Loans	23,738	-	-	-	33,979	-	-	-	-30.1%
1.1 Current accounts and free deposits	19,619	X	X	X	29,854	X	X	X	-34.3%
1.2 Time deposits	4,118	X	X	X	4,121	X	X	X	-0.1%
1.3 Other financing	-	X	X	X	-	X	X	X	-
- repurchase agreements	-	X	X	X	-	X	X	X	-
- finance leases	-	X	X	X	-	X	X	X	-
- other	-	X	X	X	4	X	X	X	-100.0%
2. Debt securities	-	-	-	-	1,000	-	-	-	-100.0%
2.1 structured	-	X	X	X	-	X	X	X	-
2.2 other debt securities	-	X	X	X	1,000	X	X	X	-100.0%
Total (carrying amount)	**52,226**	-	-	**52,226**	**40,385**	-	-	**40,385**	**29.3%**

Section 7 - Loans to customers - item 70

7.1 Loans to customers: composition by type

	31/12/2016						31/12/2015						%
	Book value			Fair value			Book value			Fair value			
	Performing	Non performing		L1	L2	L3	Performing	Non performing		L1	L2	L3	
		Purchased	Other					Purchased	Other				
Loans													
1. Current accounts	269,191	-	86,178	X	X	X	312,781	-	92,538	X	X	X	-12.3%
2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X	-
3. Mortgage loans	1,391,192	-	244,788	X	X	X	1,419,551	-	243,275	X	X	X	-1.6%
4. Credit cards, personal loans and loans repaid by automatic deductions from wages	60,392	-	1,670	X	X	X	54,348	-	1,834	X	X	X	10.5%
5. Finance leases	205,438	-	46,785	X	X	X	220,716	-	42,464	X	X	X	-4.2%
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X	-
7. Other	301,916	-	14,627	X	X	X	278,271	-	17,933	X	X	X	6.9%
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	**2,228,129**	**-**	**394,047**	**-**	**-**	**2,400,471**	**2,285,667**	**-**	**398,043**	**-**	**-**	**2,730,319**	**-2.29%**

7.2 Loans to customers: composition by borrower/issuer

	31/12/2016			31/12/2015			%
	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:	**2,228,129**	**-**	**394,047**	**2,285,667**	**-**	**398,043**	**-2.3%**
a) Governments	70	-	-	5	-	-	1407.9%
b) Other government agencies	8,279	-	-	6,649	-	-	24.5%
c) Other	-	-	-	-	-	-	-
- non-financial companies	1,190,396	-	325,091	1,272,231	-	329,374	-5.4%
- financial companies	126,863	-	6,230	124,989	-	7,157	0.7%
- insurance undertakings	12,763	-	-	12,431	-	-	2.7%
- other	889,757	-	62,726	869,363	-	61,512	2.3%
Total	**2,228,129**	**-**	**394,047**	**2,285,667**	**-**	**398,043**	**-2.29%**

7.4 Finance leases

Time bands	Total 31/12/2016						Total 31/12/2015					
	Non - performing	Minimum lease payments			Gross investment		Non performing	Minimum lease payments			Gross investment	
		Capital		Interest				Capital		Interest		
			of which guaranteed residual value			of which unguaranteed residual value			of which guaranteed residual value			of which unguaranteed residual value
On demand	4,926	5,439	-	78	5,517	-	4,500	9,380	-	82	9,462	-
Up to 3 months	682	5,869	-	1,934	7,803	-	24,893	6,005	-	2,170	8,175	-
Between 3 and 12 months	2	17,833	-	5,670	23,503	-	-	18,193	-	6,367	24,560	-
Between 1 and 5 years	39,582	80,046	-	21,807	101,853	-	17,278	72,113	-	25,350	97,463	-
Over 5 years	-	102,215	-	18,092	120,307	-	-	118,874	-	25,095	143,969	-
Unspecified maturity	1,593	-	-	-	-	-	116	-	-	-	-	-
Gross total	**46,785**	**211,402**	**-**	**47,581**	**258,983**	**-**	**46,787**	**224,565**	**-**	**59,064**	**283,629**	**-**

At 31 December 2016 net finance lease exposures amounted to €258,187 thousand, after deducting provisions for impairment of €19,566 thousand. Net non-performing exposures came to €46,785 thousand.

The lease contracts entered into have the following characteristics:

- ✓ all of the risks and rewards associated with ownership of the asset are transferred to the lessee;
- ✓ on signing the lessee pays an advance that is retained by the lessor when the contract begins to generate income and is deducted from the amount financed;
- ✓ the lessee makes periodic payments over the useful life of the contract, the amount of which may vary according to benchmarking clauses;
- ✓ at the end of the contract, the lessee is granted the option to purchase the asset governed by the contract at below the fair value on the strike date, which means that it is reasonably certain that the option will be exercised.

Since the lessor retains legal ownership of the asset for the entire life of the contract, the asset itself constitutes an implicit guarantee of the lessee's exposure, with the consequence that there is no residual amount not covered by the guarantee. In cases of assets that currently cannot be sold or subject to rapid obsolescence, ancillary guarantees are also requested from the lessee or, alternatively, the supplier of the asset.

Deferred financial profits amounted to €47,581 thousand.
During the year, charges for potential lease payments of €3,862 thousand were recognised. In this regard, it bears recalling that IAS 17 defines a potential lease payment as the part of a payment the amount of which is not predetermined, but which is based on the future value of a parameter that changes for reasons other than the passage of time (such as a percentage of future sales, the amount of future use, future price indices or future market interest rates).

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
A. Companies under exclusive control				
1 Civitas SPV S.r.l. *	Conegliano (TV) - Via V. Alfieri n. 1	Conegliano (TV) - Via V. Alfieri n. 1	0.00%	
2 Civiesco Srl	Udine - Via Vittorio Veneto n. 24	Udine - Via Vittorio Veneto n. 24	60.00%	
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%	
2 Acrent S.p.A.	Udine - Via Crispi n. 17	Udine - Via Crispi n. 17	30.00%	
3 Help Line	Cividale del Friuli (UD) - Via G. Pelizzo	Cividale del Friuli (UD) - Via G. Pelizzo	30.01%	

** 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 (without derecognition of the assets sold) and the contractual conditions of the transaction, as required by IFRS 10.*
*** Civiesco S.r.l. was inoperative from the date of formation until 31.12.2016.*

10.2 Significant equity investments: carrying amounts, fair values and dividends

	Book Value	Fair Value	Dividends received
A. Companies under exclusive control			
1 Civitas SPV S.r.l. *	-		-
2 Civiesco Srl	60		-
B. Companies subject to joint control			
C. Companies under significant influence			
1 Acileasing S.p.A.	658		-
2 Acrent S.p.A.	548		-
3 Help Line	2,553		682
	3,819	-	682

10.3 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Adjustments to / writebacks on property, equipment and intangible assets	Income (Loss) before tax from continuing operations	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)	Comprehensive income (3) = (1) + (2)
A. Companies under exclusive control														
1 Civitas SPV S.r.l. *														
2 Civiesco Srl	X	-	-	-	-	-	X	X	-	-	-	-	-	-
B. Companies subject to joint control														
C. Companies under significant influence														
1 Acileasing S.p.A. **	X	914	2,613	961	2,566	1,290	X	X	64	64		64		64
2 Acirent S.p.A. **	X	1,373	4,010	3,563	1,820	3,059	X	X	(147)	(113)		(113)		(113)
3 Help Line **	X	3,969	17,093	89	20,973	18,234	X	X	293	177		177		177
Total	-	6,256	23,716	4,613	25,359	22,583	-	-	210	128	-	128	-	128

10.5 Equity investments: annual changes

	31/12/2016	31/12/2015
A. Opening balance	**6,427**	**36,495**
B. Increases	**60**	**-**
B.1 Purchases	60	-
of which business combinations	-	-
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	**2,668**	**30,068**
C.1 Sales	2,150	-
C.2 Writedowns	518	49
C.3 Other changes	-	30,019
of which business combinations	-	30,019
D. Closing balance	**3,819**	**6,427**
E. Total revaluations	-	-
F. Total writedowns	**518**	**49**

Caption C.1 refers solely to the sale of the equity investment in Itas Assicurazioni SpA.

10.7 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.

10.8 *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

	31/12/2016	31/12/2015	%
1. Property and equipment owned	**78,501**	**80,159**	-2.1%
a) land	4,933	4,933	0.0%
b) buildings	68,706	69,568	-1.2%
c) movables	4,220	4,784	-11.8%
d) electrical plant	640	871	-26.5%
e) other	1	2	-66.7%
2. Property and equipment acquired under finance lease	-	-	-
a) land	-	-	-
b) buildings	-	-	-
c) movables	-	-	-
d) electrical plant	-	-	-
e) other	-	-	-
Total	**78,501**	**80,159**	-2.1%

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.

11.4 Investment property: composition of assets measured at fair value

Breakdown	31/12/2016			31/12/2015		
	L1	L2	L3	L1	L2	L3
1. Property and equipment owned	-	-	**2,770**	-	-	**2,770**
a) land	-	-	2,770	-	-	2,770
b) buildings	-	-	-	-	-	-
2. Property and equipment acquired under finance lease	-	-	-	-	-	-
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	-	-	**2,770**	-	-	**2,770**

11.5 Operating property, plant and equipment: annual changes

	Land	Buildings	Furniture	Electrical plant	Other	Total
A. Opening gross balance	7,703	87,083	13,028	12,212	49	120,075
A.1 Total net writedowns	-	17,514	8,245	11,342	47	37,148
A.2 Opening net balance	7,703	69,569	4,783	871	2	82,928
B. Increases	-	769	27	83	-	879
B.1 Purchases	-	766	27	4	-	797
of wich: business combinations	-	-	-	-	-	-
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	-	3	-	78	-	81
C. Decreases	-	1,631	590	314	2	2,536
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	1,615	590	236	2	2,442
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	-	16	-	78	-	94
D. Closing net balance	7,703	68,706	4,220	640	1	81,270
D.1 Total net writedowns	-	19,145	8,835	11,656	49	39,684
D.2 Closing gross balance	7,703	87,851	13,055	12,295	49	120,954
E. Measurement at cost	-	-	-	-	-	-

11.6 Investment property: annual changes (IAS 17/32, 57, 65; IAS 40/76, 79.c, d, e)

	Total 31/12/2016	
	Land	**Buildings**
A. Opening gross balance	2,770	-
B. Increases	-	-
B.1 Purchases	-	-
of wich: business combinations	-	-
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	-	-
B.4 Write-backs	-	-
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from property used in operations	-	-
B.7 Other changes	-	-
C. Decreases	-	-
C.1 Sales	-	-
of which business combinations		
C.2 Depreciation	-	-
C.3 Negative fair value differences	-	-
C.4 Impairment losses	-	-
C.5 Negative foreign exchange differences	-	-
C.6 Transfer to other assets	-	-
a) property used in operations	-	-
b) non-current assets held for sale and discontinued operatic	-	-
C.7 Other changes	-	-
D. Final carrying amount	2,770	-
E. Fair value measurement		

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

	31/12/2016		31/12/2015		
	finite useful life	indefinite useful life	finite useful life	indefinite useful life	%
A.1 Goodwill	X	3,796	X	9,136	-58.4%
A.2 Other intangible assets	-	-	-	-	-
A.2.1 Assets measured at cost	172	-	231	-	-25.6%
a) Internally generated intangible assets	-	-	-	-	-
b) Other assets	172	-	231	-	-25.6%
A.2.2 Assets measured at fair value	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-
b) Other assets	-	-	-	-	-
Total	**172**	**3,796**	**231**	**9,136**	**-56.6%**

12. 2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Fin.	Indef.	Fin.	Indef.	
A. Gross initial carrying amount	9,136	-	-	231	-	9,367
A.1 Total net adjustments	-	-	-	-	-	-
A.2 Net initial carrying amount	9,136	-	-	231	-	9,367
B. Increases	-	-	-	-	-	-
B.1 Purchases	-	-	-	-	-	-
of which business combinations	-	-	-	-	-	-
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	5,340	-	-	59	-	5,399
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	5,340	-	-	-	-	5,340
- Amortisation	X	-	-	59	-	59
- Write-downs recognised in	-	-	-	-	-	-
shareholders' equity	X	-	-	-	-	-
income statement	5,340	-	-	-	-	5,340
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 discontinued operations	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net final carrying amount	3,796	-	-	172	-	3,968
D.1 Total net adjustments	-	-	-	-	-	-
E. Gross final carrying amount	**3,796**	-	-	**172**	-	**3,968**
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 regard to the definition of "cash-generating unit" (CGU), in the second half of 2013, in order to maximise synergies in support of expected financial performance, the Bank approved a plan to reorganise and simplify the ownership structure based on the merger of Banca di Cividale S.p.A. and NordEstBanca S.p.A. into Banca Popolare di Cividale S.c.p.A., which was completed in 2014, with the merger of CivileasingS.p.A. and Tabogan Srl. It was therefore decided that the cash-generating units associated with goodwill should be attributed to the operating segment coinciding with the legal entity Banca Popolare di Cividale as a whole, 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 2016-2018, approved by the Board of Directors in June 2016;
- ✓ updated macroeconomic scenarios; and
- ✓ economic projections for the period 2019-2021.

Projections of future results have been extended through 2021 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 2017-2021, estimated on the basis of: i) the 2016-2018 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 minimum capital ratios were estimated by considering the supervisory requirements set for the main Italian banks following the 2016 SREP. The transitional criteria envisaged in Basel 3 were also applied. The minimum CET1 ratio was assumed to be 8.125% in 2016, increasing to 10.0% by 2019. The Total Capital ratio was 10.125% in 2016 and 12.0% in 2019. For the purposes of determining capital requirements, this ratio was applied to the Bank's prospective RWAs (risk-weighted assets). It bears remarking that the target CET1 ratio applied was still higher than the CET1 and Tier 1 ratios required of Banca Popolare di Cividale by the Bank of Italy in its notice "Decision on Capital: Notice of Commencement of the Procedure" of 6 February 2017 (specifically, 6.3% and 8.0%, respectively).
- ✓ **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 **9.53%** 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, twelve-month average surveyed on 31 December 2016 (source: Market Information Provider) at 1.46%;
- **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 five-year betas of a sample of quoted Italian banks (source: Market Information Provider) surveyed on 31 December 2016 at 1.35;
- **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 6.0%, 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 2018 (source: EIU), equal to 1.5%.

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 100 basis points in the Ke with respect to 9.53%.

The results of the impairment test

The impairment test, conducted in accordance with international accounting principles, as well as the instructions contained in Bank of Italy/Consob/ISVAP Document No. 4 of 3 March 2010, indicated the need to recognise an impairment loss of €5.3 million on goodwill. The reasons for the above impairment loss lie in the combined effects of the prolonged economic recession and the uncertain prospects of a recovery, which had a particular influence on the Bank's areas of operation. The results of the analysis conducted to determine the recoverable amount of the CGU referring to the full scope of the Bank indicated a considerably lower contribution to cash flow generation – over a significant time horizon – than considered when estimating the original cash flows.

