131° ESERCIZIO

ASSEMBLEA DEI SOCI

28 APRILE 2018

Banca Popolare di Cividale

Società Cooperativa per Azioni

Report and Financial Statements at 31/12/2017

Approved by the Shareholders' meeting
of 28.04.2018

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 05484.1;
Taxpayer ID, VAT reg. no. and Udine Companies Register no. 00249360306;
Share capital at 31/12/2017: € 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 31/12/2017

Board of Directors

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

Board of Statutory Auditors

Chairperson	Pompeo Boscolo
Standing members	Gianluca Pico Gianni Solinas
Substitute Members	Pietro Cicuttini Chiara Repetti

Board of Arbitrators

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

Senior management

General Manager	Federico Fabbro
Acting Assistant General Manager	Gianluca Picotti
Assistant General Manager	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 27 April 2018 and second call, if necessary, at 9:00 AM on Saturday 28 April 2018, with the following agenda:

Extraordinary business

1. Proposed amendments to the Articles of Association of Banca Popolare di Cividale S.c.p.A. (articles: 1, 4 and 17)

Ordinary business

1. Financial statements for the year ended 31.12.2017 and any related business;
2. Proposal to set the share premium pursuant to Article 2528 of the Italian Civil Code;
3. Formation of the provision for the purchase of treasury shares pursuant to Art. 2357 of the Italian Civil Code;
4. Authorisation to purchase and dispose of treasury shares pursuant to Articles 2357 and 2357-*ter* through the use of the provision for the purchase of treasury shares;
5. Appointment of corporate officers and determination of their compensation;
6. Remuneration policies

Cividale del Friuli, 20 March 2018

The Chairperson
Michela Del Piero

Letter from the Chairperson

Dear shareholders,
We have emerged from a decade of profound economic crisis that resulted in a 5.6% contraction in Italian GDP, setting the nation back by 16 years. Within this scenario, Banca Popolare di Cividale faced a difficult, complex set of challenges originating from both within and without, yet still stayed true to its calling as a bank serving the local community, seeking to support local businesses and thus the entire local economy through measures aimed at sustaining growth even during the recession's darkest days. There can be no doubt that we risked more than other banks, yet we kept faith with our 130 years of history as a true bank for the people, of which I believe that we all – shareholders, directors and employees – should be extremely proud, especially if we consider the alternatives. Ours is the only remaining truly independent local bank in all of north-eastern Italy, with all of the moral, social and professional responsibility that this entails and will continue to entail in the coming years.
Independence is not a mere ideal: above all, it is a way of being and doing business as a credit institution. It is a model that demands sound foundations of the sort provided by our shareholders and balance sheet, as well as effective guidelines capable of dealing with a constantly changing market. Yet independence also means an unrelenting focus on the community, because without consensus from the local market a bank such as ours would have no future.
In 2017, this translated into new loans of €369 million (+10.8%), of which €150 million was extended to individuals and households (+3%) and €219 million to businesses (+16.9%). At the same time, we successfully reduced new non-performing exposures by 43%, proof of our shrewd credit policies and a true harbinger of the end of the long downturn.
Our cooperative bank has always focused on inclusive development open to everyone in the regions and communities in which we operate, out of an awareness that only growth of the entire local economy as a whole – families and businesses included – is capable of ensuring that we continue to enjoy the stability needed to overcome the periods of greatest economic difficulty. As a consequence, we look to our immediate future with the due peace of mind and reasonable conviction that we ought continue to provide fundamental support to our economy in the form of credit, driven by our deep understanding of the radical transformation that lies in store for the Italian and global credit system in the near future.

The Chairperson
Michela Del Piero

Financial highlights and balance sheet ratios

BALANCE SHEET DATA	31/12/2017	31/12/2016	Change %
Loans to customers	2,624,176	2,622,176	0.1%
Financial assets and liabilities	1,000,809	1,370,490	-27.0%
Investments in associates and companies subject to joint	3,780	3,819	-1.0%
Total assets	3,903,929	4,271,406	-8.6%
Direct funding	2,562,417	2,554,841	0.3%
Indirect funding	1,023,149	973,682	5.1%
- of wich: Assets under management	809,949	751,902	7.7%
Total funding	3,585,566	3,528,523	1.6%
Shareholders' equity	301,553	303,500	-0.6%

Reclassified balance sheet

ASSETS	31/12/2017	31/12/2016	Change %
Cash and cash equivalents	23,944	15,844	51.1%
Financial assets held for trading	4,980	3,192	56.0%
Financial assets available for sale	996,594	1,335,563	-25.4%
Financial assets held to maturity	-	32,529	-100.0%
Due from banks	33,327	52,226	-36.2%
Loans to customers	2,624,176	2,622,176	0.1%
Investments in associates and companies subject to joint	3,780	3,819	-1.0%
Property, plant and equipment and intangible assets (1)	81,531	85,239	-4.3%
Other assets (2)	135,597	120,818	12.2%
Total assets	**3,903,929**	**4,271,406**	**-8.6%**

(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	31/12/2017	31/12/2016	Change %
Due to banks	965,700	1,328,119	-27.3%
Direct funding from customers (1)	2,562,417	2,554,841	0.3%
Financial liabilities held for trading	765	794	-3.6%
Other liabilities	66,731	74,790	-10.8%
Specific provisions (2)	6,763	9,363	-27.8%
Shareholders' equity (3)	301,553	303,500	-0.6%
Total liabilities	**3,903,929**	**4,271,406**	**-8.6%**

(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)."
Amounts payable to institutional counterparties (Cassa Compensazione e Garanzia) have been reclassified from "Due to customers" to "Due to banks".

Reclassified income statement

INCOME STATEMENT DATA (€ thousands)	31/12/2017	31/12/2016	Change %
Net interest income	59,958	60,979	-1.7%
Net commissions	29,016	23,918	21.3%
Dividends	733	1,413	-48.1%
Net trading income	11,511	15,058	-23.6%
Other operating income (expenses) (4)	1,043	(272)	-483.2%
Operating income	**102,261**	**101,096**	**1.2%**
Personnel expenses	(41,194)	(40,169)	2.6%
Other administrative expenses (2)	(29,786)	(28,482)	4.6%
Net impairment/write backs on property, plant and equipment and intangible assets (3)	(2,370)	(2,502)	-5.3%
Operating cost	**(73,350)**	**(71,153)**	**3.1%**
Income (loss) from operating	**28,911**	**29,943**	**-3.4%**
Charges/write-backs on impairment of loans	(20,640)	(22,052)	-6.4%
Charges/write-backs on impairment of other financial assets	(3,038)	(2,359)	28.8%
Charges/write-backs on impairment of goodwill and equity investments	(1,606)	(5,858)	-72.6%
Net provisions for risks and charges	(642)	858	-174.9%
Income (loss) before tax from continuing operations	**2,985**	**532**	**460.9%**
Tax on income from continuing operations	(2,232)	701	-418.6%
Net income for the period	**753**	**1,233**	**-38.9%**

(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" (€7,426 thousand in 2017 and €7,213 thousand in 2016);
(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.

BALANCE SHEET RATIOS	31/12/2017	31/12/2016
Indirect funding from customers / Total funding	28.5%	27.6%
Assets under management / Indirect funding from customers	79.2%	77.2%
Direct funding from customers / Total liabilities	65.6%	59.8%
Loans to customers / Direct funding from customers	102.4%	102.6%
Loans to customers / Total assets	67.2%	61.4%

CREDIT RISK INDICATORS	31/12/2017	31/12/2016
Bad Loans / Loans to customers	14.9%	16.6%
Net bad loans / Loans to customers	6.2%	7.6%
Cost of risk / Income (loss) from operating	73.6%	70.8%
Net bad loans / Regulatory capital	54.4%	65.7%
Bad loans hedging	12.9%	15.0%
Other impaired loans hedging	49.2%	46.6%
Cost of credit (*)	0.79%	0.84%

Profitability ratios	31/12/2017	31/12/2016
Net interest income/Operating Income	58.6%	60.32%
Net commision income/Operating Income	28.4%	23.66%
Cost/income	71.7%	70.38%
Net income for the period/Total Assets	0.02%	0.03%
Net income for the period/RWA	0.03%	0.06%

Productivity ratios	31/12/2017	31/12/2016
Operating cost / N° of employees	125	122
Operating income / N° of employees	174	174
Loans to customers / N° of employees	4,470	4,513
Direct funding / N° of employees	4,365	4,397

Structure ratios	31/12/2017	31/12/2016
Loans to customers / Total net assets	67.8%	62.16%
Direct funding / Total net assets	66.2%	60.56%
Assets under management / Indirect funding from customers	79.2%	77.22%
Loans to customers / Direct funding from customers	102.4%	102.64%
Total assets / Shareholders' equity	1294.6%	1407.38%

OPERATING STRUCTURE	31/12/2017	31/12/2016
N° of employees	587	581
Branches	67	67

Basic Earning per share	31/12/2017	31/12/2016
Adjusted attributable profit	753	1,233
Weighted average number of shares	16,971,085	16,971,085
Basic Earning per share	**0.04**	**0.07**

SOLVENCY RATIOS	31/12/2017	31/12/2016
Common Equity Tier 1 /Risk-weighted assets (CET1 capital ratio)	13.10%	13.37%
Tier 1 Capital / Risk-weighted assets (Tier1 capital ratio)	13.10%	13.37%
RWA	2,189,164	2,120,818
Total own funds / Risk-weighted assets (Total capital ratio)	13.55%	14.37%