Section 13 - Tax assets and tax liabilities - item 130 of assets and item 80 of liabilities

Deferred tax assets came to €63,097 thousand and may be broken down as follows:

13.1 Deferred tax assets: composition

Composition by type:	31/12/2016	31/12/2015
Tax effect on AFS reserve	430	83
Staff costs	1,010	419
Credit losses	52,214	54,962
Fiscal losses	6,350	4,157
Property and equipment	1,827	1,827
Other	1,266	1,759
Total	**63,097**	**63,207**

13.2 Deferred tax liabilities: composition

Deferred tax liabilities came to €5,165 thousand and may be broken down as follows:

Composition by type:	31/12/2016	31/12/2015
Goodwill	- 0	1,206
Staff costs	-	31
Tax effect on AFS	4,730	7,120
Other	435	409
Total	**5,165**	**8,767**

13.3 Change in deferred tax assets (through the income statement)

	31/12/2016	31/12/2015
1. Opening balance	62,973	50,886
2.Increases	4,325	13,047
2.1 Deferred tax assets recognised during the year	4,325	13,047
a) in respect of previous periods	50	2,119
b) due to changes in accounting policies	-	-
c) writebacks	-	-
d) other	4,276	10,928
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	4,787	959
3.1 Deferred tax assets derecognised during the year	4,787	568
a) reversals	-	-
b) writedowns for supervening non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	4,787	568
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	392
a) conversion in tax assets set forth in Italian Law 214/2011	-	-
b) other	-	392
4.Closing balance	**62,512**	**62,973**

13.3.1 Change in deferred tax assets pursuant to Law 214/2011 (through the income statement)

	31/12/2016	31/12/2015
1. Opening balance	**54,962**	**48,634**
2.Increases	-	6,328
of which: business combination	-	1,993
3. Decreases	2,748	-
3.1 Reversals	-	-
3.2 Transformation into tax credits	-	-
a) from losses for the year	-	-
b) from fiscal losses	-	-
3.3 Other decreases	2,748	-
4.Closing balance	**52,214**	**54,962**

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

	31/12/2016	31/12/2015
1.Opening balance	1,615	4,684
2. Increases	484	607
2.1 Deferred tax liabilities recognised during the year	484	607
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	484	607
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	1,665	3,676
3.1 Deferred tax liabilities derecognised during the year	1,665	3,295
a) reversals	-	-
b) due to change in accounting policies	-	-
c) other	1,665	3,295
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	381
4. Closing balance	**435**	**1,615**

13.5 Changes in deferred tax assets (through equity)

	31/12/2016	31/12/2015
1.Opening balance	234	688
2. Increases	465	83
2.1 Deferred tax assets recognised during the year	465	83
a) in respect of previous periods	-	1
b) due to changes in accounting policies	-	-
c) other	465	83
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	114	537
3.1 Deferred tax assets derecognised during the year	114	537
a) reversals	-	-
b) writedowns for supervening non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	114	537
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4.Closing balance	**585**	**234**

13.6 Changes in deferred tax liabilities (through equity)

	31/12/2016	31/12/2015
1.Opening balance	7,152	6,464
2. Increases	4,730	7,151
2.1 Deferred tax liabilities recognised during the year	4,730	7,151
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	4,730	7,151
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	7,151	6,463
3.1 Deferred tax liabilities derecognised during the year	7,151	6,463
a) reversals	-	-
b) due to change in accounting policies	-	-
c) other	7,151	6,463
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	4,730	7,152

13.7 - Other information

New provisions concerning the conversion of DTAs into tax credits

Article 11 of Law Decree No. 59 of 3 May 2016, converted, with amendments, by Law No. 119 of 30 June 2016, introduced an annual charge to retain the right to transform deferred tax assets into tax credits. In further detail, the provision is aimed at resolving the problems identified by the European Commission with regard to the legality, from the standpoint of compliance with state aid rules, of the conversion into tax credits of "qualified" DTAs pursuant to Law Decree No. 225/2010, i.e. DTAs relating to impairment losses on loans, goodwill and other intangible assets. The European Commission has requested that the eligibility for transformation into tax credits of the portion of qualified DTAs that does not correspond to an actual prepayment of taxes only be permitted if a charge is paid for the DTAs in question. The above is without prejudice to the eligibility for transformation of qualified DTAs corresponding to the prepayment of taxes. Entities affected by the provisions of Art. 2, par. 55-58, of Law Decree No. 225/2010 (and thus lenders and financial institutions), with regard to the amount of deferred tax assets, may opt to continue to apply the provisions cited above, and thus to retain the eligibility for transformation of qualified DTAs. If this option is not exercised, the right to convert the DTAs is forfeit in respect of the amount that would have represented the taxable amount of the annual charge, but retained in respect of the amount of the convertible DTAs in excess of that same taxable amount. The option, which is irrevocable, was exercised in 2016.

The fee is calculated annually, by applying the rate of 1.5% to the difference between the deferred tax assets originated since 31 December 2007, plus the deferred tax assets transformed into tax credits, and taxes paid. Special provisions are established for companies that participate in national tax consolidation or are involved in extraordinary transactions. The fee is not due if the amount of the taxes exceeds the amount of the DTAs. If this option is not exercised, the right to convert the DTAs is forfeit in respect of the amount that would have represented the taxable amount of the annual charge, but retained in respect of the amount of the convertible DTAs in excess of that same taxable amount.
In the Bank's financial statements at 31 December 2016, the "qualified" DTAs recognised are far less than the taxes paid, and in the period 2008-2016 the taxes paid by the Bank far exceeded the aforementioned DTAs. Accordingly, such DTAs can be converted without the need for the Bank to pay any fee.

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 2016 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 Bank's financial statements at 31 December 2016, as for the 2015 financial statements, deferred tax assets deriving from deductible temporary differences were considered separately. In this regard, it is relevant that with effect from 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 financial statements; b) analysing such non-qualified deferred tax assets and the deferred tax assets recognised in the 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 2016.

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 - Caption 150

15.1 Other assets: composition

	31/12/2016	31/12/2015	%
Amounts due from the tax authorities	326	492	-33.8%
Ammounts due from the tax authorities for withholdings on interest paid to customers and other amounts due	16,290	15,613	4.3%
Cheques drawn on the bank to be settled	2,785	5,273	-47.2%
Counterparts for securities ad coupon payments to be received	0	1,688	-100.0%
Soundry items to be debited to customers and banks	826	626	31.9%
Costs and advances pending financial allocation	234	108	116.4%
Transit items	20	29	-30.2%
Items finalized but not allocable to other items	21,173	24,365	-13.1%
Accrued income other capitalised income	45	542	-91.7%
Improvements on third party assets	344	472	-27.1%
Total	**42,043**	**49,207**	-14.6%

The various items include, among others:

- €4,366 thousand of commission income to be received;
- €2,662 thousand of invoices issued for lease payments;
- €7,996 thousand of costs set to accrue in future years.

LIABILITIES

Section 1 - Due to banks - item 10

1.1 Due to banks: composition by type

	31/12/2016	31/12/2015	%
1. Due to central banks	400,000	309,198	29.4%
2. Due to banks	-	-	-
2.1 Current accounts and demand deposits	22,633	6,407	253.2%
2.2 Time deposits	-	-	-
2.3 Borrowings	-	-	-
2.3.1 Repurchase agreements	-	-	-
2.3.2 other	96,263	90,724	6.1%
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	-	-
2.5 Other payables	80	90	-11.0%
Totale	**518,976**	**406,419**	27.7%
Fair value-livello 1	-	-	-
Fair value-livello 2	-	-	-
Fair value-livello 3	**518,976**	**406,419**	27.7%
Fair value	**518,976**	**406,419**	27.7%

Section 2 - Due to customers - item 20

2.1 Due to customers: composition by type

	31/12/2016	31/12/2015	%
1. Current accounts and demand deposits	1,628,732	1,573,078	3.5%
2. Time deposits	243,986	284,813	-14.3%
3. Borrowings	-	-	-
3.1 Repurchase agreements	666,820	751,346	-11.2%
3.2 Other	142,323	9,399	1414.3%
4. Liabilities in respect of commitments to repurchase own equity instruments	-	-	-
5. Other payables	357,916	228,138	56.9%
Total	**3,039,777**	**2,846,774**	6.8%
Fair value - L1	-	-	-
Fair value - L2	-	-	-
Fair value - L3	**3,039,386**	**2,846,087**	6.8%
Fair value	**3,039,392**	**2,846,162**	6.8%

Section 3 - Debt securities issued - item 30

3.1 Debt securities issued: composition by type

	31/12/2016				31/12/2015			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	295,892	-	295,892	-	443,934	-	443,934	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	295,892	-	295,892	-	443,934	-	443,934	-
2. Other	28,314	-	28,314	-	31,796	-	31,796	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	28,314	-	28,314	-	31,796	-	31,796	-
Total	**324,206**	-	**324,206**	-	**475,730**	-	**475,730**	-

3.2 Breakdown of item 30 "Debt securities issued": subordinated securities

Description	Amount 31/12/2016	Amount 31/12/2015
Subordinated securities	36,292	47,153

The amount included under "Debt securities issued" came to €36,292 thousand. 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 with an original nominal value of €22.35 million nominal issued on 19/12/2014 having the following characteristics:

- ✓ fixed interest rate of 2.75%;
- ✓ bullet repayment at maturity:
- ✓ maturity: 13 August 2017;
- ✓ early repayment is not allowed;
- ✓ 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.

Section 4 - Financial liabilities held for trading - item 40

4.1 Financial liabilities held for trading: composition by type

	31/12/2016					31/12/2015				
		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	-	-	794	-	-	-	-	77	663	-
1.1 trading	X	-	794	-	X	X	-	77	663	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**	**-**	**794**	**-**	**X**	**X**	**-**	**77**	**663**	**X**
Total (A+B)	**X**	**-**	**794**	**-**	**X**	**X**	**-**	**77**	**663**	**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

	31/12/2016	31/12/2015	%
Amounts due to social security and welfare institutions	2,898	1,510	91.9%
Amouns due to public entities on behalf of third parties	5,332	10,003	-46.7%
Amounts available to customers	1,884	4,610	-59.1%
Amounts payable to employees	1,804	2,374	-24.0%
Value date differences on portfolio transactions	2,590	16,627	-84.4%
Sundry items to be debited to customers	1,911	2,629	-27.3%
Intems in transit between branches	1,731	1,940	-10.8%
Accruals other than those capitalised	1,667	1,841	-9.4%
Guaratees given	1,415	1,585	-10.7%
Payables related to the supply of goods and services	2,313	3,237	-28.5%
Sundry and residual items	44,396	49,966	-11.1%
Total	**67,942**	**96,322**	**-29.5%**

The various items include:

- ✓ securitisation liabilities (€24,535 thousand);
- ✓ third-party funds for agricultural loans (€5,479 thousand);
- ✓ resolution mechanism (€3,048 thousand);
- ✓ leasing direct debits to be collected (€2,675 thousand);
- ✓ other liabilities due to accruals basis accounting (€1,731 thousand).

Section 11 - Employee termination benefits - item 110
11.1 Employee termination benefits: annual changes

	31/12/2016	31/12/2015
A. Opening balance	**5,589**	**6,022**
B. Increases	**2,126**	**1,718**
B.1 Provision for the year	1,719	1,700
B.2 Other increases	407	18
C. Decreases	**2,029**	**2,151**
C.1 Severance payments	574	379
C.2 Other decreases	1,455	1,773
D. Closing balance	**5,685**	**5,589**
Total	**5,685**	**5,589**

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: 1.31%;
- ✓ 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

	31/12/2016	31/12/2015
1. Company pension plans	-	-
2. Other provisions	3,678	8,979
2.1 legal disputes	703	2,068
2.2 staff costs	2,500	5,608
2.3 other	474	1,303
Total	3,678	8,979

12.2 Provisions for risks and charges: annual changes

	Pension plans	Other provisions	Total
A. Opening balance	-	**8,979**	**8,979**
B. Increases	-	**645**	**645**
B.1 Provision for the year	-	645	645
B.2 Changes due to passage of time	-	-	-
B.3 Changes due to changes in discount rate	-	-	-
B.4 Other increases	-	-	-
of which: business combinations	-	-	-
C. Decreases	-	**5,946**	**5,946**
C.1 Use during the year	-	4,245	4,245
C.2 Changes due the changes in discount rate	-	-	-
C.3 Other decreases	-	1,701	1,701
D. Closing balance	-	**3,678**	**3,678**

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 €703.4 thousand as at 31 December 2016 and represents the estimated amount of foreseeable liabilities, calculated individually 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

At 31 December 2016 this provision amounted to €2,974.3 thousand, of which €924.4 thousand of accruals for complaints by customers and legal disputes with former employees and €2,049.9 thousand relating to the accrual for the voluntary redundancy procedure involving the use of the solidarity fund in support of income, employment, retraining and professional development.

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 the Bank 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 2016, Banca Popolare di Cividale had fully subscribed and paid-in share capital of €50,913 thousand, divided into 16,971,085 ordinary shares.

14.1 Share capital and treasury shares: composition

	31/12/2016	31/12/2015	%
1. Share capital	50,913	50,913	0.0%
2. Share premiums	167,022	167,022	0.0%
3. Reserves	66,986	48,274	38.8%
4. (Treasury shares)	-	-	-
5. Valuation reserves	17,347	23,308	-25.6%
6. Capital instruments	-	-	-
7. Net income (loss) for the period	1,233	24,053	-94.9%
Total	**303,500**	**313,570**	**-3.2%**

14.2 Share capital - number of shares: annual changes

	Ordinary	Other
A. Shares at start of year	16,971,085	-
- fully paid	-	-
- partly paid	-	-
A.1 Treasury stock (-)	-	-
A.2 Shares in circulation: opening balance	16,971,085	-
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	-	-
C.1 Cancellation	-	-
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

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 31/12/2016	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	17,347	A-B	17,347	17,347	-
Other reserves	-	**A - B - C**	-	-	-
- legal reserve	22,193	B	22,193	22,193	-
- reserve for the purchase of tre	-	-	-	-	-
- statutory reserve	39,293	A - B	39,293	39,293	-
- other reserves	5,500	A - B	5,500	5,500	-
- retained earnings	-	A - B	-	-	-
Net income for the period	1,233	-	-	-	-
Total	**303,500**	-	**251,354**	**251,354**	-
Non available	-	-	-	-	-
Available	**303,500**	-	**251,354**	**251,354**	-

A: for share capital increase; B: as loss coverage; C: for distribution to Shareholders.

14.4 Earnings reserves: other information

	31/12/2016	31/12/2015	%
Legal reserve	22,193	19,788	12.2%
Statutory reserve	39,293	22,986	70.9%
Other reserves	5,500	5,500	0.0%
Total	**66,986**	**48,274**	**38.8%**

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

	31/12/2016	31/12/2015	%
1) Financial guarantees issued	12,340	17,000	-27.4%
a) Banks	1,281	3,342	-61.7%
b) Customers	11,059	13,658	-19.0%
2) Commercial guarantees issued	55,400	50,567	9.6%
a) Banks	-	-	-
b) Customers	55,400	50,567	9.6%
3) Irrevocable commitments to disburse funds	28,298	11,856	138.7%
a) Banks	367	-	-
i) certain use	367	-	-
ii) uncertain use	-	-	-
b) Customers	27,931	11,856	135.6%
i) certain use	103	232	-55.5%
ii) uncertain use	27,827	11,624	139.4%
4) Commitments underlying credit derivatives: sales of protection	-	-	-
5) Assets pledged as collateral for third-party debts	-	-	-
6) Other commitments	-	-	-
Total	**96,037**	**79,423**	**20.9%**

2. Assets pledged as collateral for liabilities and commitments

	31/12/2016	31/12/2015	%
1. Financial assets held for trading	270,816	296,528	-8.7%
2. Financial assets recognized at fair value	-	-	-
3. Financial assets available for sale	1,327,831	1,158,217	14.6%
4. Financial assets held to maturity	32,529	32,716	-0.6%
5. Loans to banks	-	1,000	-100.0%
6. Loans to customers	52,442	34,273	53.0%
7. Property, plant and equipment	-	-	-

In addition, the Bank has pledged off-balance sheet securities with a value of €228 million as collateral, of which €50 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 No. 201 of 6 December 2011, converted into Law No. 214 of 22 December 2011, used as collateral for funding transactions.

4. Management and intermediation services

	31/12/2016	31/12/2015
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	**232,691**	**255,265**
a) individual	232,691	255,265
b) collective	-	-
3. Custody and administration of securities	**3,770,148**	**3,753,426**
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	528,197	876,336
1. securities issued by reporting entity	233,841	369,775
2. other	294,356	506,561
c) third-party securities deposited with third parties	523,183	869,589
d) securities owned by bank deposited with third parties	2,952,609	2,377,276
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 statements (b)	Net amount of financial assets shown in the financial statements (c=a-b)	Related amounts not offse tin the financial statements		Net amount 31/12/2016 (f=c-d-e)	Net amount 31/12/2015
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	20	-	20	-	-	20	155
2. Repurchase agreements							
3. Securities lending							
4. Other							
Total 31/12/2016	**20**	**-**	**20**	**-**	**-**	**20**	**X**
Total 31/12/2015	**155**	**-**	**155**	**-**	**-**	**X**	**155**

Technical forms	Gross amountof financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets shown in the financial statements (c=a-b)	Related amounts not offse tin the financial statements		Net amount 31/12/2016 (f=c-d-e)	Net amount 31/12/201
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	582	-	582	1,018	-	(436)	(157)
2. Repurchase agreements							
3. Securities lending							
4. Other							
Total 31/12/2016	**582**	**-**	**582**	**1,018**	**-**	**(436)**	**X**
Total 31/12/2015	**691**	**-**	**691**	**848**	**0**	**X**	**(157)**

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	31/12/2016	31/12/2015	%
1. Financial assets held for trading	61	-	-	61	35	76.8%
2. Financial assets available for sale	12,133	-	-	12,133	16,833	-27.9%
3. Financial assets held to maturity	1,438	-	-	1,438	2,604	-44.8%
4. Due from banks	1	242	-	243	387	-37.1%
5. Loans to customers	-	67,428	-	67,428	77,007	-12.4%
6. Financial assets recognised at fair value	-	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-	-
8. Other assets	X	X	-	3,215	-	-
Total	13,633	67,671	3,215	84,519	**96,866**	**-12.7%**

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 Interest income and similar revenues: other information

1.3.1 Interest income on foreign-currency financial assets

	31/12/2016	31/12/2015	%
Interest income on foreign-currency financial assets - securities	62	72	-13.8%
Total	**62**	**72**	**-13.8%**

1.3.2 Interest income on finance lease transactions

	31/12/2016	31/12/2015	%
Interest income on financial lease payables	6,057	7,272	-16.7%
Total	**6,057**	**7,272**	**-16.7%**

1.4 Interest expense and similar charges: composition

	Debt	Securities	Other liabilities	31/12/2016	31/12/2015	%
1. Due to Central Banks	110	X	-	110	379	-71.0%
2. Due to banks	1,652	X	-	1,652	2,396	-31.0%
3. Due to customers	13,416	X	-	13,416	15,958	-15.9%
4. Securities issued	X	8,363	-	8,363	12,848	-34.9%
5. Financial liabilities held for trading	-	-	-	-	-	-
6. Financial liabilities at fair value	-	-	-	-	-	-
7. Other liabilities	X	X	-	-	-	-
8. Hedging derivatives	X	X	-	-	-	-
Total	**15,178**	**8,363**	-	**23,540**	**31,581**	**-25.5%**

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 Interest expense and similar charges: other information

1.6.1 Interest expense on foreign-currency financial liabilities

	31/12/2016	31/12/2015	%
Interest expence on foreign-currency financial assets	221	216	2.3%
Total	**221**	**216**	**2.3%**

1.6.2 Interest expense on finance lease transactions

There was no interest expense on finance lease transactions.

Section 2 - Commissions - items 40 and 50

2.1 Commission income: composition

Type of services / Amounts	31/12/2016	31/12/2015	%
a) guarantees issued	953	909	4.9%
b) credit derivatives	-	-	-
c) management, intermediation and advisory serv	8,258	7,798	5.9%
1. trading in financial instruments	-	-	-
2. foreign exchange	579	599	-3.3%
3. asset management	2,070	2,046	1.1%
3.1 individual	2,070	2,046	1.1%
3.2 collective	-	-	-
4. securities custody and administration	223	223	0.2%
5. depository services	-	-	-
6. securities placement	3,728	3,483	7.1%
7. reception and transmission of orders	437	622	-29.7%
8. advisory services	-	-	-
8.1. on investments	-	-	-
8.2. on financial structure	-	-	-
9. distribution of third-party services	1,220	825	48.0%
9.1 asset management	-	-	-
9.1.1 individual	-	-	-
9.1.2 collective	-	-	-
9.2 insurance products	1,220	825	48.0%
9.3 other	-	-	-
d) collection and payment services	8,630	8,356	3.3%
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	5,569	5,761	-3.3%
j) other	5,228	5,549	-5.8%
Total	**28,638**	**28,373**	**0.9%**

2.2 Commission income: distribution channels for products and services

Channels/Amounts	31/12/2016	31/12/2015	%
a) at Bank branches:	6,957	6,325	9.99%
1. portfolio management	2,008	2,018	-0.46%
2. placement of securities	3,728	3,483	7.05%
3. third party products and services	1,220	825	47.98%
b) outside bank branches:	-	-	-
1. portfolio management	-	-	-
2. placement of securities	-	-	-
3. third party products and services	-	-	-
c) other distribution channels:	61	29	114.92%
1. portfolio management	61	29	114.92%
2. placement of securities	-	-	-
3. third party products and services	-	-	-

2.3 Commission expenses: composition

	31/12/2016	31/12/2015	%
a) guarantees received	77	66	16.8%
b) credit derivatives	-	-	-
c) management and intermediation services:	6	19	-69.8%
1. trading in financial instruments	4	12	-66.8%
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	2	7	-75.1%
6. off-premises distribution of securities, products and services	-	-	-
d) collection and payment services	2,618	2,555	2.4%
e) other services	2,020	3,050	-33.8%
Total	**4,720**	**5,691**	**-17.1%**

Commission expense for “other services” includes commissions of €1,316 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

	31/12/2016		31/12/2015		%
	Dividends	Income from UCI	Dividends	Income from UCI	
A. Financial assets held for trading	23	-	18	-	29.6%
B. Financial assets available for sale	1,390	-	997	-	39.4%
C. Financial assets recognised at fair value	-	-	-	-	-
D. Equity investments	-	X	-	X	-
Total	1,413	-	1,015	-	39.3%

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	16	843	19	-	840
1.2 Equity securities	-	-	-	920	(920)
1.3 Units in collective investment undertakir	-	-	-	-	-
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	8
4. Derivatives					
4.1 Financial derivatives					
- on debt securities and interest rates	6,959	658	6,975	635	8
- on equity securities and equity indices	-	-	-	-	-
- on foreign currencies and gold	X	X	X	X	238
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**6,976**	**1,501**	**6,994**	**1,555**	**173**

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

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

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

6.1 Profits (loss) on disposal of investments: composition

	Total 31/12/2016			Total 31/12/2015		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Loans to banks	-	-	-	-	-	-
2. Loans to customers	78	225	(146)	102	72	30
3. Financial assets available for sale	17,141	1,820	15,321	84,273	2,951	81,322
3.1 Debt securities	17,141	1,820	15,321	17,750	2,951	14,799
3.2 Equity securities	-	-	-	66,486	-	66,486
3.3 Units in collective investment undertakings	-	-	-	37	-	37
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**17,219**	**2,044**	**15,175**	**84,375**	**3,022**	**81,353**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	43	333	(290)	109	1,216	(1,107)
Total liabilities	**43**	**333**	**(290)**	**109**	**1,216**	**(1,107)**

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)				31/12/2016	31/12/2015	%
	Specific			Specific		Portfolio				
	Writeoffs	Other		A	B	A	B			
A. Loans to banks	-	-	-	-	-	-	-	-	1,473	-100%
- Loans	-	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	1,473	-100%
B. Loans to customers	1,680	31,293	65	675	4,333	-	5,978	22,052	53,937	-59%
Non performing loans purchased	-	-	-	-	-	-	-	-	-	-
- Loans	-	-	X	-	-	X	X	-	-	-
- Debt securities	-	-	X	-	-	X	X	-	-	-
Other	1,680	31,293	65	675	4,333	-	5,978	22,052	53,937	-59%
- Loans	1,680	31,293	65	675	4,333	-	5,978	22,052	53,937	-59%
- Debt securities	-	-	-	-	-	-	-	-	-	-
C. Total	**1,680**	**31,293**	**65**	**675**	**4,333**	**-**	**5,978**	**22,052**	**55,410**	**-60%**

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)		31/12/2016 (3)	31/12/2015
	Specific		Specific			
	Writeoffs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	2,528	X	X	2,528	3,241
C. Units in collective investment undertakings	-	-	X	-	-	1,689
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**2,528**	**-**	**-**	**2,528**	**4,930**

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 €2,528 thousand were recognised during the reporting year on equity instruments through the income statement. Such losses may be broken down as follows:

- ✓ Mediocredito FVG of €212 thousand;
- ✓ Banca Valsabbina Scpa of €1,159 thousand;
- ✓ Cassa di Risparmio di Cesena (through the Interbank Deposit Protection Fund) of €126 thousand;
- ✓ KB 1909 of €243 thousand;
- ✓ Friulia SpA of €198 thousand;
- ✓ Agenzia SV Sedia of €9 thousand;
- ✓ Torre Natisone Gal of €10 thousand.

The impairment losses on interests in CIUs refer to the shares in the following:

- ✓ Fondo Immobiliare Asset Bancari of €54 thousand;
- ✓ Fondo Immobiliare Asset Bancari III of €117 thousand;
- ✓ Fondo Immobiliare Finint FVG of €126 thousand;
- ✓ Fondo Italiano Investimento of €29 thousand;
- ✓ Fondo Atlante of €245 thousand.

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

	Writedowns (1)			Writebacks (2)				31/12/2016	31/12/2015
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Guarantees issued	-	-	-	-	59	-	110	(169)	53
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	**-**	**-**	**-**	**-**	**59**	**-**	**110**	**(169)**	**53**

Key: A = interest B = other write-backs

Section 9 - G&A expenses - item 150

9.1 Personnel expenses: composition

	31/12/2016	31/12/2015	%
1) Employees	39,068	39,355	-0.7%
a) wages and salaries	26,953	27,106	-0.6%
b) social security contributions	7,093	7,439	-4.7%
c) severance benefits	366	215	69.8%
d) pensions	-	-	-
e) allocation to employee severance benefit provision	1,730	1,608	7.6%
f) allocation to provision for pensions and similar liabilities	-	-	-
- defined contribution	-	-	-
- defined benefit	-	-	-
g) payments to external pension funds	1,308	1,339	-2.3%
- defined contribution	1,308	1,339	-2.3%
- defined benefit	-	-	-
h) costs in respect of agreements to make payments in own equity instruments	-	-	-
i) other employee benefits	1,618	1,648	-1.8%
2) Other personnel	503	587	-14.4%
3) Board of Directors	598	714	-16.3%
4) Early retirement costs	-	-	-
5) Recovery of expenses for employees of the Bank seconded to other entities	-	-	-
6) Reimbursement of expenses for employees of other entities seconded to the Bank	-	-	-
Total	**40,169**	**40,657**	**-1.2%**

9.2 Average number of employees by category

	2016	2015
Employees		
a) Senior management	11	10
b) Middle management	236	236
of which Grade III and IV	115	117
c) Other personnel	340	337
Other personnel		
Total	**587**	**583**

9.4 Other employee benefits

Other employee benefits include €529 thousand in meal vouchers and €684 thousand in insurance policies.

9.5 Other administrative expenses: composition

	31/12/2016	31/12/2015	%
Compensation for professional and consultancy services	4,262	3,889	9.6%
Insurance	215	284	-24.5%
Advertising	1,020	828	23.1%
Telephone, postal and data transmission	505	504	0.2%
Office supplies and printing	299	208	43.4%
Maintenance and repairs	837	1,098	-23.8%
Electricity, heating and shared property service charges	1,058	1,156	-8.5%
Services provided by third parties	8,663	9,395	-7.8%
Cleaning	543	633	-14.2%
Travel expenses	1,091	1,064	2.5%
Security and transport of valuables	149	151	-1.7%
Membership fees	545	546	-0.2%
Commercial information	1,040	1,118	-7.0%
Magazine and newspaper subscriptions	55	66	-17.3%
Rent payable	2,220	2,257	-1.6%
Entertaining expenses	51	38	33.7%
Taxes and duties	6,680	6,870	-2.8%
Contributions to SFR and DGS	5,375	6,584	-18.4%
Other expenses	1,092	1,321	-17.4%
Total	**35,695**	**38,010**	**-6.1%**

Contributions to the SRF and DGS

The BRRD (Bank Recovery and Resolution Directive - 2014/59/EU) establishes the new resolution rules to be applied to all banks in the European Union with effect from 1 January 2015. The measures envisaged in the BRRD will be financed by the national resolution fund that each of the 28 Member States must institute. The funds are to be paid in advance, until a minimum target level of 1% of the guaranteed deposits is reached by 31 December 2024. An extraordinary ex-post contribution is also required if the available financial resources are not sufficient to finance resolution. This extraordinary contribution may reach a maximum of three times the annual amount of ordinary contributions. The Single Resolution Mechanism Regulation (2014/806/EU), which entered into effect on 1 January 2016, also calls for the creation of the Single Resolution Fund (SRF), to be managed by the new European resolution authority (the Single Resolution Board - SRB).

Legislative Decree No. 180 of 16 November 2015, transposing the BRRD into Italian law, mandates the creation of one or more national resolution funds with effect from 2015. As the national resolution authority, the Bank of Italy therefore instituted the Italian National Resolution Fund for 2015, by Order No. 1226609/15 of 18.11.2015. Each intermediary's annual contributions were determined according to its liabilities, net of own funds, protected deposits and, for entities belonging to groups, intra-group liabilities. The ordinary contribution for 2016 due from Banca Popolare di Cividale is €1.52 million.

Law No. 208 of 28 December 2015 (2016 Stability Act) requires, if the financial resources of the National Resolution Fund (NRF) are not sufficient to cover the resolution measures taken over time, that banks pay:

a) additional contributions to the NRF, as determined by the Bank of Italy, up to the total maximum amount, including contributions paid to the SRF, set out in Articles 70 and 71 of Regulation (EU) No 806/2014;
b) two additional annual contributions, for 2016 only.

Considering the NRF's financial needs relating to the well-known resolution plan for four banks, the Bank of Italy has called up two years of the contribution set out in point b) above, calculated on the basis of the amounts paid by the intermediaries for 2016, in the amount of €3.05 million.

The DGS (Deposit Guarantee Schemes – 2014/49/EU) Directive aims to increase the protection of depositors and harmonise the legislative framework at the Community level. The new Directive requires that all Member States adopt an ex-ante financing system, the target level for which is set at 0.8% of guaranteed deposits, to be reached in ten years.

The fund is managed by the Interbank Deposit Protection Fund (FITD), which has modified the Bylaws of the fund accordingly, in keeping with the new financing mechanism envisaged in Directive 2014/49/EU (DGSD), divided into ordinary (ex-ante) and extraordinary (ex-post) contributions. In particular, Art. 21 (1) requires that the Fund acquire available financial resources until reaching the target level of 0.8% of total protected deposits by 3 July 2024, through ordinary contributions by participating banks.

The amount of the ordinary contribution for 2016 due from Banca Popolare di Cividale has been determined to be €0.8 million.

The Interbank Deposit Protection Fund (FITD) – Scheme for Voluntary Action and Solidarity Fund.

The assembly of the members of the FITD approved an amendment to its Bylaws, creating a voluntary scheme for the implementation of actions in support of participating banks in extraordinary administration, default or risk of default.

The introduction of the new voluntary mechanism provides for possible action in a manner entirely independent and separate of the mandatory scheme, using private resources provided by participating banks on a separate, additional basis from the mandatory contributions due. Participation is binding for two years, with the option for participating banks to withdraw from the agreement after two years. Decisions about individual actions are binding on the participating banks.

The Board of Directors of Banca Popolare di Cividale approved participation in the voluntary scheme, which resulted in a contribution of €0.5 million for 2016 referring to Cassa Risparmio di Cesena.

The 2016 Stability Act provides for the institution of a Solidarity Fund for individual investors, individual entrepreneurs, direct farmers or agricultural entrepreneurs who at 23 November 2015 held subordinated financial instruments issued by the banks placed in resolution. This Fund is financed by the FITD, with maximum funding of €100 million, in accordance with European regulations on state aid, and managed by the latter with its own resources.

Section 10 - Net provisions for risks and charges - item 160

10.1 Net provisions for risks and charges: composition

	31/12/2016	31/12/2015	%
Customer disputes	(859)	121	-809.9%
Interbank Guarantee Fund (FITD)	(129)	-	-
Revocatory actions	85	568	-85.1%
Other	45	4,889	-99.1%
Total	**(858)**	**5,578**	**-115.4%**

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) 2016
A. Property, plant and equipment				
A.1 owned	2,443	-	-	2,443
- operating assets	2,443	-	-	2,443
- investment property	-	-	-	-
A.2 acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
Total	**2,443**	**-**	**-**	**2,443**

Section 12 - Charges/write-backs on impairment of intangible assets - item 180

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

	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments 2016 (a+b-c)
A. Intangible assets				
A.1 Owned	59	-	-	59
- generated internally by the Bank	-	-	-	-
- other	59	-	-	59
A.2 Acquired under finance leases	-	-	-	-
Total	**59**	**-**	**-**	**59**

Section 13 - Other operating income/expenses - item 190

13.1 Other operating expenses: composition

	31/12/2016	31/12/2015	%
a) impairment losses on non-current assets under finance leases	-	-	-
b) losses on disposal of property, securities held as non-current assets, equity investments, other assets	-	-	-
c) out-of-period expenses and reductions in assets	(2,078)	(1,306)	59.1%
d) other	(195)	(283)	-31.2%
Total	**(2,273)**	**(1,589)**	**43.0%**

13.2 Other operating income: composition

	31/12/2016	31/12/2015	%
a) merchant banking	-	-	-
b) premiums received for options	-	-	-
c) other income - rentals and fees	329	267	23.5%
d) expenses charged to others - recovery of taxes	5,464	5,646	-3.2%
e) expenses charged to others - customer insurance premiums	-	-	-
f) expenses charged to others on deposits and current accounts	465	586	-20.6%
g) expenses charged to others - intercompany services	-	-	-
h) expenses charged to others - other	1,601	1,528	4.8%
i) gains on disposal of property, securities held as non-current as	-	-	-
l) out-of-period income and reductions in liabilities	1,354	632	114.1%
Total	**9,214**	**8,659**	**6.4%**

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)

	31/12/2016	31/12/2015	%
A. Revenues	-	-	-
1. Revaluations	-	-	-
2. Profits on disposal	-	-	-
3. Write-backs	-	-	-
4. Other	-	-	-
B. Charges	518	49	957%
1. Write-downs	518	49	957%
2. Impairment losses	-	-	-
3. Losses on disposal	-	-	-
4. Other	-	-	-
Net result	**(518)**	**(49)**	**957%**

Impairment losses on equity investments refer to the impairment loss of €518 thousand on the investee Acileasing S.p.A. in liquidation.