OTHER ECONOMIC INFORMATION*	31/12/2017	31/12/2016
Operating cost / Operating income (cost income ratio)*	68.1%	64.5%

** Normalised to exclude BRRD/Interbank Deposit Protection Fund contribution costs.*

Directors' report on operations

The macroeconomic scenario[1]

The international economy

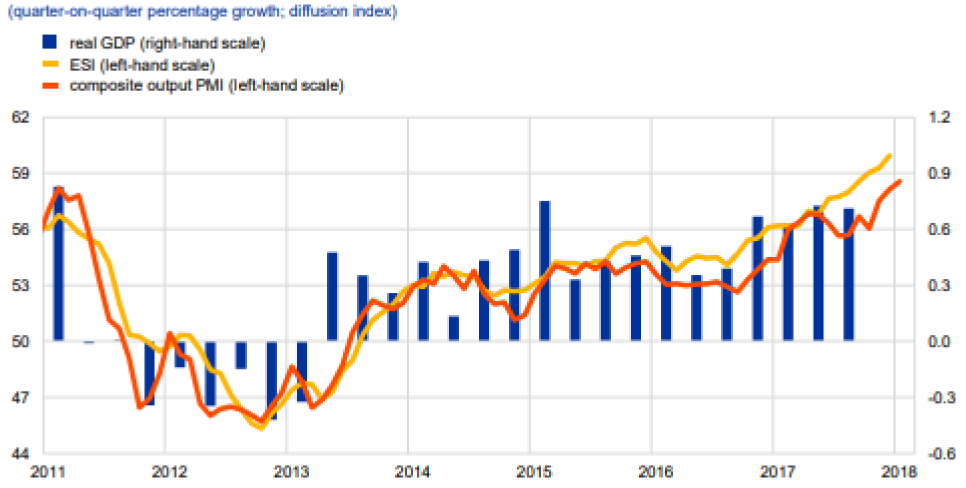
Economic activity in the world's major economies remains solid. Indicators based on surveys point to a robust global growth performance in the final months of the previous year. The very positive performance witnessed in December reflects the current level of sustained growth in developed economies and the recovery of emerging markets, led by China and India. The most recent figures are consistent with an extended, synchronised and persistent global economic recovery.
The latest estimates published by the OECD indicate an increase in global GDP of 3.6% in 2017 and of 3.7% in 2018. However, there continue to be risks associated with a possible increase in financial market volatility, relating in particular to a sudden flare-up of geopolitical tension and uncertainty regarding economic policies, which could have a negative impact on the confidence levels of households and businesses.

Euro Area

Growth in the Euro Area remains robust. In the third quarter of 2017, GDP in the Euro Area increased by 0.7% on the previous period, primarily due to net foreign demand and consumer spending. The scenario of a robust, extended growth of consumer spending is also borne out by other indicators. As the latest surveys suggest, further improvements in the job market should, as a result of increased employment, continue to support aggregate income and thus consumer spending.

Euro area real GDP, the Economic Sentiment Indicator and the composite output Purchasing Managers' Index

(quarter-on-quarter percentage growth; diffusion index)



Sources: Eurostat, European Commission, Markit and ECB.
Notes: The Economic Sentiment Indicator (ESI) is standardised to have the same mean and standard deviation as the Purchasing Managers' Index (PMI). The latest observations are for the third quarter of 2017 for real GDP, December 2017 for the ESI and January 2018 for the PMI.

Figure 1

Net household wealth also continued to increase at a rapid pace, providing a further boost to consumer spending. These factors could partly explain why consumer confidence increased further in the fourth quarter, bringing the December 2017 figure to its highest level since January 2001.
The most recent projections by experts at the Eurosystem have thus been revised upwards by 0.4 percentage points: gross domestic product in the Euro Area is expected to rise by 2.4% in 2017 and by 2.3% in 2018.
The ECB's Governing Council kept its official interest rates unchanged, indicating that they will remain at near the current levels for an extended period, well beyond the horizon of its net securities purchasing programme.

[1] Sources: The Bank of Italy's *Bollettino Economico*.
ECB's *Economic Bulletin.*

The Italian economy

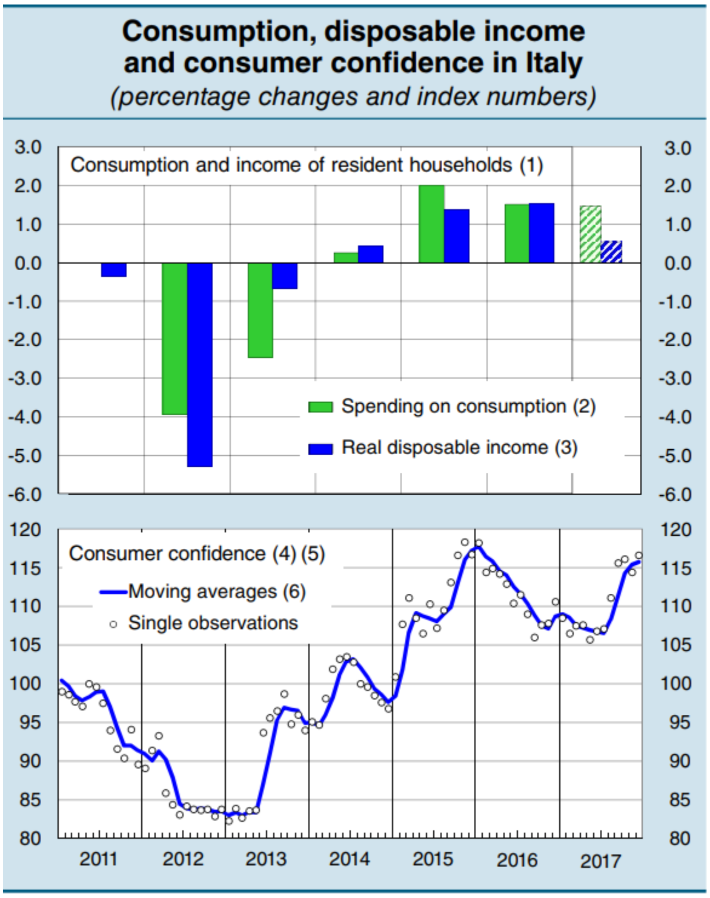
The most recent economic data also points to an increase in GDP in Italy. This growth was driven by both foreign and domestic demand, particularly with regard to capital investments. Such investments may have benefited significantly from the tax incentives for the purchase of capital goods and advanced digital technologies (accelerated depreciation), encouraging companies to move up their investment plans. Overall, Italian GDP is believed to have grown by 1.5% in 2017.

Business confidence indicators continued to improve throughout the autumn, remaining high across all majors sectors of the economy. According to the most recent surveys conducted by the Bank of Italy in collaboration with *Il Sole 24 Ore*, views of the general economic situation remain very positive and assessments of the conditions for investing continue to be favourable.

Household consumer spending continued to rise in the third quarter of 2017, driven by an increase in disposable income. The trend also appears to have continued into the fourth quarter, driven by an improved consumer confidence climate associated with the general economic situation and expectations regarding the job market (Figure 2).

The number of job-holders rose in the third quarter of 2017, and this uptrend also seems to have continued throughout the fourth quarter of the year, supported in particular by definite-term employees, whereas the number of permanent employees remained stable.

Inflation remained weak. According to the most recent estimates, expectations regarding consumer inflation for businesses have remained unchanged.



Source: Based on Istat data.

Banking

Credit supply conditions contributed to the expansion of lending. The recovery of investments drove an increase in demand from non-financial companies, and particularly from companies operating in the manufacturing sector (+2.6 over the twelve months). Lending to families remained comparable to the previous months (+2.8%) for both mortgage loans and personal loans.

Credit quality continued to improve. In the summer quarter, new non-performing loans decreased by 0.3% as a percentage of total loans, falling to 1.7%.

Outstanding non-performing loans decreased further as a percentage of total loans at major banking groups. This effect was largely due to a sale of non-performing loans closed by UniCredit. The coverage rate for non-performing positions thus amounted to 53.3%.

The cooperative banking system[2]

Cooperative banks continued to enjoy a strong local presence and relationships in 2017, with market share of approximately 18%. Loans to businesses and customer deposits increased in various regions of Italy, with deposits outpacing loans, a trend that was also seen at the Italian industry-wide level. In 2018 nationwide industry funding is expected to increase by 1.5% (by +1.8% for cooperative banks), in both cases concentrated in deposits and an increase in performing loans of 2.7% for cooperative banks and 1.6% for other banks. Finally, on the basis of earnings forecasts, operating income is expected to increase by 3.3% for cooperative banks and by 0.4% for the Italian banking industry at large.

Gross non-performing loans continued to decline at the nationwide level in 2017. This trend was also mirrored at the level of the Friuli Venezia Giulia region (Fig. 3), which returned to the levels of the first quarter of 2013.

Outlook[3]

Forecasts for the Italian economy for the next two years are favourable. GDP is expected to increase by 1.5% in 2018 (3.6% at the global level) and then to be consolidated in 2019 (+1.6%). Household consumer spending is projected to continue to benefit from a stronger job market and low real interest rates. During the two-year forecast period, it is believed that interest rates will remain at very low levels. The cost of bank funding should thus fall further, continuing to benefit from the ECB's highly expansionary monetary policy. Accordingly, the average interest rate on loans is expected to decline, driving up the spread on bank rates from 2% to 2.1%.