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

17.1 Profits (loss) on disposal of investments: composition

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

	31/12/2016	31/12/2015	%
1. Current taxes (-)	(369)	(3,096)	-88.1%
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 (+)	-	-	-
4. Change in deferred tax assets (+/-)	(110)	10,425	-101.1%
5. Change in deferred tax liabilities (+/-)	1,181	2,688	-56.1%
6. Taxes for the period (-) (-1+/-2+3+/-4+/-5)	**701**	**10,017**	**-93.0%**

18.2 Reconciliation of theoretical tax liability and actual tax liability recognised

	31/12/2016	31/12/2015
Income (loss) before tax from continuing operations	532	14,036
Income (loss) before tax on groups of assets/liabilities under disposal	-	-
Theoretical taxable income	532	14,036
Income tax - theoretical tax expense	(146)	(3,860)
Effect of non-taxable or taxed at reduced rates positive components of income	-	3,949
Effect of taxed positive components of income	-	-
Effect of revenues that do not form taxable income	1,443	11,698
Income tax - actual tax expense	**1,297**	**11,787**
Theoretical tax expense - Irap	(25)	(653)
Effect of revenues/expenses that do not form taxable income	(342)	585
Effect of other changes	(229)	(1,702)
Actual tax expense - IRAP	**(596)**	**(1,770)**
Other taxes	-	-
Actual tax expenses for the period	**701**	**10,017**
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	31/12/2016	31/12/2015
Adjusted attributable profit	1,233	24,103
Weighted average number of shares	16,971,085	16,971,085
Basic Earning per share	0.07	1.42

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 financial statements.

Chapter D – COMPREHENSIVE INCOME

		Gross amount	Income tax	Net amount
10	NET INCOME (LOSS)	x	x	1,233
	Other comprehensive income without reclassification to profit or loss			
40	Defined-benefit plans	(370)	(102)	(268)
100	Financial assets available-for-sale:	(8,130)	2,596	(5,693)
	a) fair value changes	(8,130)	2,596	(5,693)
130	Total other comprehensive income	(8,501)	2,494	(5,962)
140	TOTAL COMPREHENSIVE INCOME (Item 10+130)			(4,729)

Chapter E – RISKS AND HEDGING POLICIES

Identifying the risks to which the Bank is actually or potentially exposed is of primary importance to assuming such risks in an informed manner and managing them effectively, using the appropriate tools and techniques to mitigate those risks.

The management and monitoring of risks at Banca Popolare di Cividale 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 Bank'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 Bank'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 Bank are managed, through the establishment of general principles concerning maximum risk tolerance and the ensuing structure for oversight of the Bank's overall risk profile and major specific risks. The process requires a high degree of consistency and reconciliation of the strategic plan, RAF, ICAAP, ILAAP, budget and internal control system.

In accordance with supervisory requirements, a Risk Committee has also been operative since 2015. This Committee, internal to the Board of Directors, consists of three non-executive independent directors and at least one member of the Board of Statutory Auditors. It plays an investigative, consultative and propositional role with regard to internal control and risk management systems. Its main purpose is to serve as "interface" between the Board of Directors, Board of Statutory Auditors, control functions and the Bank's other organisational units.

The activities for which the Risk Committee is responsible according to supervisory regulations include liaising with control functions. In accordance with the new supervisory rules (Bank of Italy Circular No. 285/2013), the organisational structure of Banca Popolare di Cividale, identifies the Risk Management Service and Compliance Service, which are to report directly to the Board of Directors, as the level-two 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 reputational 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 supervises the internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP) required under supervisory regulations.

Compliance Service
Legal compliance is the responsibility of an independent function that supervises management of non-compliance risk, 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.

Other committees
According to the organisational model, a Management Committee and an Asset and Liability Committee have been instituted, in addition to the Risk Committee, 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 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. Within the framework of the overall internal control system, it also plays a consultative, informative and propositional role with regard to decisions of an operational nature relating to initiatives and projects that have an effect on the risk management process and it aids the general manager in performing the roles assigned to the position by internal risk management policies.
The ALCo (Assets and Liabilities Committee), of which the Risk Manager is a member, is charged with proposing the Bank'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 and ILAAP at Banca Popolare di Cividale
In accordance with the regulatory provisions governing the prudential control process, the Bank has implemented specific company rules, approved by the 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 Bank'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 Bank, 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 Bank'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 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 Bank is exposed, support the company's growth plans and maintain suitable market standing.
Although Banca Popolare di Cividale belongs to the category of "not significant" banks, with effect from 31 December 2015 the Board of Directors decided to comply with the request from the European supervisory

authority to prepare an annual report on the internal liquidity adequacy assessment process (ILAAP). This strategic decision is aimed at further reinforcing the system for identifying, measuring, managing and monitoring the Bank's internal liquidity.
The report, which must be approved and signed by the Board of Directors and then submitted to the supervisory authority by 30 April of each year, represents, as in the case of ICAAP, a process aimed at the identification and timely management of situations of risk (in this case, liquidity risk) and must be continuously implemented by the Bank.
In order to ensure that company bodies and control functions are fully aware of and capable of managing risk factors and compliance with the RAF, in addition to the ICAAP and ILAAP reports, Risk Management prepares complete, timely information streams, with the frequency mandated by internal regulations, concerning the assessment and monitoring of exposure to risk, submitted with the established frequency to the senior management, Management Committee, Risk Committee and other company bodies (Board of Directors and Board of Statutory Auditors).
The disclosure obligations imposed by prudential regulations (Bank of Italy Circular 285/2013 and the CRR, Regulation EU No 575/2013) are discharged 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 aspect of the core business of Banca Popolare di Cividale. In this framework, the Bank is exposed to the risk that some loans may not be repaid either at maturity or thereafter, due to a deterioration of the borrower's financial conditions, and therefore need to be written off in whole or in part.
The provisions of the Credit Policy and the general operating parameters established and approved by the Board of Directors represent the framework of reference for developing and implementing the Lending Process of Banca Popolare di Cividale, in accordance with the Bank's Articles of Association, mission and values, and specifically: “to be a point of reference for families, government and businesses in the local community, and to promote and support the social, economic and cultural growth of the community in which it operates.”
The strategies, powers and rules for granting and managing credit at Banca Popolare di Cividale are oriented towards the following general guidelines:

- ✓ achieving a sustainable growth target for lending, consistent with the risk appetite, with a view to maximising return;
- ✓ diversifying the portfolio, by limiting the concentration of exposures to individual counterparties/groups and individual sectors of the economy;
- ✓ efficiently selecting groups and individual borrowers to which to lend through a thorough analysis of creditworthiness aimed at limiting the risk of default;
- ✓ favouring lending in support of the real economy and production, during the current phase of the economic scenario.
- ✓ constantly monitoring borrowers, 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 general guidelines for granting loans are consistent with the credit risk management policies set by the Board of Directors and are based on a definition of the elements that characterise the Bank's orientation in assuming and managing risk, with particular regard to the following aspects:

- ✓ the tolerated amount of non-performing exposures in portfolio;
- ✓ concentration limits, including large risks;
- ✓ eligible customer segments;
- ✓ particular limitations on the characteristics of potential borrowers and guarantors;
- ✓ objectives for the mitigation of risk through the acquisition of guarantees;
- ✓ objectives for the profitability and capital absorption of loans;

- ✓ compliance with supervisory regulations in terms of credit quality and risk management and monitoring.

The Bank's credit risk profile takes the form of identifying specific indicators and setting limits on risk, subject to periodic assessment and review, as established in the RAF, for the various phases of the lending process (rating system; concentration limits; large risks; major transactions; and associated parties) or the risk management control phase (constant monitoring of the quality of the loan portfolio, pursued through the adoption of precise operating methods throughout all management phases of the relationship for assignment to level-two monitoring and control performed by Risk Management).

2. Credit risk management policies

2.1 Organisational aspects

Within the organisational structure adopted by Banca Popolare di Cividale in effect at the reporting date, 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 Banca Popolare di Cividale, 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 risks associated with lending for Banca Popolare di Cividale: 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 within the Loan Department): it supervises constant monitoring of risk positions to keep their quality within acceptable limits; it performs the appropriate controls of a systematic or spot-based nature with regard to the effective performance of the risks assigned to the various credit monitoring and management functions;
- ✓ Anomalous Loan Office (an operating unit within the Loan Department): it manages positions classified as unlikely to pay and positions that present operating anomalies within the framework of the facilities granted and/or unauthorised use of credit, or that are directly or indirectly affected by adverse events, assigned to the unit according to pre-determined portfolio allocation criteria; it gives instructions to network units for the performance of the appropriate management activities deemed necessary to protect credit; it proposes to the competent bodies the amount of the provisions to be set aside for the positions classified as unlikely to pay when preparing the financial statements;
- ✓ 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, periodically reporting to company bodies. 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).

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 expected loss (the credit risk parameters probability of default – PD, loss given default – LGD, and exposure at default – EAD) and additional corrective factors; 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 environment, 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).

A fundamental element of the parameters and instruments for the management of credit risk adopted by Banca Popolare di Cividale relates to the internal ratings calculated according to differentiated models estimated specifically for the various customer segments (Corporate, SME Corporate, Small Retail, Micro Retail and Individuals).

The rating system developed by the Creval Group, the external provider of Banca Popolare di Cividale, 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 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.

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, eight 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 Bank'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.

Risk parameters play a central role in the processes of disbursement, monitoring and performance management. In particular, they contribute to determining the bodies competent for authorising credit facilities, as specified above, and they contribute to steering the decisions of decision-makers in ongoing classification of positions. In addition, the risk parameters indicated above are used in assessing the portfolio of performing loans from customers. With regard to this aspect, a specific internal calculation model is applied, inspired by the criteria defined by practice to quantify the expected loss, which uses annual historical series (for a period of three years) to calculate the danger rate for performing positions and the transformation of the loss given default (LGD) for bad debts (regulatory definition) into the performing LGD and calculate the historical average default rate by credit risk segment as a proxy for an average portfolio PD. Exposure at default (EAD) refers to the value of the gross on balance sheet exposure.

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. Specific additional assessments may be triggered by reports or undertaken at the initiative of dedicated units such as the Anomalous Loan Office, which is responsible for monitoring relationship performance, according to new management model in which positions belonging to the various credit risks segments (Corporate, Corporate SME, Retail and Individual) classified to the various management statuses are assigned to portfolios through the application of a new procedure known as the Monitoring Procedure. Management statuses are associated with specific actions aimed at preventing the deterioration of positions, including phone collection activity managed on an outsourced basis by a company specialised in individual and retail business borrowers.

Within the Lending Area's lending process and IT procedures, specific functions have been activated, allowing potential forborne exposures (exposures subject to forbearance measures) to be identified, managed and monitored, in accordance with prudential regulations. Forborne positions do not represent an additional administrative status, but a further element for defining the customer's credit quality, complementary to, while not overlapping with, the previously existing classifications.

Definitive classification as forborne is nonetheless subject to individual assessment by the decision-making body during the processes of disbursing or reviewing the loan. In accordance with applicable supervisory regulations, forborne exposures are classified to two categories (according to a transaction-based approach):

- ✓ non-performing forborne exposures, i.e. exposures subject to forbearance measures due to financial difficulty by the borrower, classified among non-performing positions (bad debts, unlikely to pay and past due);
- ✓ performing forborne exposures, i.e. exposures subject to forbearance measures due to financial difficulty of the borrower, classified among performing positions, which are subject to different credit monitoring procedures.

In accordance with prudential regulations and the Bank'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 main 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 loan portfolio, with an emphasis on credit quality, including a breakdown of loans into performing and non-performing (past due, probable defaults and bad debts) and a comparison with the industry benchmark; the analysis also includes the transition matrices and the calculation of default rates;
- ✓ the 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).

Supervisory regulations concerning internal control systems also require that the Risk Management Function conduct ongoing credit performance monitoring in order to determine:

- ✓ the proper functioning of the credit monitoring model and the proper use of monitoring parameters;

- ✓ the proper classification of exposures (representative of the risk level) and the proper assessment of valuation inputs (guarantees);
- ✓ the consistency of provisions and the portfolio's risk profile.

On this basis, and in accordance with the proportionality principle, as established by the law, the Credit Risk Management Office has implemented a level-two control system aimed at ensuring compliance with regulations. The main activities entrusted to the Credit Risk Management Office include:

- ✓ review of the proper functioning of the credit monitoring model and the proper use of monitoring parameters;
- ✓ the proper classification of exposures (representative of the risk level) and the proper assessment of valuation inputs (guarantees);
- ✓ the appropriateness of accruals;
- ✓ the adequacy of the recovery process.

Concentration risk

The Risk Management Service, Credit Risk Management Office, is responsible for measuring concentration risk. The approach taken to measuring the concentration risk of the portfolio of loans to customers differs according to whether it derives from:

- ✓ concentration by individual counterparty or groups of related customers;
- ✓ concentration by common factor (geographical and segment concentration).

The granularity adjustment approach indicated in the prudential supervisory regulations is adopted to measure concentration risk by individual counterparties or groups of related customers. The method proposed by the Italian Banking Association is adopted to measure concentration risk by geographical area and segment. Various analyses are also conducted to monitor concentration risk for individual counterparties or groups of related customers. These include distribution by draw-down bracket and the weight of the top ten, twenty and fifty performing positions (individual customers or economic groups of performing customers), identified on the basis of the amounts of on-balance sheet loans.

In accordance with the lending process, in addition to observing the limits set by supervisory provisions with respect to large exposures and significant risks, Banca Popolare di Cividale has implemented an internal system of concentration limits on the basis of the values of own funds.

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.

As part of ICAAP, the Bank assesses what is known as “residual risk”, which is defined as the risk that recognised techniques for mitigating credit risk prove less effective than expected. The use of such techniques may expose the Bank to other risks (for example, operational and legal risks) that, were they to occur, might result in greater credit exposure than expected, due to the reduced effectiveness or effective unavailability of protection. Residual risk is primarily managed through appropriate initiatives of a procedural and organisational nature. Organisational changes aimed at enhancing level-two controls were made with the purpose of reducing residual risk.

2.4 Non-performing financial assets

Non-performing financial assets are classified as follows in accordance with supervisory regulations (new classification introduced with effect from 1 January 2015):

- ✓ Exposures past due by more than 90 days: on-balance sheet exposures other than those classified as bad debts or unlikely to pay which are past due at the reporting date. Past due exposures may be determined in reference to either the individual borrower or the individual transaction, as permitted by the regulations. Banca Popolare di Cividale has adopted the individual borrower approach for all exposures.
- ✓ Unlikely to pay: on- and off-balance sheet exposures to borrowers who the Bank, at its discretion, believes it is unlikely will be able to repay all (principal and/or interest) of their credit obligations without recourse to measures such as the enforcement of guarantees. This assessment is made without regard to the presence of any past-due amounts (or instalments).
- ✓ Bad debts: all on- and off-balance sheet exposures to borrowers in a state of insolvency or substantially equivalent situations.

In accordance with those same supervisory regulations, a transversal category known as “forborne exposures” has also been identified within the various risk classes (performing and non-performing). A forborne exposure is an exposure to which forbearance measures have been applied. Forbearance measures are contractual concessions granted by the Bank to a borrower who is currently experiencing difficulty, or about to experience difficulty, in fulfilling its financial obligations (“financial difficulty”). Such exposures form sub-sets of both the previous categories of non-performing exposures (“Non-performing exposures with forbearance measures”) and of performing exposures (“Other exposures with forbearance measures”), depending on the risk status of the exposure at the time of renegotiation, or as a consequence of renegotiation.
The Anomalous Loan Office is responsible for monitoring positions classified as unlikely to pay and the Legal and Dispute Service/Dispute Office for positions classified as bad debts.
The competent bodies resolve to reclassify individual positions as unlikely to pay, normally by proposal of the Anomalous Loan Office. The amount of provisions to be recognised is also determined during the decision-making process. Likewise, the competent bodies also decide to reclassify positions as ordinary and thus out of the unlikely to pay category.
Once a loan is classified as unlikely to pay, the decision-making powers of individual loan officers are suspended and any further decision on extending loans rests solely with collegial bodies. Positions classified as unlikely to pay of amounts in excess of the limit set in the Rules for the Classification of Positions and the Assessment of Non-Performing Exposures are managed by the Anomalous Loan Office, which also provides constant support to individual branches with managing accounts of limited amounts, with regard to the measures to be taken to seek to restore the positions to performing status.
The procedure for classifying a position as a bad debt is analogous to that used for managing unlikely to pay positions. Decisions concerning the amounts of individual provisions, as well as any changes, are made by the competent bodies upon the recommendation of the Legal and Dispute Service/Dispute Office.
The approach for bad debt positions is set out in internal rules and involves the application of the following criteria: 1) for past-due bad debt positions (past due by more than 90 days and materiality threshold exceeded) and unlikely to pay positions with exposures below a predetermined threshold, the assessment is conducted on a lump-sum basis, through the application of two distinct models; 2) for unlikely to pay positions beyond a predetermined threshold and bad debt positions, a case-by-case assessment is performed in accordance with IASs/IFRSs, involving the determination of the expected loss for each position.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 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 loans	Unlikely to pay	Non performing, past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets available for sale	-	-	-	-	1,279,257	1,279,257
2. Financial assets held to maturity	-	-	-	-	32,529	32,529
3. Due from banks	-	-	-	-	52,226	52,226
4. Loans to customers	200,380	178,026	15,642	152,541	2,075,588	2,622,176
5. Financial assets recognized at fair value	-	-	-	-	-	-
6. Financial assets being divested	-	-	-	-	-	-
Total 31/12/2016	**200,380**	**178,026**	**15,642**	**152,541**	**3,439,599**	**3,986,187**
Total 31/12/2015	**200,473**	**177,892**	**19,678**	**250,223**	**3,222,357**	**3,870,623**

Other assets include €153,323 thousand of exposures past due by one day.

A.1.2 Distribution of loan exposures by portfolio and credit quality (gross and net values)

	Impaired assets			Other assets			Total net exposure
	Gross exposure	Specific writedowns	Net exposure	Gross exposure	Portfolio writedowns	Net exposure	
1. Financial assets available for sale	-	-	-	1,279,257	-	1,279,257	1,279,257
2. Financial assets held to maturity	-	-	-	32,529	-	32,529	32,529
3. Due from banks	-	-	-	52,226	-	52,226	52,226
4. Loans to customers	737,300	343,253	394,047	2,238,974	10,846	2,228,129	2,622,176
5. Financial assets recognized at fair value	-	-	-	X	X	-	-
6. Financial assets being divested	-	-	-	-	-	-	-
Total 31/12/2016	**737,300**	**343,253**	**394,047**	**3,602,986**	**10,846**	**3,592,140**	**3,986,187**
Total 31/12/2015	**727,486**	**329,443**	**398,043**	**3,489,514**	**16,934**	**3,472,580**	**3,870,623**

Portfolio/quality	Assets of evidently low credit quality		Other assets
	Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	2,930
2. Hedging derivatives	-	-	-
Total 31/12/2016	**-**	**-**	**2,930**
Total 31/12/2015	**-**	**-**	**829**

A.1.3 On- and off-balance sheet loan exposures to banks: gross and net values and past-due brackets

Type of exposure/value	Gross exposure					Specific writedowns	Portfolio writedowns	Net exposure
	Non performing assets				Performing assets			
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. ON-BALANCE-SHEET EXPOSURES								
a) Bad loans	-	-	-	-	X	-	X	-
- Of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
- Of which: forborne exposures	-	-	-	-	X	-	X	-
c) Non performing, past due exposures	-	-	-	-	X	-	X	-
- Of which: forborne exposures	-	-	-	-	X	-	X	-
c) Performing past due exposures	X	X	X	X	-	X	-	-
- Of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other performing exposures	X	X	X	X	132,342	X	-	132,342
- Of which: forborne exposures	X	X	X	X	-	X	-	-
TOTAL A	-	-	-	-	**132,342**	-	-	**132,342**
B. OFF-BALANCE-SHEET EXPOSURES	-	-	-	-	-	-	-	-
a) Non performing	-	-	-	-	X	-	X	-
b) Performing	X	X	X	X	1,912	X	-	1,912
TOTAL B	-	-	-	-	**1,912**	-	-	**1,912**
TOTAL (A+B)	-	-	-	-	**134,253**	-	-	**134,253**

A.1.6 On- and off-balance sheet loan exposures to customers: gross and net values and past-due brackets

Type of exposure/value	Gross exposure					Specific writedowns	Portfolio writedowns	Net exposure
	Non performing assets				Performing assets			
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. ON-BALANCE-SHEET EXPOSURES								
a) Bad loans	-	-	-	493,054	x	292,674	x	200,380
- Of which: forborne exposures	-	-	-	14,128	x	6,351	x	7,777
b) Unlikely to pay	75,473	5,055	12,229	133,617	x	48,349	x	178,026
- Of which: forborne exposures	45,698	1,797	3,612	28,091	x	13,658	x	65,540
c) Non performing, past due exposures	943	1,908	6,150	8,871	x	2,230	x	15,642
- Of which: forborne exposures	455	90	1,209	2,323	x	459	x	3,618
d) Performing past due exposures	x	x	x	x	153,323	x	782	152,541
- Of which: forborne exposures	x	x	x	x	14,094	x	72	14,023
e) Other performing exposures	x	x	x	x	3,319,428	x	10,064	3,309,364
- Of which: forborne exposures	x	x	x	x	64,148	x	327	63,821
TOTAL A	**76,417**	**6,962**	**18,379**	**635,542**	**3,472,751**	**343,253**	**10,846**	**3,855,953**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non performing	6,657	-	-	-	x	1,094	x	5,563
b) Performing	x	x	x	x	89,717	x	321	89,396
TOTAL B	**6,657**	**-**	**-**	**-**	**89,717**	**1,094**	**321**	**94,959**
TOTAL (A+B)	**83,073**	**6,962**	**18,379**	**635,542**	**3,562,469**	**344,348**	**11,167**	**3,950,912**

A.1.7 On-balance sheet loan exposures to customers: changes in gross impaired positions

	Bad loans	Unlikely to pay	Past due positions
A. Opening gross exposure	**473,570**	**230,090**	**23,826**
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	**51,476**	**69,937**	**12,025**
B.1 from performing positions	2,941	54,507	11,801
B.2 transfers from other categories of impaired position	41,988	11,252	24
B.3 other increases	6,547	4,179	200
- of which: business combinations	-	-	-
C. Decreases	**31,992**	**73,654**	**17,979**
C.1 to performing positions	99	3,307	2,114
C.2 writeoffs	15,839	-	-
C.3 collections	16,054	30,205	2,742
C.4 assignments	-	-	-
C.5 losses on sale	-	-	-
C.6 transfers to other categories of impaired positions	-	40,141	13,123
C.7 other decreases	-	-	-
D. Closing gross exposure	**493,054**	**226,374**	**17,872**
- of which: exposures assigned but not derecognized	-	-	-

A.1.7bis On-balance sheet loan exposures to customers: changes in gross exposures subject to forbearance measures, by credit quality

	Forborne exposures: non performing	Forborne exposures: performing
A. Opening gross exposure	64,021	67,851
- of which: exposures assigned but not derecognized	-	-
B. Increases	51,826	43,028
B.1 from performing positions	20,958	41,421
B.2 transfers from other categories of impaired positions	10,354	-
B.3 transfers from forborne non performing positions	-	1,596
B.4 other increases	20,515	12
C. Decreases	18,444	32,638
C.1 to performing positions	-	15,343
C.2 to other categories of performing forborne positions	1,596	-
C.3 to other categories of non performing forborne positions	-	10,354
C.4 write offs	40	-
C.5 collections	16,809	6,940
C.6 assignments	-	-
C.7 losses on sale	-	-
C.8 other decreases	-	-
D. Closing gross exposure	97,403	78,242
- of which: exposures assigned but not derecognized	-	-

A.1.8 On-balance sheet loan bad debt exposures to customers: changes in total adjustments

Reason/Categories	Bad loans		Unlikely to pay		Past due positions	
	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
A. Total opening adjustments	**273,096**	**3,244**	**52,199**	**9,121**	**4,148**	**703**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	**38,436**	**3,310**	**14,556**	**8,278**	**1,370**	**177**
B.1. writedowns	26,341	1,799	12,256	4,001	1,279	160
B.2. losses on sale	-	-	-	-	-	-
B.3. transfers from other categories of impaired positions	10,658	699	1,959	292	5	-
B.4. other increases	1,437	813	341	3,984	86	16
- of wich: business combinations	-	-	-	-	-	-
C. Decreases	**18,858**	**204**	**18,406**	**3,740**	**3,288**	**421**
C.1. writebacks from valuations	5,092	173	5,369	2,416	697	82
C.2.writebacks from collection	745	-	2,690	533	315	22
C.3. gains on sale	-	-	-	-	-	-
C.4. writeoffs	13,022	30	-	-	-	-
C.5. transfers to other categories of impaired positions	-	-	10,347	674	2,275	318
C.6. other decreases	-	-	-	119	-	-
D. Total closing adjustments	**292,674**	**6,351**	**48,349**	**13,658**	**2,230**	**459**
- 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 Bank 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

Not applicable.

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 Central Banks	Other public entities	Banks	Other entities	
1. Secured on balance sheet credit exposure:	2,102,296	1,544,669	193,383	10,013	83,762	-	-	-	-	-	-	32,115	128	206,110	**2,070,181**
1.1. totally secured	2,029,632	1,543,390	193,383	6,662	82,961	-	-	-	-	-	-	12,589	106	187,452	2,026,545
- of which impaired	350,609	277,612	38,843	2,495	8,324	-	-	-	-	-	-	118	7	21,565	348,964
1.2. partially secured	72,664	1,279	-	3,351	801	-	-	-	-	-	-	19,526	22	18,658	43,636
- of which impaired	14,229	1,279	-	1,063	5	-	-	-	-	-	-	476	7	3,917	6,746
2. Secured off balance sheet credit exposure:	31,715	184	-	2,865	7,485	-	-	-	-	-	-	24	-	16,677	26,425
2.1. totally secured	24,298	89	-	995	6,040	-	-	-	-	-	-	24	-	15,461	22,609
- of which impaired	814	-	-	-	5	-	-	-	-	-	-	-	-	809	814
2.2. partially secured	7,417	95	-	1,870	1,445	-	-	-	-	-	-	-	-	406	3,816
- of which impaired	364	-	-	-	-	-	-	-	-	-	-	-	-	100	100

In accordance with Bank of Italy Circular No. 262, fourth update, the columns “Collateral” and “Personal guarantees” indicate the fair value of collateral and guarantees as estimated at the reporting date or, absent this information, the contractual value of the collateral or guarantees. It should be noted that, as specified in the above fourth update, differently from previous years, both values may not exceed the carrying amount of the secured exposures.

B. CREDIT DISTRIBUTION AND CONCENTRATION

B.1 Distribution of on- and off-balance sheet exposures to customers by sector (carrying amounts)

Exposures/Counterparties	Governments			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 loans	-	-	X	-	-	X	1,299	4,125	X	-	-	X	169,556	261,556	X	29,525	26,994	X
- Of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	7,058	5,929	X	720	423	X
A.2. Unlikely to pay	-	-	X	-	-	X	4,921	4,253	X	-	-	X	145,495	38,931	X	27,610	5,165	X
- Of which: forborne exposures	-	-	X	-	-	X	1,612	1,491	X	-	-	X	56,550	11,095	X	7,377	1,073	X
A.3. Non performing, past due exposur	-	-	X	-	-	X	11	2	X	-	-	X	10,040	1,372	X	5,591	856	X
- Of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	3,128	384	X	490	75	X
A.4. Other performing exposures	1,225,470	X	-	8,279	-	42	135,239	X	140	12,763	X	-	1,190,397	X	6,102	889,757	X	4,561
- Of which: forborne exposures	-	-	-	-	-	-	476	-	2	-	-	-	64,260	-	329	13,108	-	67
TOTAL A	1,225,470	-	-	8,279	-	42	141,470	8,380	140	12,763	-	-	1,515,487	301,859	6,102	952,483	33,015	4,561
B. OFF-BALANCE-SHEET EXPOSURES																		
B.1 Bad loans	-	-	X	-	-	X	-	-	X	-	-	-	1,664	826	X	2	0	X
B.2 Unlikely to pay	-	-	X	-	-	X	12	-	X	-	-	X	3,869	268	X	-	-	X
B.3 Other non performing assets	-	-	X	-	-	X	-	-	X	-	-	X	7	0	X	7	0	X
B.4 Other performing assets	-	X	-	1,292	X	0	1,097	X	6	-	X	-	67,435	X	293	19,572	X	22
TOTAL B	-	-	-	1,292	-	0	1,110	-	6	-	-	-	72,975	1,094	293	19,582	0	22
TOTAL (A+B) 31/12/2016	1,225,470	-	-	9,571	-	43	142,580	8,380	146	12,763	-	-	1,588,463	302,953	6,395	972,064	33,015	4,583
TOTAL (A+B) 31/12/2015	1,110,794	-	-	7,498	3	52	144,613	6,074	268	12,431	-	-	1,664,461	288,850	10,273	943,010	35,670	6,771

B.2 Distribution of on- and off-balance sheet loan exposures to customers by geographical area (carrying amounts)

Exposures/Geographical areas	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 loans	199,701	288,707	471	3,903	-	-	-	-	208	64
A.2. Unlikely to pay	177,754	48,055	271	294	0	0	-	-	-	-
A.3. Non performing, past due e)	15,606	2,225	36	5	-	0	-	-	-	-
A.4. Other performing exposure:	3,450,496	10,792	10,615	50	377	2	326	2	91	0
TOTAL A	3,843,557	349,778	11,393	4,253	377	2	326	2	299	65
B. OFF-BALANCE-SHEET EXPOSURES										
B.1 Bad loans	1,666	826	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	3,882	268	-	-	-	-	-	-	-	-
B.3 Other non performing asset:	15	0	-	-	-	-	-	-	-	-
B.4 Other performing assets	89,365	321	31	0	-	-	-	-	-	-
TOTAL B	94,928	1,415	31	0	-	-	-	-	-	-
TOTAL (A+B) 31/12/2016	**3,938,485**	**351,193**	**11,424**	**4,253**	**377**	**2**	**326**	**2**	**299**	**65**
TOTAL (A+B) 31/12/2015	**3,867,755**	**343,822**	**14,011**	**4,061**	**213**	**8**	**520**	**6**	**310**	**65**

Exposures/Geographical areas	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 loans	1,460	6,517	191,379	270,465	5,450	10,396	1,413	1,329
A.2. Unlikely to pay	14,451	3,670	159,318	42,830	3,822	1,548	164	8
A.3. Non performing, past due expo	76	7	15,521	2,216	10	1	0	0
A.4. Other performing exposures	22,732	117	2,136,397	10,516	1,288,625	145	2,743	14
TOTAL A	38,718	10,310	2,502,614	326,027	1,297,906	12,091	4,320	1,351
B. OFF-BALANCE-SHEET EXPOSURES								
B.1 Bad loans	-	-	1,666	826	-	-	-	-
B.2 Unlikely to pay	-	-	3,882	268	-	-	-	-
B.3 Other non performing assets	-	-	15	0	-	-	-	-
B.4 Other performing assets	606	3	88,037	314	205	1	517	3
TOTAL B	606	3	93,600	1,408	205	1	517	3
TOTAL (A+B) 31/12/2016	39,324	10,313	2,596,213	327,435	1,298,111	12,092	4,837	1,353
TOTAL (A+B) 31/12/2015	44,899	10,480	2,629,431	321,192	1,189,072	10,653	4,353	1,496

B.3 Distribution of on- and off-balance sheet loan exposures to banks by geographical area (carrying amounts)

Exposures/Geographical areas	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 loans	-	-	-	-	-	-	-	-	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3. Non performing, past due expc	-	-	-	-	-	-	-	-	-	-
A.4. Other performing exposures	124,158	-	5,428	-	2,751	-	-	-	6	-
TOTAL A	124,158	-	5,428	-	2,751	-	-	-	6	-
B. OFF-BALANCE-SHEET EXPOSURES										
B.1 Bad loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non performing assets	-	-	-	-	-	-	-	-	-	-
B.4 Other performing assets	1,753	-	159	-	-	-	-	-	-	-
TOTAL	1,753	-	159	-	-	-	-	-	-	-
TOTAL 31/12/2016	**125,910**	-	**5,587**	-	**2,751**	-	-	-	**6**	-
TOTAL 31/12/2015	**62,892**	-	**5,057**	-	**479**	-	-	-	**70**	-

Exposures/Geographical areas	ITALY NORTHWEST		ITALY NORTHEST		ITALY CENTER		ITALY SOUTH 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 loans	-	-	-	-	-	-	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-
A.3. Non performing, past due exposures	-	-	-	-	-	-	-	-
A.4. Other performing exposures	78,595	-	36	-	44,750	-	777	-
TOTAL A	78,595	-	36	-	44,750	-	777	-
B. OFF-BALANCE-SHEET EXPOSURES	-	-	-	-	-	-	-	-
B.1 Bad loans	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other non performing assets	-	-	-	-	-	-	-	-
B.4 Other performing assets	359	-	113	-	1,281	-	-	-
TOTAL B	359	-	113	-	1,281	-	-	-
TOTAL 31/12/2016	**78,954**	-	**149**	-	**46,030**	-	**777**	-
TOTAL 31/12/2015	**47,855**	-	**781**	-	**13,977**	-	**279**	-

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 3 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 €1,320,002 thousand and exposures to Cassa Compensazione e Garanzia of €709,190 thousand, with the remainder attributable to exposures to financial counterparties.