Within the Italian banking system, expectations are focused on the process of reducing credit risk: gross non-performing positions are expected to fall, due in part to significant sales of loans. Coverage rates should rise in parallel. The improvement in customer risk profile is expected to be accompanied by increased growth of loans to the economy, supported by the ECB's expansionary policies. From an earnings standpoint, the banking system should benefit from the stabilisation of short-term rate levels and the recovery of lending, resulting in a progressive improvement in net interest income, and the growth of other revenue components (fees, commissions and financial revenues) is projected to be even more pronounced. Some clarification is in order regarding costs. In recent years (2015-2017), there have been significant non-recurring charges associated with rescue measures for various banks, redundancy incentives and other one-off cost components. Compared with previous years, overall costs have declined considerably. However, setting aside the above extraordinary factors – expected to continue to have an impact over the next two years – operating costs are projected to increase by an average of 0.5% per year. Combining cost and revenue trends, operating income should perform very robustly, gradually returning the ROE index to positive territory.

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

The Banca Popolare di Cividale branch network

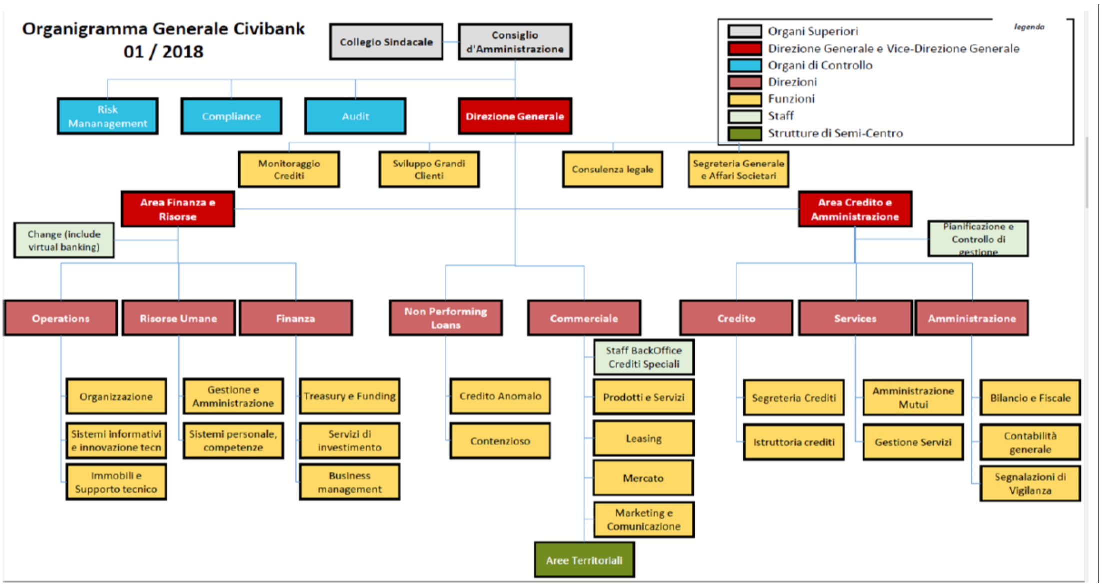
The Bank's branch network consisted of 67 operational branches at 31 December 2017.

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;
- seven in the province of Gorizia;
- three in the province of Trieste;
- five in the province of Treviso;
- five in the province of Venice; and
- one in the province of Belluno.

Organisational structure

The following chart shows the basic organisational structure of Banca Popolare di Cividale S.c.p.A.:



Human resources

At 31 December 2017 the human resources of Banca Popolare di Cividale S.c.p.A. numbered 587, compared to 581 at 31 December 2016.

During the year, 33 employees were hired and 27 left. The sales network (branches) employs a staff of 390, representing 66.4% of the total headcount.

Human resources statistics

Classification of staff by professional category:

	31.12.2017			31.12.2016		
	Men	Women	Total	Men	Women	Total
Senior managers	9	1	**10**	9	1	**10**
Middle managers	184	45	**229**	181	41	**222**
Middle managers – part time	-	8	**8**	1	10	**11**
3rd professional area	150	136	**286**	146	135	**281**
3rd professional area – part time	3	46	**49**	5	49	**54**
2nd professional area	1	4	**5**	1	2	**3**
1st professional area	-	-	-	-	-	-
Total	**347**	**240**	**587**	**343**	**238**	**581**

Incoming and outgoing personnel:

	Changes 2017			Changes 2016		
	Men	Women	Total	Men	Women	Total
Hirings	19	14	**33**	13	11	**24**
of which: business combinations	-	-	-	-	-	-
Terminations	15	12	**27**	23	12	**35**

Breakdown of workforce by age, gender and education:

	31.12.2017			31.12.2016		
	Men	Women	Total	Men	Women	Total
No. of employees by gender	347	240	**587**	343	238	**581**
Percentage of employees by gender	59.1%	40.9%	**100.0%**	59.0%	41.0%	**100.0%**
Average age (years)	43.19	42.96	**43.07**	46.50	42.96	**45.05**
Level of education						
University degree	158	113	**271**	143	111	**254**
Secondary school diploma	182	125	**307**	193	124	**317**
Other	7	2	**9**	7	3	**10**

Breakdown of workforce between headquarters and branch network:

	Number of employees			
	31/12/2017	%	31/12/2016	%
Headquarters	197	33.6%	195	33.6%
Branch network	390	66.4%	386	66.4%
Total	**587**	**100.0%**	**581**	**100.0%**

Training

As in previous years, the 2017 Training Plan was drafted based on the guidelines set out in the three-year Strategic Plan. In further detail, training programmes were implemented with the aim of: bringing current skills into line with the strategic skills identified in the plan and requested by the market; disseminating the knowledge present within the company to achieve 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 2017, training occupied an average of 8.74 days per person. Overall, 38,387 hours – corresponding to 5,118 days – of training were provided. Particular attention was devoted to organising courses concerning legal obligations, with a special focus on IVASS rules (IVASS Regulation No. 5 of 16 October 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. In addition, in 2017 considerable space was reserved for supporting the change of IT procedures, through the planning of specific training procedures for each company position, designed for both peripheral sales network and head office personnel.

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.

Non-financial reporting (NFR)

In accordance with Article 5 (3) (b) of Legislative Decree No. 254/2016, the Bank has prepared a separate non-financial report, to which the reader is referred. The 2017 non-financial report, drafted in accordance with the reporting standard (the GRI G4 Sustainability Reporting Guidelines), is available from the Bank's website.

Corporate management and the pursuit of a common objective

The shareholders

There were 14,916 shareholders in total as at 31 December 2017.

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

The above 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 are consistent with the mutual spirit of the Company as envisaged in Article 3 of the Articles of Association. In other words, the report allows the Bank to provide further evidence 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.

Banca Popolare di Cividale combines an entrepreneurial approach with a socially responsible way of doing business, as outlined in its Articles of Association, which establish the spirit of mutual aid that inspires the Bank in responding to the need for economic, moral and commercial promotion expressed by the community and social context in which the Bank operates. 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 2017 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 "in 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."
During 2017, the Bank continued to pursue the principles enunciated above by offering shareholders financial and banking products at better economic conditions than standard terms. 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. In order to qualify for such discounts, shareholders merely need to display their personal BPC Club cards to participating merchants (a full list of participating merchants is available from 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 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.

Main aspects of commercial activity

Commercial and marketing policy
In 2017 the Bank continued to implement its commercial and marketing policy, 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. In the fourth quarter the IT system migration process entailed a certain degree of disruption, which was gradually resolved but which temporarily limited commercial initiatives due to the need to dedicate resources primarily to assisting existing customers.

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, continued to contribute 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 1,370 new current accounts opened, resulting in a 2% increase in the Bank's customers.
Customers also continued to make increasing use of the Bank's online information and transaction services, available in a secure environment, 24 hours a day, from home or various mobile devices (PCs, tablets and smartphones). At the end of the year, there were about 40,000 active users of the various services (single-bank Internet banking and multi-bank CBI active and passive services), an increase of 2% on the previous year. In 2017 the security safeguards implemented continued to prove effective, as witnessed by the very modest level of fraudulent activity, due to non-compliance with basic security measures by certain users.
The payment card segment continued to achieve positive results in 2017: the number of active CartaSi cards climbed to 22,250 (a 10% increase), whereas the number of Bancomat® Maestro debit cards in issue came to 38,500 (up 6%).
Due to the change in the IT system, CiviPay prepaid cards had to be replaced with a similar product issued by CartaSi (now Nexi). The replacement process is still ongoing.
The number of POS terminals installed on merchants' premises reached 3,122, up by 4% on the previous year, with transaction volumes rising to €138.8 million (+15.4%).

Consumer credit

In 2017 the Bank continued to focus on maintaining credit offerings appropriate to the needs of households in order to ensure access to home ownership.

To support and facilitate access to home mortgage credit, customers meeting the requirements continued to make use of the Primary Residence Mortgage Guarantee Fund (Law No. 147/2013), which provides families with free government guarantees for mortgage loans for their primary residences.

This programme, which is available nationwide, is in addition to the aid available in Friuli Venezia Giulia: subsidies for first home purchases, applications for which may also be submitted directly to the Bank's branches, and the Regional Residential Construction Guarantee Fund, which offers families a free guarantee for a portion of their mortgage loans for their first homes.