	31/12/2016	31/12/2015
Amount - Book value	2,101,341	1,935,530
Amount - Weighted value	150,925	66,912
Number	3	3

C. SECURITISATIONS

QUALITATIVE DISCLOSURES

Securitisation is undertaken to increase the degree of liquidity of assets and expand the pool of financial instruments eligible for refinancing operations with the European Central Bank, or otherwise suited for use as collateral in financing transactions with institutional and market counterparties. In keeping with medium-to-long term funding needs, such transactions may involve the purchase of securities by third parties, thus yielding immediate liquidity. The following securitisation transactions were ongoing at the reporting date:

- ✓ Civitas Spv Srl - RMBS;
- ✓ Civitas Spv Srl - SME.

These transactions were undertaken pursuant to Law No. 130/1999.

The quantitative disclosures presented in this section include only the transaction Civitas SPV S.r.l. – RMBS, since the other transaction, Civitas SPV S.r.l. – SME, is of the originate-to-retain variety, in which the originator subscribed for all of the liabilities issued by the vehicle at the moment of issuance.

In the case of Civitas SPV S.r.l. – SME, it should also be noted that in October 2016 the Bank implemented a restructuring process that concluded with a further sale of corporate loans and an increase in the securities issued by the vehicle.

Main information	
Date of transaction	February 2012
Special purpose entities	Civitas Spv Srl - RMBS
Subject matter of the transaction	Performing residential mortgages
Banks/ Originator groups	Banca Popolare di Cividale
Original aggregate amount of transferred loans and receivables of Banca Popolare di Cividale Group	383 mln
RMBS Restructuring	246 mln
Original aggregate amount of transferred loans and receivables of Banca Popolare di Cividale	629 mln
Securities issued and subscribed by Banca Popolare di Cividale	122 mln
of which senior securities a	0 mln
of which junior securities b	122 mln
Rating of senior securities	AA+ Standard&poor's - A1 Moody's
Overall residual notional amount of the securities as at 31/12/2016	122 mln
Residual values of loans and receivables as at 31/12/2016	439 mln
Rating of senior securities	AA Standard&poor's - A2 Moody's

Objectives, strategies and processes. The main objective pursued through the two transactions is to ensure balanced structural management of the Bank's liquidity situation, within the framework of a company strategy consistently focused on this aspect. The Bank's role, in addition to that of originator of the transactions and the underlying loans, is that of servicer responsible for all activities relating to relationships with borrowers, including periodic collection of payments.

Internal measurement systems: the credit risk associated with assets transferred in securitisation is retained by the Bank. Consequently, internal risk measurement and control systems are applied in an entirely consistent manner to securitised and non-securitised assets.

QUANTITATIVE DISCLOSURES

On 21 October 2016 the contractual documentation was signed for the restructuring of Civitas SPV S.r.l. – SME, completed in July 2012. That documentation calls for: (i) the sale without recourse of an additional portfolio of performing loans with a nominal value of €236 million; (ii) an increase in the pre-existing senior and junior securities issued in the securitisation transactions undertaken in 2012 of €940.9 million nominal and €0.3 million nominal, respectively; and (iii) the repurchase of defaulted positions for securitisation of €23.45 million nominal.

C.1 Exposures deriving from major "own" securitisation transactions, by type of securitised asset and type of exposure

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES						GUARANTEES ISSUED						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjust./recoveries	Book value	Adjust./recoveries	Book value	Adjust./recoveries	Book value	Adjust./recoveries	Book value	Adjust./recoveries	Book value	Adjust./recoveries	Book value	Adjust./recoveries	Book value	Adjust./recoveries	Book value	Adjust./recoveries
A. Fully derecognised																		
B. Partly derecognised																		
C. Not derecognised																		
C.1 Civitas Spv Srl																		
Securities issued	-				122,300													

In the case of the Civitas SPV S.r.l. – RMBS securitisation, the Bank holds all of the junior notes, whereas the senior notes have been sold and are currently held by institutional investors.
The amounts indicated in the table refer to the value of the junior and senior securities held by the Bank, which would have been presented among assets or liabilities in the balance sheet but have been eliminated in application of IAS 39.

C.2 Exposures deriving from major "third-party" securitisation transactions, by type of securitised asset and type of exposure
There are no exposures of this kind for the set of transactions in which the Bank is the originator.

C.3 Securitisation vehicles

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Civitas Spv Srl	Conegliano Veneto (TV)	Not Consolidated	431,761	-	38,344	306,600	-	122,300

C.4 Unconsolidated securitisation vehicles
The Bank does not hold interests in unconsolidated structured entities.

C.5 Servicing – own securitisations: collections of securitised loans and redemption of securities issued by the securitisation vehicle
Not applicable.

D. STRUCTURED ENTITES 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

Technical form/Portfolio	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	31/12/16	31/12/15
A. Cash asseets	-	-	-	-	-	-	664,421	-	-	-	-	-	-	-	-	-	-	-	664,421	749,601
1. Debt securities	-	-	-	-	-	-	664,421	-	-	-	-	-	-	-	-	-	-	-	664,421	749,601
2. Equities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCIS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	435,199	-	-	435,199	495,883
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31/12/2016	-	-	-	-	-	-	**664,421**	-	-	-	-	-	-	-	-	**435,199**	-	-	**1,099,620**	**X**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,718	-	-	12,718	X
Total 31/12/2015	-	-	-	-	-	-	**727,352**	-	-	**22,250**	-	-	-	-	-	**495,883**	-	-	**X**	**1,245,485**
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

Liabilities/Asset portfolio	Financial assets held for trading	Financial assets measured at	Financial assets available for	Financial assets held to maturity	Due from banks	Loans to customers	Total
1. Due to customers	2,060	-	664,760	-	309,137	-	975,957
a) for assets recognised in full	2,060	-	664,760	-	309,137	-	975,957
b) for assets recognised in part	-	-	-	-	-	-	-
2. Due to banks	-	-	-	-	-	-	-
a) for assets recognised in full	-	-	-	-	-	-	-
b) for assets recognised in part	-	-	-	-	-	-	-
TOTAL AT 31/12/2016	**2,060**	-	**664,760**	-	**309,137**	-	**975,957**
TOTAL AT 31/12/2015	-	-	**727,598**	**23,748**	-	**191,961**	**943,307**

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 regulations, includes financial instruments subject to capital requirements for market risks.

QUALITATIVE DISCLOSURES

A. General aspects

The trading book is of extremely modest value. The Bank does not have positions in structured credit products or derivative contracts. Likewise, there are no ties whatsoever to special-purpose entities (SPEs) 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
- ✓ foreign exchange risk.

The Bank does not normally assume positions that entail commodity risk.

In accordance with the lending policies of the Bank, which focuses 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 and capital absorption. Management of the trading book is particularly aimed at optimising the profitability of the available financial resources, with the limitation of containment of the variability of expected performance in the Finance area and of the Bank's net income.
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 buffer. Most of the securities concerned have been included among assets available for sale. The significance of issuer risk is primarily attributable to the creditworthiness of the banks and the Italian government.
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 extremely limited.
The Risk Management Function conducts daily monitoring of the Bank's exposure to market risk and verifies that it is consistent with the risk appetite defined by company bodies in accordance with the Risk Appetite Framework and respect for the system of limits.

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	-	-	45	-	2,060	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	45	-	2,060	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Derivatives	-	(7,459)	90	(15)	421	(0)	0	-
3.1 With underlying security	-	(405)	-	(15)	421	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(405)	-	(15)	421	-	-	-
+ long positions	-	65	-	-	421	-	-	-
+ short positions	-	471	-	15	-	-	-	-
3.2 Without underlying security	-	(7,054)	90	-	0	(0)	0	-
- Options	-	-	-	-	0	(0)	0	-
+ long positions	36	0	72	70	501	353	55	-
+ short positions	36	0	72	70	501	354	54	-
- Other derivatives	-	(7,054)	90	-	-	-	-	-
+ long positions	-	6,069	7,830	241	2,710	1,528	934	-
+ short positions	-	13,123	7,740	241	2,710	1,528	934	-

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	-	-	-	-	-	-	-	-
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	-	6,993	(95)	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	6,993	(95)	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	6,993	(95)	-	-	-	-	-
+ long positions	-	13,073	1,992	-	-	-	-	-
+ short positions	-	6,079	2,087	-	-	-	-	-

Among "other currencies," the main currency of denomination of the trading portfolio is the U.S. dollar.

Regulatory trading book: distribution of exposures in equities and equity indices by main country of listing
Not applicable.

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 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 capital and on 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 curve (in event of a positively inclined rate curve, an increase in short-term rates and a decrease in medium-/long-term rates; and c) the steepening of the interest rate curve (in the event of a positive inclined rate curve, a decrease in short-term rates and an increase in medium-/long-term rates).

In addition to the parallel shock of ± 200 basis points, supervisory regulations require that banks in classes 1 or 2 consider shifts in the rate curve other than parallel shocks when conducting stress tests on the exposure of the banking book to interest rate risk.
On the basis of the provisions cited above, and considering the composition of assets and liabilities by currency of denomination, the following additional stress tests have been defined:
- flattening of the interest rate curve (assuming a positively inclined rate curve, an increase in short-term rates and a decrease in medium-to-long term rates);
- steepening of the interest rate curve (assuming a positively inclined rate curve, a decrease in short-term rates and an increase in medium-to-long term rates);

The changes are then normalised in relation to own funds.

The Risk Management Function monitors the Bank's exposure to interest rate risk with quarterly frequency and verifies that it is consistent with the risk appetite set by the company bodies in the Risk Appetite Framework and compliance with the system of internal limits.

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

The banking book consists entirely of financial assets and liabilities not included in the trading book. It is primarily composed of amounts due from and due to banks and customers and proprietary securities (largely government securities).

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	-	51,234	592,838	145,514	511,075	10,301	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	51,234	592,838	145,514	511,075	10,301	-	-
1.2 Loans to banks	15,233	28,488	-	-	2,059	2,059	-	-
1.3 Loans to customers	372,281	1,597,904	282,161	76,537	183,878	54,423	52,972	-
- current acct.	266,111	14,274	34,786	17,715	22,030	-	444	-
- other loans	106,171	1,583,629	247,375	58,821	161,848	54,423	52,528	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	106,171	1,583,629	247,375	58,821	161,848	54,423	52,528	-
2. Liabilities								
2.1 Due to customers	1,663,706	1,163,342	28,899	44,727	125,007	-	-	-
- current acct.	1,591,595	45,388	28,573	44,727	125,007	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	72,111	1,117,954	326	-	-	-	-	-
2.2 Due to banks	22,599	19,432	27,045	3,182	426,513	20,091	-	-
- current acct.	-	-	-	-	-	-	-	-
- other payables	22,599	19,432	27,045	3,182	426,513	20,091	-	-
2.3 Debt securities	13,959	196,327	37,207	28,975	47,739	-	-	-
- with early redemption option	-	-	35	-	-	-	-	-
- other	13,959	196,327	37,172	28,975	47,739	-	-	-
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	3,877	2,286	5	149	203	-	8	-
+ short positions	6,529	-	-	-	-	-	-	-

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								
1.1 Debt securities	-	825	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	825	-	-	-	-	-	-
1.2 Loans to banks	4,386	-	-	-	-	-	-	-
1.3 Loans to customers	0	2,019	-	-	-	-	-	-
- current acct.	0	0	-	-	-	-	-	-
- other loans	-	2,019	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	2,019	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Due to customers	13,818	94	161	24	-	-	-	-
- current acct.	13,797	94	161	24	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	20	-	-	-	-	-	-	-
2.2 Due to banks	114	-	-	-	-	-	-	-
- current acct.	63	-	-	-	-	-	-	-
- other payables	52	-	-	-	-	-	-	-
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 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).
In application of the Bank of Italy regulatory model, at 31 December 2016 the change in economic capital, in both ordinary and stress conditions, is always positive. Internal capital for interest rate risk, determined according to the procedure indicated by the supervisory authorities, is therefore nil. 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 FOREIGN EXCHANGE RISK
QUALITATIVE DISCLOSURES

A. General aspects, foreign exchange risk management processes and measurement methods
The Bank normally does not deal on its own account on the foreign exchange market for speculative purposes. Transactions in foreign currencies are mostly related to spot and forward transactions by customers. Assets and liabilities in foreign currencies are negligible.
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 foreign-exchange risk.
At 31 December 2016 the capital requirement for foreign exchange risk, calculated according to the method set out in supervisory regulations, was far below the prudential limit of 2% of the Bank's own funds.

B. Foreign exchange 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	**5,029**	**1,508**	**357**	**55**	**94**	**188**
A.1 Debt securities	-	825	-	-	-	-
A.2 Equity securities	0	-	-	-	-	-
A.3 Loans to banks	3,023	683	357	55	81	188
A.4 Loans to customers	2,007	0	-	-	13	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**190**	**134**	**41**	**173**	**5**	**76**
C. Financial liabilities	**11,442**	**2,280**	**18**	**342**	**0**	**128**
C.1 Due to banks	62	-	-	18	0	33
C.2 Due to customers	11,380	2,280	18	324	0	95
C.3 Due to customers	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	-	-	-	-	-	-
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other	-	-	-	-	-	-
+ Long positions	13,727	794	352	159	-	33
+ Short positions	5,987	215	1,762	0	162	40
Total assets	**18,946**	**2,436**	**750**	**386**	**99**	**297**
Total liabilities	**17,429**	**2,495**	**1,780**	**342**	**162**	**168**
Difference (+/-)	**1,517**	**(59)**	**(1,030)**	**44**	**(63)**	**129**

2.4 DERIVATIVES

A. FINANCIAL DERIVATIVES

A.1 Regulatory trading book: end-period notional amounts

	31/12/2016		31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	-	-	-	-
a) Options	16,678	-	19,985	-
b) Swaps	11,295	-	12,517	-
c) Forwards	-	-	-	-
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	21,569	-	25,668	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
TOTAL	**49,542**	-	**58,170**	-

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			
	31/12/2016		31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	-	-	-	-
a) Options	18	-	31	-
b) Interest rate swaps	632	-	614	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	173	-	119	-
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	**823**	-	**764**	-

A.4 Financial derivatives: gross negative fair value – distribution by product

	Negative Fair value			
	31/12/2016		31/12/2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	-	-	-	-
a) Options	18	-	31	-
b) Interest rate swaps	647	-	632	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	242	-	77	-
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	**908**	-	**740**	-

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	**-**	**7,582**	**14,652**	**-**	**-**	**7,054**	**-**
- notional amount	-	7,252	13,986	-	-	6,734	-
- positive fair value	-	330	18	-	-	302	-
- negative fair value	-	-	647	-	-	18	-
- future exposure	-	43	149	-	-	9	-
2. Equities and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	**-**	**-**	**16,455**	**-**	**-**	**4,907**	**621**
- notional amount	-	-	16,217	-	-	4,762	590
- positive fair value	-	-	142	-	-	9	21
- negative fair value	-	-	96	-	-	135	10
- future exposure	-	-	-	-	-	48	6
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	-	3,726	24,441	-	-	6,931	-
- positive fair value	-	217	21	-	-	302	-
- negative fair value	-	-	582	-	-	40	-
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	**23,497**	**10,484**	**15,560**	**49,542**
A.1 Financial derivatives on debt securities and interest rates	1,928	10,484	15,560	27,973
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign exchange rates and gold	21,569	-	-	21,569
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 31/12/2016	**23,497**	**10,484**	**15,560**	**49,542**
Total 31/12/2015	**30,197**	**8,291**	**19,682**	**58,170**

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" is the risk that the Bank will be unable to meet its payment obligations as they come due (funding liquidity risk) or due to 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:

- ✓ the constant monitoring of the 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 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 securities intended for institutional investors);
- ✓ holding highly liquid assets that can be used as collateral for financing transactions or sold directly in situations of tension, so as to maintain an adequate short-term liquidity buffer, consistent with the requirements of supervisory regulations governing compliance with the regulatory limit for the short-term liquidity indicator known as the liquidity coverage ratio (LCR);
- ✓ 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 liquidity 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.

At the level of medium-term prospects, the planning drawn up each year for the Bank as a whole also emphasises the potential liquidity needs and the consequences of the expected dynamics of aggregates on the operating and structural liquidity profile. Through the Funding Plan, funding targets and activities for the year subject to planning are set in a manner consistent with short-term needs and the maintenance of a structural equilibrium, in addition to monitoring of the regulatory indicator known as the "net stable funding ratio" (NSFR).

Moreover, the Bank'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.

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 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	-	-	-	-	4,040	198,742	177,548	767,000	60,000	-
A.2 Other debt securities	-	-	-	30	21,383	1,710	15,223	51,501	888	-
A.3 Units in collective investment undertakings	21,240	-	-	-	-	-	-	-	-	-
A.4 Loans	335,396	6,263	9,114	52,297	84,318	140,003	173,979	789,743	1,111,283	28,488
- banks	5,679	-	-	-	-	-	-	2,000	2,000	28,488
- customers	329,717	6,263	9,114	52,297	84,318	140,003	173,979	787,743	1,109,283	-
On-balance-sheet liabilities										
B.1 Deposits	1,637,058	2,318	4,594	12,539	28,533	29,341	46,653	124,272	-	-
- banks	22,571	-	-	-	-	-	-	-	-	-
- customers	1,614,487	2,318	4,594	12,539	28,533	29,341	46,653	124,272	-	-
B.2 Debt securities	36	187	1,012	2,247	124,216	9,415	49,671	103,109	2,750	-
B.3 Other liabilities	4,428	808,891	-	13,444	3,198	23,299	44,020	646,300	135,102	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of capital	-	18,950	180	-	549	3,805	35	440	-	-
- long positions	-	5,720	90	-	275	1,948	20	440	-	-
- short positions	-	13,230	90	-	274	1,858	15	-	-	-
C.2 Financial derivatives without exchange of capital	6,195	-	-	-	-	-	-	-	-	-
- long positions	3,090	-	-	-	-	-	-	-	-	-
- short positions	3,105	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	10,844	83	30	-	256	20	1,613	203	8	-
- long positions	4,609	-	30	-	53	20	1,605	203	8	-
- short positions	6,234	83	-	-	203	-	8	-	-	-
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	-	-	-	-	-	-	-	-	-	-

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	-	-	-	825	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Units in collective investment undertakings	-	-	-	-	-	-	-	-	-	-
A.4 Loans	4,387	146	82	256	1,544	-	-	-	-	-
- banks	4,386	-	-	-	-	-	-	-	-	-
- customers	1	146	82	256	1,544	-	-	-	-	-
On-balance-sheet liabilities	-	-	-	-	-	-	-	-	-	-
B.1 Deposits	13,860	-	-	74	20	161	24	-	-	-
- banks	63	-	-	-	-	-	-	-	-	-
- customers	13,797	-	-	74	20	161	24	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	72	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of capital	-	18,390	190	-	572	4,079	-	-	-	-
- long positions	-	12,692	95	-	286	1,992	-	-	-	-
- short positions	-	5,698	95	-	286	2,087	-	-	-	-
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 principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Securitisation

Within the framework of the various measures aimed at enhancing coverage of exposure to liquidity risk, the Bank 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	February 2012
Special purpose entities	Civitas Spv Srl - RMBS
Subject matter of the transaction	Performing residential mortgages
Banks/ Originator groups	Banca Popolare di Cividale
Original aggregate amount of transferred loans and receivables of Banca Popolare di Cividale Group	383 mln
RMBS Restructuring	246 mln
Original aggregate amount of transferred loans and receivables of Banca Popolare di Cividale	629 mln
Securities issued and subscribed by Banca Popolare di Cividale	122 mln
of which senior securities a	0 mln
of which junior securities b	122 mln
Rating of senior securities	AA+ Standard&poor's - A1 Moody's
Overall residual notional amount of the securities as at 31/12/2016	122 mln
Residual values of loans and receivables as at 31/12/2016	439 mln
Rating of senior securities	AA Standard&poor's - A2 Moody's

Main information	
Date of transaction	July 2012
Special purpose entities	Civitas Spv Srl - SME
Subject matter of the transaction	Performing residential and commercial mortgages
Banks/ Originator groups	Banca Popolare di Cividale
Original aggregate amount of transferred loans and receivables of Banca Popolare di Cividale	410 mln
RMBS Restructuring	237 mln
Original aggregate amount of transferred loans and receivables	647 mln
Securities issued and subscribed by Banca Popolare di Cividale	1.359 mln
of which senior securities a	1.214 mln
of which junior securities b	145 mln
Rating of senior securities	A+ Standard&poor's - AL DBRS
Overall residual notional amount of the securities as at 31/12/2016	269 mln
Residual values of loans and receivables as at 31/12/2016	410 mln
Rating of senior securities	A+ Standard&poor's - AH DBRS

The asset-backed securities currently in issue have been fully subscribed for by the originating banks, without any transfer of 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.

SECTION 4 - OPERATIONAL RISKS
QUALITATIVE DISCLOSURES

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 Bank does not wish to retain through insurance contracts.

The Bank adopts the basic method (BIA – Basic Indicator Approach) specified by regulations to determine prudential capital requirements.

The management of operational risks is defined in specific internal regulations that establish the roles, responsibilities and duties of company bodies and the various functions and units, in addition to 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, the Italian Operating Loss Database, in which the Bank participates, was established at the initiative of the Italian Banking Association. 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 uniform 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. 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) is based on 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.
At 31 December 2016 the Bank was a defendant in 28 law suits in which total damages of €6,044 thousand are sought, for which a total loss of €1,628 thousand is expected.
Most such suits involve anatocism and bankruptcy claw-back compensation claims, as well as indemnity claims for losses on investments in financial instruments and other types of compensation claims, broken down as follows (in thousands of euros):

	N° of disputes	Petitum	Provision
Investment services	4	645	324
Disputes concerning interest in excess of the legal limit	10	1,079	260
Revocatory disputes	6	1,437	215
Other disputes	8	2,883	828
Total	**28**	**6,044**	**1,628**

Disputes involving bond defaults

The insolvency of the Argentine 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 Popolare 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.

Tax dispute

On 20 December 2016 the Bank was served an auditors' report prepared on the basis of the audit conducted by the Italian Agency of Revenue – Regional Department for Friuli Venezia Giulia concerning 2013. The claims presented in the report concern several cases of disqualification of deductions, the most significant of which related to taxable income (for the purposes of IRES, or corporate income tax, and IRAP, or regional business tax) of approximately €3.5 million, due to the (alleged) violation of the principle of cost pertinence (Art. 109 of the Consolidated Income Tax Act) in relation to two positions (associated with a previous criminal trial). These refer to impairment losses on defaulted loans that the Bank considered deductible when calculating its taxable business income in accordance with the principle of "derivation" from the income statement, which the revenue authorities instead consider non-deductible. With the support of opinions from the qualified professionals it has retained, the Bank reasonably believes that it will be able to prove that the various charges are baseless, possibly already in the internal review process, but most likely in the courts. On the basis of the information available at this time, to be re-assessed in light of the actual content of the assessment notices, which have not yet been served, the directors believe that the risk associated with the possible dispute with the Italian Agency of Revenue concerning the matter may be characterised as merely "possible". Accordingly, in application of IAS 37, no provision for risks and charges has been recognised in the 2016 annual financial statements.

Investigation by the Public Prosecutor's Office of Udine

With regard to the investigation by the Public Prosecutor's Office of Udine and the subsequent decisions committing Banca Popolare di Cividale to trial, in 2016 witness hearings began in connection with the predicate offences for the purposes of Legislative Decree No. 231/2001 (primarily corruption between private individuals and subornation of perjury) in connection with former officers of the company. The events have not changed the Directors' previous assessments concerning the risk pursuant to Legislative Decree No. 231/2001 to which the Bank is exposed, and they therefore did not decide to recognise provisions at 31 December 2016.

C. ICT risk

ICT risk is the risk of incurring economic losses or loss of reputation and market share in connection with the use of information and communication technology (ICT). The analysis of ICT risk is a tool aimed at ensuring that the measures protecting ICT resources are effective and efficient and it is governed by the ICT Function Control Policy, as approved and brought into compliance with the applicable provisions of Bank of Italy Circular No. 285 of 17 December 2013. This document sets out the organisational, methodological and procedural structure for the process of analysing ICT risk and institutes the function of IT Outsourcing Liaison, assigned to the Head of the Human Resources Department. It should be noted that Banca Popolare di Cividale has decided to outsource its ICT system according to a full-outsourcing model. Consequently, the risk analysis is conducted on a priority basis by the supplier according to its own policies.

SECTION 5 - OTHER RISKS

In addition to the risks described above, the Bank is exposed to the following other material risks.

Excessive leverage risk

Excessive 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 resulting in the recognition of losses that could also entail impairment of the remaining assets."

Excessive 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).

The process of managing leverage risk is defined and formalised in a specific regulation approved by the Board of Directors and the risk appetite is monitored quarterly by the Risk Management Service in the context of the Risk Appetite Framework (RAF).

At 31 December 2016 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 sovereign risk exposure profile is assessed by also considering its impact on the value of the Bank's portfolio and own funds.

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.

Title IV of Bank of Italy Circular No. 285 of 17 December 2013 provides guidance of a general nature on the subject of corporate governance, establishing the framework within which to carry out the strategic planning process, and marks the strategic nature of the internal control system and the necessary integration of the Risk Appetite Framework (RAF), business model and strategic plan. On the basis of these principles and regulations, Banca Popolare di Cividale drafted 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 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; 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.

Reputational risk
Reputational 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 reputational risk, each to the extent of its competence.
The first and most fundamental safeguard against reputational 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 aimed at achieving compliance with the new supervisory provisions.
Reputation is constantly monitored, protected and promoted, in light of the recent events that have affected the entire Italian banking industry.

Residual risk

Residual risk is the risk that the recognised techniques for mitigating credit risk used by the bank prove less effective than expected. For a more thorough discussion of residual risk, refer to the section on risk mitigation techniques.

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.

Property risk

This is the current or prospective risk of potential losses due to fluctuations in the value of the proprietary real-estate portfolio, or to the reduction of the income generated by that portfolio.

The Bank assumes real-estate risk to a very limited extent for the purposes of investment and protection of its credit claims.

Property, plant and equipment represent a very modest share of its total assets. In particular, the Bank's proprietary real-estate portfolio (land and buildings) represents almost all of its property, plant and equipment and is mostly used in operations.

This risk is mitigated through management and maintenance measures aimed at safeguarding the functionality and value of the assets and is partially transferred through insurance policies covering owned properties. Real-estate assets are managed by units of the Bank dedicated to this activity.

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 Bank 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

	31/12/2016	31/12/2015	%
Share capital	50,913	50,913	0.00%
Share premium reserve	167,022	167,022	0.00%
Reserves	66,986	48,274	38.76%
- Retained earnings:	66,986	48,274	38.76%
a) legal reserve	22,193	19,788	12.16%
b) statutory reserve	39,293	27,501	42.87%
c) treasury shares	-	-	-
d) other	5,500	985	458.60%
- other	-	-	-
4. Equity instruments	-	-	-
5. (Treasury shares)	-	-	-
6. Valuation reserves:	17,347	23,308	-25.58%
- Financial assets available for sale	17,930	23,624	-24.10%
- 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	(584)	(315)	-85.09%
- Share of valuation reserves connected with investments carried at equity	-	-	-
- Legally-required revaluations	-	-	-
7. Net income (loss)	1,233	24,053	-94.87%
Total	**303,500**	**313,570**	**-3.21%**

B.2 Valuation reserves for financial assets available for sale: composition

	31/12/2016		31/12/2015	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	7,894	-	13,541	-
2. Equities	10,079	-	10,144	-
3. Quotas of UCI	-	(43)	-	(62)
4. Loans	-	-	-	-
Total	**17,973**	**(43)**	**23,685**	**(62)**

B.3 Valuation reserves for financial assets available for sale: annual changes

	Debts securities	Equities	Quotas of UCI	Loans
1. Opening balance	**13,541**	**10,144**	**(62)**	-
2. Positive fair value differences	**9,620**	**650**	**341**	-
2.1. Fair value increases	2,697	-	174	-
2.2 Reversal to the income statement of negative reserves	-	-	-	-
- impairment	-	-	91	-
- disposal	166	-	-	-
2.3 Other changes	6,757	650	76	-
3. Negative fair value differences	**15,266**	**716**	**322**	-
3.1 Fair value decreases	7,156	70	68	-
3.2 Impairment losses	-	-	169	-
3.3 Reversal to the income statement of positive reserves: disposal	4,029	-	-	-
3.4 Other changes	4,081	646	85	-
4. Closing balance	**7,895**	**10,078**	**(43)**	-

B.4 Valuation reserves related to defined-benefit plans: annual changes
Valuation reserves related to actuarial gains (losses) on defined-benefit plans amounted to -€584 thousand, a decrease of €268 thousand.

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 3 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.
Financial institutions must observe the following minimum ratio requirements with effect from 1 January 2014:

- ✓ a CET1 ratio of 4.5%;
- ✓ a Tier 1 ratio of 6%;
- ✓ a Total Capital Ratio of 8%.

These binding minimums established by the Regulation are in addition to a further requirement observed at the conclusion of the supervisory review and evaluation process (SREP) announced on 23/12/2015 of 0.9%, raising the minimum requirements:

- ✓ for the CET1 ratio to 5.4%;
- ✓ for the Tier 1 ratio to 6.9%; and
- ✓ for the Total Capital Ratio to 8.9%.

The following CET1 buffers are in addition to the above binding requirements:

- ✓ with effect from 1 January 2014, a capital conservation buffer of 2.5%;
- ✓ with effect from 2016, the countercyclical buffer in periods of excessive credit growth and the systemic risk buffer for global systemically important institutions or other systemically important institutions (G-SII or O-SII) (nil at the end of the year).

The sum of regulatory requirements and additional buffers result in a minimum capital conservation level for the Bank of:

- ✓ CET1 ratio of 7.9%;
- ✓ Tier 1 ratio of 9.4%;
- ✓ a Total Capital Ratio of 11.4%.

Failure to comply with the established minimum requirements (combined requirements) results in limitations in the distribution of profits and means that a capital conservation plan must be adopted.
At 31 December 2016, own funds have been calculated by applying the new regulations mentioned above. However, those regulations provide for transitional rules, generally until the end of 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;
- ✓ 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, deferred tax assets based on future profitability, the assets of defined-benefit pension funds included in the entity's balance sheet, net of the associated deferred tax liabilities, and the Common Equity Tier 1 capital instruments held directly, indirectly and synthetically by the entity;
- ✓ 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. This neutralisation option was provided for in Article 467 of the CRR, supported by Chapter 14 of the new Circular 285 concerning transitional provisions governing own funds, until the Commission adopted a regulation approving the international financial reporting standard replacing IAS 39. Following the passage of Regulation (EU) No 2016/2067 of the European Commission, which entered into effect on 19/12/2016, endorsing International Financial Reporting Standard 9 *Financial Instruments*, rules have been established in this area for "significant" banks, whereas interpretative doubt has come to light as to whether such provisions must also be applied to "less significant" banks. Pending the clarification requested by the Bank of Italy from the European Central Bank, banks may adopt prudential filters. The neutralisation option was thus adopted in accordance with previous reports and on a prudential basis for 2016 as well;
- ✓ at 31 December 2016 the AFS reserve relating to securities issued by the central governments of European Union Member States fully neutralises the gains of €7.9 million (compared to €12.6 million at 31 December 2015).
- ✓ 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.

2.1 - 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 excluding the net income for the year ended 31 December 2016, amounted to €284,288 thousand. The changes in tier 1 capital compared to 31/12/2015 may be attributed to the significant decrease in the carrying amount of goodwill (increase) due to impairment and the increase in deferred tax assets based on future profitability (decrease).

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 €999 thousand;
- ✓ share premium reserves of €167,022 thousand;
- ✓ other reserves of €66,986 thousand;
- ✓ other comprehensive income attributable to reserves on securities available for sale of €17,930 thousand.

Deductions include goodwill, net of the associated tax liabilities, of €3,796 thousand, other intangible assets of €172 thousand and deferred tax assets based on future profitability and not due to temporary differences of €1,691 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 do not exceed the limit.

With respect to the transitional rules, the item in question includes the following adjustments:

- ✓ the negative filter relating to unrealised gains on available-for-sale securities of €4,028 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 €7,859 thousand;
- ✓ the negative filter for other filters and deductions of €17 thousand.

Additional tier 1 (AT1) capital

At 31 December 2016, Banca Popolare di Cividale S.c.p.A. had not issued any AT1 instruments.

3. Tier 2 (T2) capital

Considering the effects of the transitional regime, tier 2 capital amounted to €20,494 thousand, of which €18,490 thousand of eligible subordinated liabilities, with the remainder represented by positive reserves on AFS securities other than government securities.