Both guarantee programmes allow the maximum credit limit to be increased up to 100% of the price of purchase or 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 2017 came to €26 million (+7%).

The range of financing products for families is rounded out by loans offered by Deutsche Bank, with which the Bank has reached a commercial agreement that became operational at the beginning of the year. Over 1,200 new loans were issued with a total balance of €12 million.

Investment/security products

In 2017 investment products improved on their already positive performance in 2016. The continuation by the ECB of a highly expansionary monetary policy with official rates kept at zero and accelerating economic growth worldwide laid the foundations for a record year for European stock markets. This was accompanied by a decline in market volatility, which further encouraged customers to invest in products in the assets under management category. Finally, mention should also be made of the introduction of the personal savings plan (PIR) scheme, an important new development that offers clear benefits for investors and thus provided further impetus for net inflows. The sector of the market that captured the lion's share of such inflows was that of investment funds and investment companies with variable capital, which in our Bank's case saw an increase of over €70 million in new net inflows on 2016.

At the same time, the demand for security did not decrease. In our case, this demand was met by non-life and life (term life) policies, which in 2017 continued to grow as in recent years.

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 change of IT system modified product operating characteristics, simplifying management and reporting.

Overall, the funds raised through these instruments that combine security with high return levels exceeded €300 million, up 24%.

The development of the direct channel was particularly significant: ContoGreen, a deposit account reserved solely for online channel customers, mainly concentrated in major Italian metropolitan areas, recorded an increase in deposit volumes of €68 million, more than three times the level of the previous year.

Following the change of IT system, Contogreen was transformed from a simple deposit account into a full-fledged current account, allowing account-holders to perform the full range of main banking transactions remotely through the use of Internet banking applications. ContoGreen also posted sharp growth in numerical terms, with over 1,600 accounts open at the end of 2017.

Loans to businesses

In 2017 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, the new loans disbursed to businesses guaranteed amounted to €10 million. 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 came to approximately €47 million, consistent with the previous year's levels.
The agreement with the European Investment Bank (EIB) allowed additional resources a total of €20 million to be obtained, 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 €10 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 management of the resources of the Revolving Fund for Economic Initiatives (FRIE) and the Fund for the Development of SMEs and Services, the Bank submitted a total of 66 applications for new loans of €124 million (+77%), amounting to 35% of the total at the regional level.

Changes in the organisational structure and procedures

In 2017 the entire organisation was committed to the development of the project aimed at migrating to the new IT outsourcer Cse Consorzio Servizi Bancari Soc. Cons. a r.l., concluded on 9 October 2017.
The goal was to achieve maximum network efficiency, emphasising, among other aspects, the gradual digitalisation of documentation through the adoption of an advanced digital signature solution in branches, which will permit paperless management of customer relationships and yield a significant improvement in terms of process costs and performance.
The foundation was then laid for the introduction of technological solutions in support of users, expanding on traditional branch service through the installation of advanced ATMs and TCRs (teller cash recyclers). These will enable users to perform some transactions, such as depositing cash and cheques and making various payments, without needing to queue at a branch, with access to support from an in-branch assistant, where necessary.
To remain on the subject of innovation, traditional sales channels are being augmented by virtual channels that, as offerings are diversified and the typical geographical restrictions are lifted, will permit an expansion of the Bank's user base, thus driving greater volumes and profitability.

Significant events during the year

The following is an account of the most important events that shaped the Bank's operations in 2017, in chronological and logical sequence.

Listing on Hi-MTF

Since June, shares of Banca Popolare di Cividale have been admitted to listing on the multilateral facility Hi-MTF, instituted and managed by Hi-MTF SIM, in accordance with the European Markets in Financial Instruments Directive (MiFID), and recognised by Consob, the Italian financial markets supervisory authority. The application for admission was approved on 19 June by the Hi-MTF market, along with that of other Italian regional banks.

IT system migration

As discussed above in this report, the process of replacing the IT outsourcer that began in 2016 was completed in October.

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 2017 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 2017

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" (a total of €291,580 thousand at 31.12.2017 and €809,143 thousand in the comparative period).

ASSETS	31/12/2017	31/12/2016	Change %
Cash and cash equivalents	23,944	15,844	51.1%
Financial assets held for trading	4,980	3,192	56.0%
Financial assets available for sale	996,594	1,335,563	-25.4%
Financial assets held to maturity	-	32,529	-100.0%
Due from banks	33,327	52,226	-36.2%
Loans to customers	2,624,176	2,622,176	0.1%
Investments in associates and companies subject to joint	3,780	3,819	-1.0%
Property, plant and equipment and intangible assets (1)	81,531	85,239	-4.3%
Other assets (2)	135,597	120,818	12.2%
Total assets	**3,903,929**	**4,271,406**	**-8.6%**

(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	31/12/2017	31/12/2016	Change %
Due to banks	965,700	1,328,119	-27.3%
Direct funding from customers (1)	2,562,417	2,554,841	0.3%
Financial liabilities held for trading	765	794	-3.6%
Other liabilities	66,731	74,790	-10.8%
Specific provisions (2)	6,763	9,363	-27.8%
Shareholders' equity (3)	301,553	303,500	-0.6%
Total liabilities	**3,903,929**	**4,271,406**	**-8.6%**

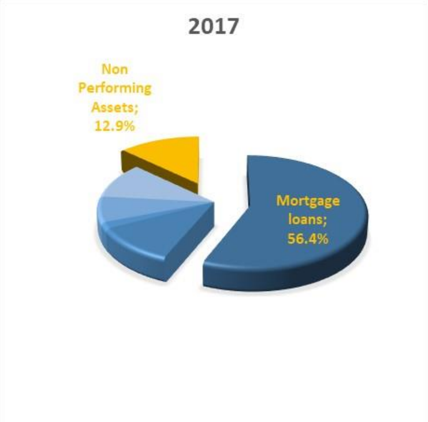
(1) The aggregate includes captions "20. Due to customers" and "30. Debt securities issued";
(2) The aggregates include captions "110. Employee termination benefits" and "120. Provisions for risks and charges";
(3) The aggregate includes captions "130. Valuation reserves," "150. Equity instruments,"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

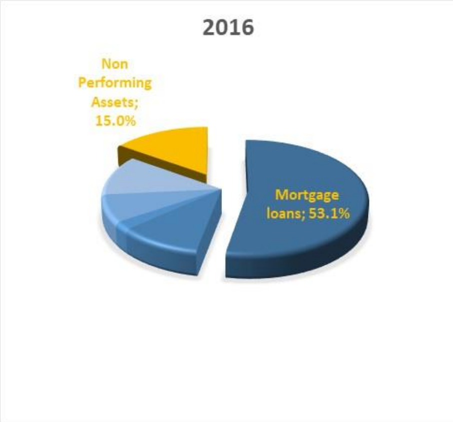
Loans to customers

At year-end, total loans to customers amounted to €2,624 million, essentially unchanged on 2016 (+0.1%). During the year, total new disbursements exceeded €369 million. New loans to individuals and households for the year reached €150 million (+3.0% on the previous year), whereas new loans to businesses climbed to €219 million (+16.9% on 2016). The creation of new NPEs (non-performing exposures) is constantly declining, confirming that the most acute phase of the crisis has passed (-43.0% YoY).

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

(thousands of euro)	31/12/2017	31/12/2016	Change %
Current accounts	286,888	269,191	6.6%
Mortgage loans	1,480,966	1,391,191	6.5%
Credit cards, personal loans and loans repaid by automatic deductions from wages	47,980	60,392	-20.6%
Finance leases	195,360	205,438	-4.9%
Other	274,796	301,917	-9.0%
Total performing loans	**2,285,990**	**2,228,129**	**2.6%**
Bad debts	161,448	200,380	-19.4%
Unlikely to pay	162,150	178,026	-8.9%
Past-due loans	14,587	15,642	-6.7%
Total non performing loans	**338,185**	**394,047**	**-14.2%**
Total loans	**2,624,176**	**2,622,176**	**0.1%**



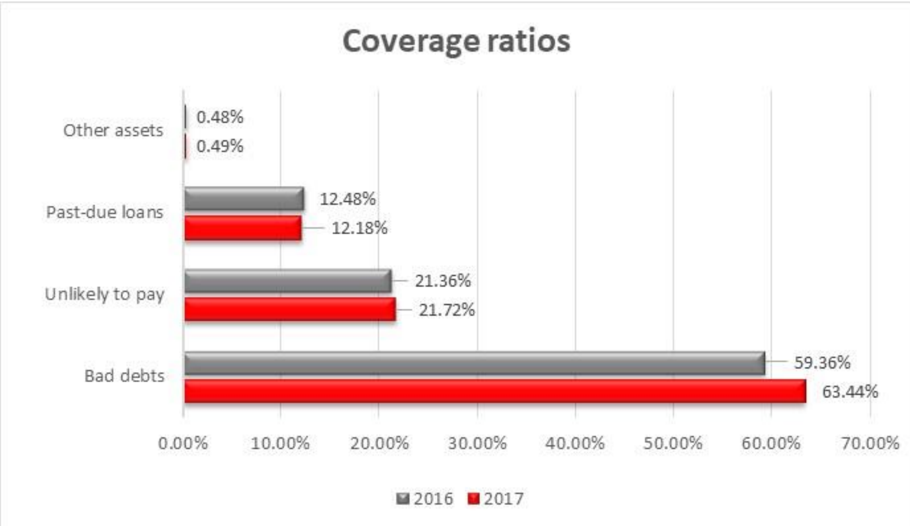


Quality of customer loans - breakdown

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure	Hedging	Net exposure	Hedging
				31/12/17	*31/12/17*	*31/12/16*	*31/12/16*
A.1 Banca Popolare di Cividale Scpa							
Bad loans	441,582	280,135		161,448	63.4%	200,380	59.4%
Unlikely to pay	207,154	45,004		162,150	21.7%	178,026	21.4%
Past-due loans	16,611	2,024		14,587	12.2%	15,642	12.5%
Other assets	2,297,296	X	11,306	2,285,990	0.5%	2,228,129	0.5%
TOTAL A.1	**2,962,644**	**327,162**	**11,306**	**2,624,176**	**11.4%**	**2,622,176**	**11.9%**