In particular, it should be remarked that:

- ✓ own tier 2 capital instruments, or instruments for which the Bank has a real purchase obligation, of €19 thousand have been deducted;
- ✓ 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 60% eligible for inclusion in own funds in 2016, resulting in the amount of €5,234 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 €2,023 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	2,957,284
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	2,277,108
Banca Popolare di Cividale Scpa	IT0005072852	Fixed rate	2.75%	19/12/2014	19/12/2019		Euro	N	22,350,000	13,255,778
Total									**77,350,000**	**18,490,170**

B. Quantitative disclosures

	31/12/2016	31/12/2015	%
A. Tier 1 capital before the application of prudential filters	301,852	307,157	-1.7%
of which instruments of CET1 subject to transitional provisions			
B. CET 1 prudential filters (+/-)			
CET1 gross of elements to be deducted and of the effects of the transitional regime (A+/-B)	301,852	307,157	-1.7%
D. Elements to be deducted from CET1	(5,659)	(8,476)	-33.2%
E. Transitional regime - Impact on CET1 (+/-)	(11,905)	(19,246)	-38.1%
F. Total Common Equity Tier 1 capital (CET1) (C-D+/-E)	**284,288**	**279,435**	1.7%
G. Additional Tier 1 capital (AT1) gross of elements to be deducted and of the effects of the transitional regime			
of which instruments of AT1 subject to transitional provision			
H. Elements to be deducted from AT1			
I. Transitional regime - Impact on AT1 (+/-)			
L. Total Additional Tier 1 capital (Additional Tier 1) (G-H+/-I)			
M. Tier 2 capital (T2) gross of elements to be deducted and of the effects of transitional regime	18,490	31,559	-41.4%
of which instruments of T2 subject to transitional provisions	**5,234**	**13,824**	-62.1%
N. Elements to be deducted from T2	(19)	(97)	-80.4%
O. Transitional regime - Impact on T2 (+/-)	2,023	3,330	-39.2%
P. Total Tier 2 capital (T2) (M-N+/-O)	20,494	34,792	-41.1%
Q. Total own funds (F+L+P)	304,782	314,227	-3.0%

2.2 Capital adequacy

A. Qualitative disclosures

As at 31/12/2016, the ratio of common equity tier 1 capital to risk-weighted assets stood at 13.4%, whereas the ratio of own funds to risk-weighted assets came to 14.4%. 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 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 Bank 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	
	31/12/16	31/12/15	31/12/16	31/12/15
A. RISK ASSETS				
A.1 CREDIT AND COUNTERPARTY RISK	5,647,114	5,543,084	1,948,588	1,965,342
1. Standard methodology	5,647,114	5,543,084	1,948,588	1,965,342
2. Methodology based on internal ratings				
2.1 Base				
2.2 Advanced				
3. Securitisations				
B. CAPITAL REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			155,887	157,227
B.2 CREDIT VALUATION ADJUSTMENT RISK			72	72
B.3 SETTLEMENT RISK			-	-
B.4 MARKET RISK			193	94
1. Standard methodology			193	94
2. Internal models			-	-
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			13,513	14,668
1. Base methodology			13,513	14,668
2. Standard methodology			-	-
3. Advanced methodology			-	-
B.6 Other calculation elements			-	-
B.7 Total capital requirements			169,665	172,061
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,120,818	2,150,765
C.2 Common Equity Tier 1 / Risk-weighted assets (CET 1 capital ratio)			13.4%	13.0%
C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			13.4%	13.0%
C.4 Total own funds / Risk weighted assets (Total capital ratio)			14.4%	14.6%

Risk weighted assets amounted to €2,120,818 thousand at 31 December 2016, compared to €2,150,765 thousand at 31 December 2015.

Chapter G – BUSINESS COMBINATIONS

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

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 key management personnel of the Bank. The compensation paid to directors and statutory auditors is set by specific resolutions of the shareholders' meeting.

	Amount
a) Short-term benefits *	2,836
b) Post-employement benefits	110
c) Other	290
Total	**3,236**

** The amount indicated includes the remuneration paid to directors of €473 thousand, to the Board of Statutory Auditors of €99 thousand and to the Supervisory Body of €26 thousand (including VAT and contributions).*

3. 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., 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, dependants 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.

	ASSOCIATED COMPANIES	EXECUTIVES AND CONTROL BODIES	OTHER RELATED PARTIES	% incidence
Assets				
Loans to customers	***161***	***448***	***679***	***0.05%***
Board of Directors		36	442	0.02%
Board of Statutory Auditors		308	26	0.01%
Managers with strategic responsibilities		104	211	0.01%
Liabilities				
Due to customers	***2,439***	***917***	***2,558***	***0.27%***
Board of Directors		507	1,396	0.09%
Board of Statutory Auditors		31	654	0.03%
Managers with strategic responsibilities		379	508	0.04%
Income statement				
Net interest income	***24***	***(1)***	***(17)***	***0.01%***
Board of Directors		(1) -	6	*-0.01%*
Board of Statutory Auditors		4	(9)	*-0.01%*
Managers with strategic responsibilities		(4)	(2)	***-0.01%***
Net commission income	***10***	***7***	***32***	***0.20%***
Board of Directors		3	5	*0.03%*
Board of Statutory Auditors		2	24	*0.11%*
Managers with strategic responsibilities		2	3	*0.02%*
Administrative expenses	-	***(2,131)***	-	***3.10%***
Board of Directors (*)		(473)	-	0.69%
Board of Statutory Auditors		(125)	-	0.18%
Managers with strategic responsibilities		(1,533)	-	2.23%
Guarantees and commitments	-	-	-	***0.00%***
Board of Directors		-	-	*0.00%*
Board of Statutory Auditors		-	-	*0.00%*
Managers with strategic responsibilities		-	-	*0.00%*
Indirect funding	-	***1,669***	***4,174***	***0.60%***
Board of Directors		1,109	407	*0.16%*
Board of Statutory Auditors		190	2,963	*0.32%*
Managers with strategic responsibilities		370	804	*0.12%*

Transactions with related parties fall within the course of normal banking operations and are ordinarily settled at arm's-length conditions for specific transactions or offered on any more favourable terms for which employees are eligible.
Banking transactions with groups controlled by the directors of the Company are approved in accordance with Article 136 of the Consolidated Banking Act and settled at arm’s-length conditions for such transactions.
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.

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

Criteria for identifying and aggregating operating segments

In application of IFRS 8, operating segments for the purposes of segment reporting were identified on the basis of the following business segments:

- ✓ *Retail and Corporate Bank*, the segment dedicated to banking activity;
- ✓ *Leasing*, the segment dedicated to leasing activity.

The figures from the comparative period have been restated as appropriate.

Segment results – Income-statement data

RECLASSIFIED INCOME STATEMENT	31/12/2016			31/12/2015		
	LEASING	BANK	TOTAL	LEASING	BANK	TOTAL
Net interest income	6,200	54,779	60,979	4,735	60,550	65,285
Net commissions	(83)	24,001	23,918	(91)	22,774	22,683
Dividends and net income (loss) of equity investments accounted for using equity method	-	1,413	1,413	-	1,015	1,015
Net trading income	-	15,058	15,058	30	80,820	80,850
Other operating income (expenses) (4)	-	(272)	(272)	106	(342)	(236)
Operating income	**6,117**	**94,979**	**101,096**	**4,780**	**164,816**	**169,596**
Personnel expenses	(611)	(39,558)	(40,169)	(721)	(39,936)	(40,657)
Other administrative expenses (2)	(1,553)	(26,929)	(28,482)	(1,049)	(29,655)	(30,704)
Net impairment/write backs on property, plant and equipment and intangible assets (3)	(319)	(2,183)	(2,502)	(148)	(8,031)	(8,179)
Operating cost	**(2,484)**	**(68,670)**	**(71,153)**	**(1,918)**	**(77,622)**	**(79,540)**
Income (loss) from operating	**3,633**	**26,310**	**29,943**	**2,862**	**87,195**	**90,056**
Charges/write-backs on impairment of loans and financial assets	(4,892)	(19,519)	(24,411)	(3,754)	(56,639)	(60,393)
Charges/write-backs on impairment of goodwill and equity investments	-	(5,858)	(5,858)	-	(10,049)	(10,049)
Net provisions for risks and charges	-	858	858	(10)	(5,568)	(5,578)
Income (loss) before tax from continuing operations	**(1,259)**	**1,791**	**532**	**(902)**	**14,939**	**14,036**
Tax on income from continuing operations	333	367	701	284	9,733	10,017
Net income for the period	**(925)**	**2,158**	**1,233**	**(618)**	**24,671**	**24,053**

Segment results – Balance-sheet data

ASSETS	LEASING	BANK	TOTAL	LEASING	BANK	TOTAL
Financial assets held for trading	-	3,192	3,192	-	1,220	1,220
Financial assets available for sale	-	1,335,563	1,335,563	-	1,164,689	1,164,689
Financial assets held to maturity	-	32,529	32,529	-	32,716	32,716
Due from banks	-	52,226	52,226	87	40,298	40,385
Loans to customers	258,187	2,363,989	2,622,176	271,352	2,412,358	2,683,711

LIABILITIES	31/12/2016			31/12/2015		
	LEASING	BANK	TOTAL	LEASING	BANK	TOTAL
Due to banks	-	1,328,119	1,328,119	-	1,167,164	1,167,164
Due to customers	1,172	2,229,462	2,230,634	1,610	2,084,419	2,086,029
Debt securities issued	-	324,206	324,206	-	475,730	475,730

Cividale del Friuli, 22 March 2017
Banca Popolare di Cividale S.c.p.A.
The Board of Directors

Appendices

Shareholders and share performance: historical information

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					
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	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	338	267,251	604,901	82,155	20,259	3.00	50	-
45	1931	1,095	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	2.675	1,337,500	4,085,967	5,423,467	305,359	200,625	75.00	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
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	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	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 of Lire											
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 thousands of Euro											
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	0.550	3.00	19.25
119	2005	9,748	9,400,000	28,200	93,366	121,566	12,127	5,170	0.700	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	0.600	3.00	20.25
121	2007	10,223	14,934,824	44,804	182,336	227,140	9,650	7,972	0.600	3.00	21.75
122	2008	10,070	14,934,824	44,804	183,846	228,650	11,640	8,961	0.600	3.00	23.00
123	2009	10,574	15,484,145	46,452	197,608	244,060	10,500	6,968	0.450	3.00	23.50
124	2010	11,719	16,634,078	49,902	225,217	275,119	10,100	7,485	0.450	3.00	24.00
125	2011	11,905	16,929,341	50,788	223,549	274,337	11,630	7,618	0.450	3.00	24.50
126	2012	12,309	16,927,763	50,783	244,885	295,668	14,103	5,925	0.350	3.00	24.50
127	2013	12,994	17,022,649	51,068	249,959	301,027	(33,850)	-	-	3.00	24.50
128	2014	14,544	16,971,085	50,913	221,070	271,983	5,803	-	-	3.00	24.50
129	2015	15,250	16,971,085	50,913	238,604	289,517	24,053	5,091	0.300	3.00	19.60
130	2016	15,106	16,971,085	50,913	251,354	302,267	1,233			3.00	19.60

Property, plant and equipment subject to monetary revaluation

Site	Historical cost	Currency revaluations	Impairments	Carrying amount
ATTIMIS - Via Cividale	245	305	337	**213**
BUTTRIO - Via Div. Julia	247	871	545	**573**
CIVIDALE - Corso Mazzini	451	72	260	**263**
CIVIDALE - Piazza Duomo	2,888	9,506	5,388	**7,006**
CIVIDALE - Via Cavour	87	756	304	**539**
GORIZIA - Corso verdi	913	133	356	**690**
GRADO - Via Marina	399	89	190	**298**
MANZANO - Via della Stazione	929	53	321	**661**
PALMANOVA - Piazza Grande	546	73	236	**383**
PAVIA DI UDINE - Via Persereano	264	203	185	**282**
PORDENONE - Corso Garibaldi	717	92	293	**516**
POVOLETTO - Piazza Libertà	353	623	528	**448**
PRATA DI PORDENONE - Fraz. Puja - Via Dante	207	10	71	**146**
REMANZACCO - Piazza P. Diacono	402	1,199	693	**908**
S. GIOVANNI AL NATISONE - Via L. Da Vinci	486	1,872	1,108	**1,250**
S. LEONARDO - Via Scrutto	181	218	245	**154**
S. VITO AL TAGLIAMENTO - Viale del Mattino	635	17	181	**471**
SACILE - Viale Lacchin	280	66	111	**235**
SAN GIORGIO DI NOGARO - Via Europa Unita	276	21	91	**206**
SPILIMBERGO - Corso Roma	320	73	153	**240**
TAVAGNACCO - Via Udine	1,154	360	644	**870**
UDINE - Piazzale XXIV Luglio	1,279	173	562	**890**
UDINE - Via Marsala	546	9	226	**329**

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 2016
Services provided to the Banca Popolare di Cividale Scpa	**169**
Independent auditors: Reconta Ernest & Young	
- Auditing services	141
- Inspection services for the purpose of issuing certification	13
- Other services	15

Reconciliation of the income statement and reclassified income statement

RECLASSIFIED INCOME STATEMENT	Income statement	31/12/2016	31/12/2015
Net interest income (including result of hedging)	30 - Net interest income	60,979	65,285
	90 - Fair value adjustments in hedge accounting	-	-
Total Net interest income (including result of hedging)		**60,979**	**65,285**
Dividends	70 - Dividends and similar income	1,413	1,015
Total Dividends and net income (loss) of equity investments accounted for using equity method		**1,413**	**1,015**
Net commissions	**60 - Net commissions**	**23,918**	**22,683**
Other operating income (net of recovered expenses)	190 - Other operating income (expenses)	6,941	7,070
	190 (partial) - Other operating income (expenses) - Recovery of indirect taxes	(7,213)	(7,306)
Total Other operating income (net of recovered expenses)		**(272)**	**(236)**
Net trading income	80 - Net trading income	173	604
	100 - Profit (loss) on disposal or repurchase of:	0	0
	a) loans	(146)	30
	b) financial assets available for sale	15,321	81,323
	d) financial liabilities	(290)	(1,107)
Total Gains (losses) from purchase/sale of loans and financial assets		**15,058**	**80,246**
OPERATING REVENUES		**101,096**	**169,596**
Personnel expenses	150 a) personnel expenses	(40,169)	(40,657)
Other administrative expenses (net of recovered expenses)	150 b) other administrative expenses	(35,695)	(38,010)
	190 (partial) - Other operating income (expenses) - Recovery of indirect taxes	7,213	7,306
Total Other administrative expenses (net of recovered expenses)		**(28,482)**	**(30,704)**
Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill)	170 - Net impairment/write-backs on property, plant and equipment	(2,443)	(8,120)
	180 - Net impairment/write-backs on intangible assets	(59)	(59)
Total Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill)		**(2,502)**	**(8,179)**
OPERATING COST		**(71,153)**	**(79,540)**
INCOME (LOSS) FROM OPERATING		**29,943**	**90,056**
Goodwill impairment	230 - Goodwill impairment	(5,340)	(10,000)
Charges/write-backs on impairment of loans	130 a) loans	(22,052)	(55,410)
Charges/write-backs on impairment of other assets	130 b) financial assets available for sale	(2,528)	(4,930)
	130 d) other financial transactions	169	(53)
Charges/write-backs on impairment of goodwill and equity investments	210 - Profit (loss) on equity investments	(518)	(49)
Total Charges/write-backs		**(30,269)**	**(70,442)**
Net provisions for risks and charges	160 - Net provisions for risks and charges	858	(5,578)
Income (loss) before tax from continuing operations		**532**	**14,036**
Tax on income from continuing operations	260 - Tax on income from continuing operations	701	10,017
NET INCOME FOR THE PERIOD		**1,233**	**24,053**

Reconciliation of the balance sheet and reclassified balance sheet

RECLASSIFIED BALANCE SHEET - Assets	Balance sheet - Assets	31/12/2016	31/12/2015
Cash and cash equivalents	10 - Cash and cash equivalents	15,844	18,381
Financial assets held for trading	20 - Financial assets held for trading	3,192	1,220
Financial assets available for sale	40 - Financial assets available for sale	1,335,563	1,164,689
Financial assets held to maturity	50 - Invetments held to maturity	32,529	32,716
Due from banks	60 - Due from banks	52,226	40,385
Loans to customers	70 - Loans to customers	2,622,176	2,683,711
Equity investments	100 - Investments in associates and companies subject to joint	3,819	6,427
Property and equipment and intangible assets	110 - Property and equipment	81,271	82,929
	120 - Intangible assets	3,968	9,367
Other assets	130 - Tax assets	78,775	78,985
	150 - Other assets	42,043	49,207
Total assets		**4,271,406**	**4,168,018**

RECLASSIFIED BALANCE SHEET - Liabilities	Balance sheet - Liabilities and shareholders' equity	31/12/2016	31/12/2015
Due to banks	10 - Due to banks	518,976	406,419
Direct funding from customers	20 - Due to customers	3,039,777	2,846,774
	30 - Debt securities issued	324,206	475,730
Financial liabilities held for trading	40 - Financial liabilities held for trading	794	740
Other liabilities	80 - Tax liabilities	6,848	13,895
	100 - Other liabilities	67,942	96,322
Specific provisions	110 - Employee termination benefits	5,685	5,589
	120 - Provisions for risk and charges:	3,678	8,979
Shareholders' equity	130 - Valuation reserves	17,347	23,308
	160 - Reserves	66,986	48,274
	170 - Share premiums	167,022	167,022
	180 - Share capital	50,913	50,913
	200 - Net income (loss) for the period (+/-)	1,233	24,053
Total liabilities		**4,271,406**	**4,168,018**

Country-by-country reporting
In accordance with Circular No. 285 of 17 December 2013 (Supervisory Provisions for Banks), fourth update of 17 June 2014, Banca Popolare di Cividale 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, 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 Bank's customers traditionally consist of families, craftsmen, professionals and small and medium enterprises.

Amounts as at 31/12/2016	
b) Sales (1)	101,368
c) Number of full-time equivalents (2)	565
d) Profit or loss before taxes (3)	532
e) Income taxes (4)	701
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" refers to item 250 of the 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;