Non-performing loans net of delinquent interest accrued considered fully irrecoverable

Net non-performing loans amounted to €338,185 thousand as at 31 December 2017, down by 14.2% on the end of 2016, continuing the progressive decline witnessed in the previous year.
In further detail, bad debt positions, net of adjustments, stood at €161,448 thousand, compared to €200,380 thousand in the previous year, accounting for 6.2% of the total loan portfolio, with a coverage ratio of 63.4%. Other doubtful positions totalled €176,738 thousand, down by 8.7% from €193,667 thousand at the end of 2016, accounting for 6.7% of the total loan portfolio. Of this amount, €162,150 thousand (compared to €178,026 thousand at the end of December 2016) consisted of unlikely to pay positions and €14,587 thousand (compared to €15,642 thousand at the end of 2016) of past-due positions. The portfolio reserve for performing loans remained essentially unchanged on the previous year, with a coverage ratio of 0.49%. The overall coverage ratio for non-performing positions came to 49.2% (46.6% in 2016).



Customer funding

Direct and indirect funding reached €3,585,566 thousand at the end of 2017, up slightly (+1.6%) on the previous year.

	31/12/2017	31/12/2016	Change	Change %
Direct funding	**2,562,417**	**2,554,841**	**7,577**	**0.3%**
Due to customers	2,417,422	2,230,634	186,787	8.4%
Debt securities issued	144,996	324,206	(179,211)	-55.3%
Indirect funding:	**1,023,149**	**973,682**	**49,467**	**5.1%**
Assets under administration	213,200	221,780	**(8,580)**	-3.9%
Assets under management	809,949	751,902	**58,047**	7.7%
Total funding	**3,585,566**	**3,528,523**	**57,043**	**1.6%**

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 €2,562,417 thousand, up by 0.3% compared to 31 December 2016.

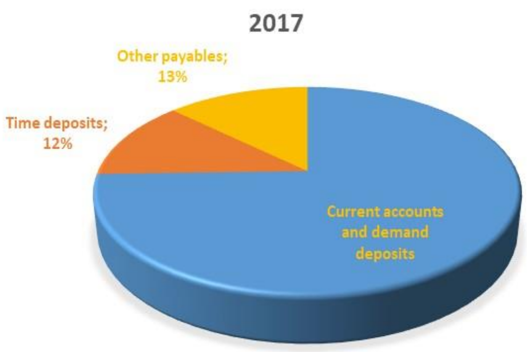
Direct funding from customers – figures at 31 December 2017 in thousands of euros

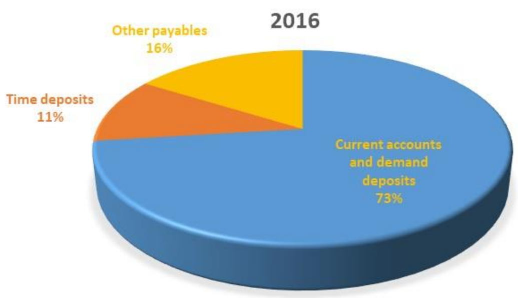
	31/12/2017	31/12/2016	Change	Change %
Direct funding	**2,562,417**	**2,554,841**	**7,577**	**0.3%**
Due to customers	2,417,422	2,230,634	186,787	8.4%
Debt securities issued	144,996	324,206	(179,211)	-55.3%

The aggregate may be broken down into “Debt securities issued” (5.7%) and “Due to customers” (94.3%). The decline in the bond component to around half the level of the previous year was offset by the increase in other forms of funding, as shown in the following table.

Breakdown of “Due to customers” in thousands of euros

Breakdown	31/12/2017	31/12/2016	%
Current accounts and demand deposits	1,802,007	1,628,732	10.6%
Time deposits	301,816	243,986	23.7%
Other borrowings	-	-	-
Other payables	313,598	357,916	-12.4%
Total	**2,417,422**	**2,230,634**	8.4%





An analysis of the trends that shaped the performance of the components of amounts due to customers shows the growth of current accounts and term deposits, which together made up 87% of the aggregate.

Breakdown of “Debt securities issued” in thousands of euros

Breakdown	31/12/2017	31/12/2016	%
Bonds	131,945	295,892	-55.4%
Other	13,050	28,314	-53.9%
Total	**144,996**	**324,206**	-55.3%

Indirect funding and asset management

Indirect funding, which comprises assets under management and administration, came to €1,023,149 thousand at the end of 2017, an increase of 5.1%.

Indirect funding from customers – figures at 31 December 2017 in thousands of euros

	31/12/2017	31/12/2016	Change	Change %
Direct funding	**2,562,417**	**2,554,841**	**7,577**	**0.3%**
Due to customers	2,417,422	2,230,634	186,787	8.4%
Debt securities issued	144,996	324,206	(179,211)	-55.3%
Indirect funding:	**1,023,149**	**973,682**	**49,467**	**5.1%**
Assets under administration	213,200	221,780	**(8,580)**	-3.9%
Assets under management	809,949	751,902	**58,047**	7.7%
Total funding	**3,585,566**	**3,528,523**	**57,043**	**1.6%**

An analysis of the components of indirect funding shows that assets under management came to €809,949 thousand at 31 December 2017, up by 7.7% 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 79.2% of total indirect funding at the end of 2017. In detail, the largest increase may be attributed to investment funds and investment companies with variable capital, which were up by 13.1% (or €54,361 thousand) compared with the previous year, to reach €468,568 thousand. Assets under management invested in securities and funds amounted to €217,509 thousand as at 31 December 2017, up by 2.4% on the previous year, whereas bancassurance products were down by 1.2% to €123,872 thousand, compared with €125,344 thousand in the comparative period.

Assets under administration decreased by 3.9%, or €8,580 thousand, compared to the previous year.

Interbank market activities

At 31 December 2017, the Bank's funding and lending activity on the interbank market had resulted in a net debt position of €908,429 thousand (compared to a net debt position of €1,260,049 thousand at 31 December 2016).

Interbank position	31/12/2017	31/12/2016	Assoluto	Var %
Cash and cash equivalents	23,944	15,844	8,100	51.1%
Loans to banks	33,327	52,226	(18,899)	-36.2%
Due to banks	(965,700)	(1,328,119)	362,420	-27.3%
NET INTERBANK POSITION	**(908,429)**	**(1,260,049)**	**351,621**	**-27.9%**

TLTRO II – Targeted Longer Term Refinancing Operations

At 31 December 2017 ECB funding operations, consisting solely of TLTRO II financing, amounted to €555 million. For each TLTRO II operation, which has a fixed maturity of four years from disbursement (on the basis of four quarterly auctions starting in June 2016), the benchmark rate is that applied to primary refinancing operations as at the date of each award, i.e. zero. However, it is possible to benefit from the more favourable interest rates on deposits with the ECB, up to a maximum of 0.4% if, during the period from 1 February 2016 to 31 January 2018, eligible net loans exceed at least 2.5% of a certain benchmark level. In the financial statements as at and for the year ended 31 December 2017, the interest accrued on the above liabilities, which totalled €2.53 million, has been calculated according to the maximum rate of 0.4%, since it is now common knowledge that as at 31 January 2018 the target had been reached. In this regard, it should be noted that the interest thus calculated includes €0.43 million not recognised in the financial statements for the previous year, since at the date of preparation of these latter financial statements there was no clear, sustainable basis for considering it likely that the potential benefit would be obtained. Despite referring to financial liabilities, this interest has been recognised in the income statement among "Interest income".

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 €4,215 thousand, compared to €2,398 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	31/12/2017	31/12/2016	%
Debt securities	4,194	2,107	99.1%
Equity securities and UCIs	335	375	-10.8%
Trading assets	**4,529**	**2,482**	**82.4%**
Financial derivatives	451	710	-36.4%
Financial assets held for trading	**4,980**	**3,192**	**56.0%**
Financial liabilities held for trading	765	794	-3.6%
Net financial assets/liabilities held for trading	**4,215**	**2,398**	**75.7%**

Financial assets available for sale

Financial assets available for sale amounted to €996,594 thousand, compared with €1,335,563 thousand in December 2016. Breaking down the total at 31 December 2017, €946,328 thousand consisted of debt securities (primarily government bonds of €850,529 thousand and bank bonds of €95,799 thousand) and €17,328 thousand of interests in CIUs, whereas the remainder was represented by equity investments that do not entail control, joint control or a significant interest.

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 2017. 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	UK	Argentine
Financial assets available for trading			
- Debt securities	2,562	-	77
Financial assets available for sale			
- Debt securities	849,144	1,385	-
Total	**849,144**	**1,385**	-

Liquidity and the proprietary securities portfolio

The global economy continued to show significant signs of a recovery in 2017. While the Federal Reserve increased official U.S. rates on several occasions, the ECB extended the period of application of QE until September 2018, while keeping the refinancing rate at zero. The improvement in the macro-economic scenario and the reduction in political risk were the basis for the upgrade of Italy's credit rating by the rating agency Standard & Poor's, driving the spread back down to around 140 basis points. Within this scenario, the proprietary portfolio reached the targets planned for the year, 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 2.1 years at the end of the year. Available-for-sale (AFS) financial assets came to €1 billion at year-end and primarily consisted of Italian government bonds with limited durations, and, to a residual extent, bank bonds and equities. Held-for-trading (HFT) assets and loans and receivables (LR) represented a marginal portion of the overall portfolio.

A new securitisation operation designated CIVITAS 3 – RMBS was completed in July through the sale to the vehicle of an additional portfolio of performing loans to RMBSs. This permitted an increase in the level of senior ECB-eligible bonds, and thus an improvement of the Bank's liquidity profile.

At 31 December 2017 liquidity reserves eligible for refinancing operations with the European Central Bank amounted to €1,203 million, with one-month net liquidity reserves of €323 million and a liquidity coverage ratio significantly above the regulatory limits. Refinancing with the European Central Bank is represented solely by participation in the TLTRO II auctions.

Financial assets and liabilities held for trading	31/12/2017	31/12/2016	Change %
Debt securities	4,194	2,107	99.05%
Equities and Quotas of UCI	335	375	-10.80%
Derivative financial instruments with positive fair value	451	710	-36.42%
Total assets	**4,980**	**3,192**	**56.0%**
Financial assets available for sale			
Debt securities	946,328	1,279,257	-26.03%
Equities and Quotas of UCI	50,266	56,306	-10.73%
Total assets	**996,594**	**1,335,563**	**-25.4%**

Property, plant and equipment and intangible assets

Property, plant and equipment amounted to €79,218 thousand, down by 2.5% compared with 31 December 2016. The details are set out below.

Used in operations	31/12/2017	31/12/2016	Change %
Land	4,933	4,933	0.0%
Buildings	67,085	68,706	-2.4%
Movables	3,919	4,220	-7.1%
Electrical plant	510	640	-20.3%
Other	1	1	0.0%
Totale Property and equipment used in operations	**76,448**	**78,501**	**-2.6%**
Investment property			
Land	2,770	2,770	0.0%
Total investment property	**2,770**	**2,770**	**0.0%**
Total	**79,218**	**81,271**	**-2.5%**

The intangible assets on the books as at 31 December 2017 amounted to €2,314 thousand, compared with €3,968 thousand as at 31 December 2016. The change was primarily attributable to goodwill, which fell from €3,796 million to €2,190 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 €1,606 thousand. The grounds for the aforementioned impairment loss have to do with more conservative assumptions regarding the projected macroeconomic and industry scenario. The results of the analysis conducted to determine the recoverable amount of the CGU referring to the full scope of the Bank indicated a 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

As at year-end, shareholders' equity, including the net income for the year, amounted to €301,553 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 €296,710 thousand as at 31 December 2017.
The level of own funds ensures compliance with capital requirements under applicable regulations. Risk-weighted assets stood at €2,189,164 thousand.
Capital ratios were as follows:

- ✓ the phased-in **Common Equity Tier 1** ratio was 13.10% (13.41% at 31/12/2016);
- ✓ the phased-in **Tier 1 ratio** was 13.10% (13.41% at 31/12/2016);
- ✓ the phased-in **Total Capital ratio** was 13.55% (14.38% at 31/12/2016).

The above ratios exceed the minimum levels set by the supervisory authority for Banca Popolare di Cividale during the SREP process.
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 2017 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 the Bank's 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)	31/12/2017	31/12/2016	Change %
Net interest income	59,958	60,979	-1.7%
Net commissions	29,016	23,918	21.3%
Dividends	733	1,413	-48.1%
Net trading income	11,511	15,058	-23.6%
Other operating income (expenses) (4)	1,043	(272)	-483.2%
Operating income	**102,261**	**101,096**	**1.2%**
Personnel expenses	(41,194)	(40,169)	2.6%
Other administrative expenses (2)	(29,786)	(28,482)	4.6%
Net impairment/write backs on property, plant and equipment and intangible assets (3)	(2,370)	(2,502)	-5.3%
Operating cost	**(73,350)**	**(71,153)**	**3.1%**
Income (loss) from operating	**28,911**	**29,943**	**-3.4%**
Charges/write-backs on impairment of loans	(20,640)	(22,052)	-6.4%
Charges/write-backs on impairment of other financial assets	(3,038)	(2,359)	28.8%
Charges/write-backs on impairment of goodwill and equity investments	(1,606)	(5,858)	-72.6%
Net provisions for risks and charges	(642)	858	-174.9%
Income (loss) before tax from continuing operations	**2,985**	**532**	**460.9%**
Tax on income from continuing operations	(2,232)	701	-418.6%
Net income for the period	**753**	**1,233**	**-38.9%**

(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" (€7,426 thousand in 2017 and €7,213 thousand in 2016);
(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 €59,958 thousand, down by 1.7% from €60,979 thousand in 2016.
Net interest income on business with customers increased by 4.9% on the comparative period, primarily due to the effect of repricing measures affecting funding. The commercial spread improved to 2.15%, despite increasing competitive pressure on the rates of return on assets. The change in net interest income was thus mainly attributable to the declining volumes and yields of the government bonds in the proprietary portfolio.
Net commission income of €29,016 thousand accounted for 28.4% of operating revenues. The increase of €5,098 thousand (21.3%) was driven by the positive performance of loan application fees (€1,538 thousand, +39.6% on 2016) and of management, intermediation and advisory fees of €1,449 thousand (+38.9%), whereas the reduction in commissions on liabilities guaranteed by the Italian government resulted in positive variation of €1,122 thousand (-85.2%) compared with 31 December 2016.
Net trading income was €11,511 thousand, compared with €15,058 in the previous period, due to the positive contribution of trading (€182 thousand) and AFS financial assets (€11,564 thousand). It bears emphasising that comparison between 2017 and the previous year is difficult since the 2016 figure includes non-recurring items (€8,190 thousand) relating to the collection of an earn-out payment in connection with the sale of Visa Europe by ICBPI.
Operating revenues amounted to €102,261 thousand, up by 1.2% from €101,096 thousand in the previous year.

Operating expenses were €73,350 thousand, up by 3.1% on the comparative period, and include €1,489 thousand of contributions to the resolution fund (BRRD), €2,178 thousand paid to the Interbank Deposit Protection Fund and non-recurring charges of over €2,500 thousand related to the change of the IT outsourcer. Personnel expenses reached €41,194 thousand, whereas other administrative expenses amounted to €29,786 thousand. Net adjustments to property, plant and equipment and intangible assets came to €2,370 thousand.
Net operating income was €28,911 thousand, compared with €29,943 thousand in 2016.
Net impairment losses on loans and other financial assets totalled €20,640 thousand, resulting in a loan loss rate of 79 basis points and an overall level of coverage of non-performing loans of 49.2%. Net impairment losses on financial assets amounted to €3,038 thousand and referred to impairment losses on equity securities and funds classified to the AFS portfolio.
Net provisions for risks and charges came to €642 thousand.

More conservative assumptions regarding the development of the macroeconomic and industry scenario entail impairment losses on goodwill of €1,606 thousand, as a result of the impairment test conducted on goodwill recognised in the financial statements at the end of the period (€5,340 thousand as at 31 December 2016).

Income before tax from continuing operations thus amounted to €2,985 thousand. Income taxes for the year totalled €2,232 thousand.

Net income for the year was thus €753 thousand.

Statement of cash flows

Performance of main items of the statement of cash flows

a) Financial assets available for sale (+€335.1 million); the change was largely due to the sale of debt securities.
b) Loans to customers (-€11.9 million); the change was primarily the result of the decrease in deposits with the Cassa Compensazione Garanzia;
c) Loans to banks (+€18.2 million); the change was chiefly attributable to the reduction in the compulsory Bank of Italy reserve and in sight deposits;
d) Due to banks (+€155 million); the change was primarily due to the increase in current accounts, sight deposits and term deposits;
e) Due to customers (-€330.8 million); the change was mainly due to transactions with the Cassa Compensazione Garanzia.
f) Debt securities in issue (-€179.2 million); the change was due to the redemption of bonds in issue.

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 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 wholly owned by Banca Popolare di Cividale.

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 its risk appetite, assumption of risk, drafting of risk management and control policies, setting 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 "pillar one and two 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 Function, 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.

With effect from 2017, the Bank began to draft a condensed recovery plan, normally to be prepared every other year, according to the template provided by the supervisory authorities. A Recovery Plan (governed by the Bank Recovery and Resolution Directive, transposed into Italian law by Legislative Decree No. 180 of 16 November 2015) must be drafted by each intermediary. The Plan provides a detailed description of the procedures to be followed and tools created by the bank to prevent and resolve a possible crisis situation, whether systemic or idiosyncratic in nature, i.e. whether the crisis has internal origins and it is presumed its effects may remain limited to the bank and its most direct counterparties.

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, real-estate risk and the risk associated with encumbered assets.

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. At the end of 2017, such risk remained at historically high levels, but below the recent peaks, as a result of the positive performance during the year, reflected in a decline in outstanding non-performing loans (NPLs), mainly due to the Bank's internal management (collections, write-offs and reclassification as performing) and containment of positions reclassified from performing to default (lowest annual default rates of the last five years).

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 at the annual level changed as a function of the size of the portfolio, declining considerably compared with the previous 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.

Liquidity risk
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 remained the main objective of the Bank's funding policies in 2017. The Bank's liquidity remains at adequate levels: as at 31 December 2017, the Basel 3 regulatory ratios (LCR and NSFR), adopted as internal metrics for measuring liquidity risk, exceeded the supervisory requirements set for 2018.

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 were 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 performed by the banking industry at large and the many potential processes capable of generating reputational risks, in the complex current general scenario, considering, inter alia, factors of uncertainty tied to the system and supervisory regulation.

Strategic risk
The Bank's exposure to strategic risk is moderate to high. This assessment is based in particular on factors external to the Bank (persistent low interest rates, a change in the business models adopted by the banking industry in pursuit of profitability; strong competition on virtual banking platforms; stringent capital and liquidity constraints imposed by regulators on the basis of banking risks, including in severe stress conditions; and constant regulatory changes that affect the bank's medium-to-long term strategies).

Associated party risk
Exposure to associated parties remained essentially constant 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 stable 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.

Risk associated with encumbered assets
The main transactions outstanding as at 31 December 2017 that entail the encumbrance of proprietary assets are funding operations with the ECB, in which the Bank also makes use of securities created through self-retained securitisation operations, repurchase agreements and funding transactions with the European Investment Bank (EIB). The net risk exposure is deemed to be medium-to-low.

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.

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. Public disclosure documents, which in large part reflect the contents of the annual ICAAP (Internal Capital Adequacy Assessment Process) Report, will be made available on 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. In regard to the above, the Board of Directors reiterates that it is reasonably certain that the Bank will continue to operate profitably in the foreseeable future, and the 2017 financial statements have thus been prepared on a going-concern basis. 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 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.

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.

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 2017 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 2017 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 2017 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 macroeconomic scenario continues to improve, with favourable short-term growth prospects. The Italian economy also continues to gain momentum. The most recent surveys point to a return of business confidence to pre-recession levels and indicate that investment spending has accelerated, while employment continues to rise. Credit for the private sector continues to expand and loans to companies, above all manufacturing firms, continue to grow. Credit quality continues to improve, driven by more robust growth. New non-performing loan flows are falling back below pre-crisis levels, although there continues to be severe pressure surrounding "extraordinary" management of the legacy situation.

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, complemented by the preparation of the new 2019-2021 business plan.

Proposed allocation of the net income for the year

Shareholders,

The financial statements submitted for your review have been drafted in accordance with IASs/IFRSs as required by Legislative Decree No. 38 of 28 February 2005 and order of the Bank of Italy no. 262 of 22 December 2005, as amended, and have been audited by the independent auditors 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	**3,903,928,870**	
Liabilities		3,602,375,824
Share capital		50,913,255
Share premiums		167,021,739
Reserves		68,218,633
Valuation reserves		15,438,011
Treasury stock		(791,592)
Total liabilities and shareholders' equity (excluding Income for the period)		**3,903,175,870**
Net income (loss) for the period		**753,000**

It should be noted that in its resolution regarding the allocation of net income, the Board of Directors, taking account of the communication from the Bank of Italy dated 7 March 2018 concerning "2017 financial statements. Distribution of dividends and remuneration policies", in which the supervisory authority, inter alia, asks intermediaries "to adopt prudent policies that ensure constant satisfaction of mandatory capital requirements and gradual compliance with the higher capital requirements established for the end of the transitional period ("fully-loaded" ratios)", decided to allocate all of the 2017 net income to reserves.

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

	31/12/2017	31/12/2016
Allocation of net income	75,300	123,300
To Legal reserve	677,700	1,109,700
Net income for the period	**753,000**	**1,233,000**

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

	Amounts to 31/12/2017	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	68,218,633	753,000	68,971,633
Valuation reserves	15,438,011		15,438,011

Proposal to set the share premium pursuant to Article 2528 of the Italian Civil Code Shareholders,
After having consulted with the Board of Statutory Auditors on the subject, this Shareholders' Meeting has also been called upon to approve the Directors' proposal for setting the share premium to be paid in addition to the value of shares (par value).
Having acknowledged the contents of the 2017 financial statements, the proposed allocation of net income, the provisions accrued, the company's earnings and balance sheet situation, forward-looking data, market conditions, and the instructions for banks from the supervisory authority, the Board of Directors has decided to propose that you set the share premium for 2018 at €11.00. Together with par value, this share premium would result in a total share price of €14.00.

Cividale del Friuli, 20 March 2018
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 2017

Shareholders,
The Board of Statutory Auditors presents to you its report on its activity during the year ended 31 December 2017, 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, Pompeo Boscolo and standing auditors Gianluca Pico and Gianni Solinas.

* * *

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 2017. 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.

* * *

Significant events during the year
For further information about the significant events during the year cited below, refer to the Directors' report on operations:
Listing on Hi-MTF
Since 19 June, shares of Banca Popolare di Cividale have been admitted to listing on the multilateral facility Hi-MTF, instituted and managed by Hi-MTF SIM, in accordance with the European Markets in Financial Instruments Directive (MiFID), and recognised by Consob, the Italian financial markets supervisory authority.
IT system migration
The IT system was migrated to the platform of the new outsourcer, Cse Consorzio Servizi Bancari Soc. Cons. a r.l., in October.

* * *

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 the current process of comprehensive transformation following on the IT migration, the Bank has revised and approved a new organisational structure involving a redistribution of managerial responsibilities.

* * *

Related-party transactions

The Board of Statutory Auditors notes that the Board of Directors has adopted rules in respect of related-party transactions 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 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 2017.

Complaints pursuant to art. 2408 of the Italian Civil Code

On 4 December 2017 the Board of Statutory Auditors received a complaint lodged by the following shareholders:

Pierluigi Comelli, Rinaldo Bosco, Clara Osso, Michele Picco, Umberto Jonia Prat, Adriano Balutto, Antonio Bizzarini, Bonaventura Rodaro, Edoardo Scarabelli and Mario Petruzzi, who objected that:

1. during the Shareholders' Meeting held on 29 April 2017 the Bank denied the shareholders access to the legal opinion, although the subject matter of the discussion was the criterion for determining the share price;
2. the Bank also refused to provide the shareholders with the legal opinion and estimate subsequently prepared by Deloitte Financial Advisor for the Shareholders' Meeting, despite an explicit request to do so;
3. lastly, by refusing to provide access to the above document, the Bank had allegedly breached the principle of transparency towards the market, as well as the principle of full, proper disclosure to the Shareholders, thus violating the provision of Art. 111 of the Regulation on Issuers.

In the complaint, which was also filed with the Bank of Italy, Consob and the Chairman of the Parliamentary Commission of Inquiry on Banks, Senator Pierferdinando Casini, the shareholders who authored the complaint asked "*... that the organisations and authorities to which this complaint is addressed – each to the extent of its powers and prerogatives under the law – demand that Banca di Cividale S.c.p.A. provide its shareholders and potential investors, by publishing the documents concerned on its website, with the opinion drafted by Deloitte regarding the 'value of the shares and of the credit institution' and the opinion by the 'major law firm' whose identity has not even been revealed to the shareholders, where this is deemed consistent with the principles of transparency and proper disclosure to the market....*"

After receiving this complaint, the Board of Statutory Auditors met immediately and in a timely manner to determine whether it had any merit. In response to the complaint, and in order to ensure that it was acting in accordance with the law – despite believing that it had acted properly – the Bank decided to seek two

fairness opinions, one from Filippo Annunziata, an associate professor of Banking and Financial Market Law at Luigi Bocconi University, and the other from Massimo Franzoni, full professor of Civil Law at Bologna University.
In the light of the applicable legislation, and on the basis of an examination of all of the related documents, the Board of Statutory Auditors observes that:

1) there is no specific obligation to file documents with regard to the shareholders' resolution of 29 April 2017;
2) the shareholders are not entitled to obtain any documentation accompanying that received during the Shareholders' Meeting and that indicated in company communications;
3) the content of the company communications published by the Bank on 20 June 2017 and 23 June 2017 was more than sufficient to inform the shareholders and the market of the substance and the value of the shares, considering that:
   i) it had been clearly stated that "*the opening price of the shares was set by the Bank at €15.00 on the basis of the opinion issued by Deloitte Financial Advisor S.r.l., an independent expert meeting high standards of professionalism tasked with conducting this assessment, as required by the law*," in accordance with the procedure for listing on the market segment concerned;
   ii) it had also been specifically stated that "*the opening price of the shares of Banca Popolare di Cividale (€15) falls within the lower part of the range established on the basis from Deloitte, which valued the Bank's shares within a range of €14.1 to €16.6*";
   iii) the chosen valuation method was specifically indicated: "*more specifically, the valuation method used was based on the discounting of future income and is known as the 'DDM - Dividend Discount Model'*," application of which is commonly accepted practice within the banking industry, in which the ability to create company value for shareholders is linked to the level of capitalisation required by the supervisory authority and satisfied by the bank."

Having observed all of the foregoing, the Board of Statutory Auditors concluded its examination of the complaint by deeming the Bank's behaviour to be proper and the claims made in the complaint to be unfounded. This conclusion was then reported to Consob.

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 concur with the need, as also expressed by the Bank, to continue with the ongoing process of adapting the organisational structure to the new market scenarios.

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, that the administrative and accounting system is adequate and reliable.

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 continue with the process of implementing a homogeneous vision of risk management, adopting uniform criteria of analysis and supplementing processes, based on uniform, schematic methods.

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. Following the IT migration, the organisational model will need to be adapted to the new process structure.

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 2017 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. The Internal Control and Audit Committee's Report (the "Additional Report") was forwarded to the Board of Statutory Auditors pursuant to Article 11 of Regulation (EU) No 537/2014. This Report does not identify any significant deficiencies in the internal control system with respect to the financial reporting process and/or in the accounting system. However, the auditor identified some variances, which were deemed to be “immaterial”. The Board of Statutory Auditors will take account of these aspects when transmitting the document and its observations to the Board of Directors.

Remuneration policies

The Board of Statutory Auditors has examined the document on the Bank's remuneration policies, approved by the Board of Directors on 20 March 2018. 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 €2,190 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.
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 2017 annual financial statements.

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 €1,600 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.

IFRS 9: the new accounting standard on financial instruments
The upcoming 2018 financial statements will mark the first-time adoption of accounting standard IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation No 2067/2016. During the previous year, the adoption of the Standard entailed considerable work both of an organisational nature and regarding implementation, and its adoption will have consequences at the level of financial position in the coming year, as described in the notes to Chapter A, to which the reader is referred.
The Bank has exercised the option of applying the transitional arrangements set out in the European Regulation, which permit the impact of the adoption of the Standard to be mitigated by neutralising its effects for the purposes of calculating the CET1 ratio, applying decreasing percentages over time (a period of five years).
As stated in the notes, the expected impact in terms of greater provisions as at 1 January 2018 (and thus of lesser equity) has been estimated at €8.6 million (€6.2 million net of the tax effect) in respect of performing loans and debt securities and at €24.3 million (€17.6 million net of the tax effect) in respect of non-performing loans.

Non-financial report
As part of its duties, the Board of Statutory Auditors supervised compliance with Legislative Decree No. 254 of 30 December 2016, particularly as regards the preparation process and contents of the Non-Financial Report drafted by Banca Popolare di Cividale S.c.p.A. In this regard, having examined both the certification by the independent auditors pursuant to Article 3 (10) of Legislative Decree No. 254/2016 and the declaration rendered by the same independent auditors within the framework of their report on the financial statements pursuant to Article 4 of the Consob Regulation implementing the above Decree, the Board did not present any observations.

* * *

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.
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 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 2017, 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, 11 April 2018

The Board of Statutory Auditors
(Pompeo Boscolo)
(Gianluca Pico)
(Gianni Solinas)

Independent auditors' report pursuant to Article 14 of Legislative Decree No. 39 of 27 January 2010 and Regulation (EU) No 537/2014

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Cividale S.c.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the Financial statements of Banca Popolare di Cividale S.c.p.A. (the "Company"), which comprise the balance sheet as at December 31, 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year then ended and the notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017 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 as well as with the regulations issued for implementing article 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.
We are independent of the Banca Popolare di Cividale S.c.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Key Audit Matter	Audit Response
Classification and evaluation of loans to customers	
Loans to customers, presented in line item 70 of the balance sheet, amount to Euro 2,624 million at December 31, 2017, and represent approximately 67% of total assets on the balance sheet. The process of measuring loans to customers is relevant for the audit, both, because the value of loans is significant for the financial statements as a whole and because the value of the related impairment losses are determined by the directors through the use of estimates that have a high degree of subjectivity. Among these, the following are particularly important: the identification of objective evidence of impairment of loans, the recoverable value of the collateral acquired, the determination of expected cash flows and their timing of collection. Furthermore, as regards to the statistical evaluations: the definition of homogeneous loan categories in terms of credit risk, the determination of the probability of default ("PD") and the related estimated loss, based on historical data observation for each risk class. Disclosures regarding the changes in the quality of loans to customers and on the classification and measurement criteria adopted is provided in Part A - Accounting policies, in Part B - Information on the balance sheet, in Part C - Information on the income statement and in Part E - Information on risks and related hedging policies of the notes to the financial statements.	Our audit procedures in response to the key audit matter included, amongst others: • understanding of the policies, processes and controls implemented by the Company in relation to the classification and measurement of loans to customers and the performance of compliance procedures on the controls considered as key, including those relating to IT; • execution of substantive procedures aimed at verifying the correct classification and measurement of credit positions; • performing procedures for the comparative analysis of the portfolio of loans to customers and the related coverage levels, and analysis of the most significant deviations; • as regards to the exposures impaired collectively, the assessment of the reasonableness of the assumptions and parameters of the model adopted, as well as the verification on a sample basis of the correctness of the related calculations. Finally, we examined the adequacy of the disclosures provided in the notes to the financial statements.

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Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n. 136, dated August 18, 2015, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern when preparing the financial statements, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit 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 Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going

concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca Popolare di Cividale S.c.p.A., in the general meeting held on May 9, 2010, engaged us to perform the audits of the financial statements of each year ending from December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010

The Directors of Banca Popolare di Cividale S.c.p.A. are responsible for the preparation of the Management Report as at December 31, 2017, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Management Report with the financial statements of Banca Popolare di Cividale S.c.p.A. as at December 31, 2017 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Management Report is consistent with the financial statements of Banca Popolare di Cividale S.c.p.A. as at December 31, 2017 and complies with the applicable laws and regulations.

Building a better working world

With reference to the statement required by article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The Directors of Banca Popolare di Cividale S.c.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information are subject to a separate compliance report signed by us.

Verona, April 11, 2018

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		31/12/2017		31/12/2016
10	Cash and cash equivalents		23,944,208		15,844,098
20	Financial assets held for trading		4,980,392		3,191,925
40	Financial assets available for sale		996,593,589		1,335,562,968
60	Due from banks		33,326,679		52,226,040
70	Loans to customers		2,624,175,519		2,622,175,773
100	Investments in associates and companies subject to joint		3,780,287		3,819,320
110	Property and equipment		79,217,553		81,270,934
120	Intangible assets		2,313,800		3,968,085
	of which:				
	- goodwill	2,190,000		3,795,975	
130	Tax assets		73,563,525		78,775,271
	a) current	15,389,634		15,678,474	
	b) deferred	58,173,891		63,096,797	
	of which convertible into tax credit (Law no. 214/2011)	*47,816,854*		*52,213,806*	
140	Attività non correnti e gruppi di attività in via di dismissione				
150	Other assets		62,033,318		42,042,816
	Total assets		**3,903,928,870**		**4,271,405,991**

	Balance sheet - liabilities and shareholders' equity		31/12/2017		31/12/2016
10	Due to banks		674,119,359		518,976,218
20	Due to customers		2,709,001,820		3,039,777,468
30	Debt securities issued		144,995,625		324,206,384
40	Financial liabilities held for trading		765,302		793,710
80	Tax liabilities		5,148,451		6,847,672
	a) current	1,589,847		1,683,103	
	b) deferred	3,558,604		5,164,569	
100	Other liabilities		61,582,367		67,941,850
110	Employee termination benefits		5,072,965		5,684,816
120	Provisions for risk and charges:		1,689,935		3,677,716
	b) other provisions	1,689,935		3,677,716	
130	Valuation reserves		15,438,011		17,346,530
160	Reserves		68,218,633		66,985,633
170	Share premiums		167,021,739		167,021,739
180	Share capital		50,913,255		50,913,255
190	Treasury shares (-)		(791,592)		-
200	Net income (loss) for the period (+/-)		753,000		1,233,000
	Total liabilities and shareholders' equity		**3,903,928,870**		**4,271,405,991**

Income statement

Income statement	31/12/2017		31/12/2016	
10 Interest income and similar revenues		78,745,561		84,518,873
20 Interest expense and similar charges		(18,787,295)		(23,540,281)
30 Net interest income		**59,958,266**		**60,978,592**
40 Commission income		32,876,657		28,638,366
50 Commission expense		(3,860,391)		(4,719,944)
60 Net commission income		**29,016,266**		**23,918,422**
70 Dividends and similar income		817,661		1,413,131
80 Net trading income		182,263		173,022
100 Profit (loss) on disposal or repurchase of:		11,329,205		14,885,274
a) loans	(239,578)		(146,385)	
b) financial assets available for sale	11,563,578		15,321,385	
d) financial liabilities	5,205		(289,726)	
120 Total income		**101,303,661**		**101,368,441**
130 Charges/write-backs on impairment of:		(23,678,403)		(24,410,910)
a) loans	(20,640,090)		(22,052,049)	
b) financial assets available for sale	(3,821,326)		(2,528,237)	
d) other financial transactions	783,013		169,376	
140 Net Financial income		**77,625,258**		**76,957,531**
150 G&A expenses:		(78,405,459)		(75,864,275)
a) personnel expenses	(41,193,652)		(40,168,939)	
b) other administrative expenses	(37,211,807)		(35,695,336)	
160 Net provisions for risks and charges		(642,276)		858,064
170 Net impairment/write-backs on property, plant and equipment		(2,321,904)		(2,442,796)
180 Net impairment/write-backs on intangible assets		(48,310)		(59,310)
190 Other operating income (expenses)		8,468,393		6,941,080
200 Operating cost		**(72,949,556)**		**(70,567,237)**
210 Profit (loss) on equity investments		(84,291)		(518,149)
230 Goodwill impairment		(1,605,975)		(5,339,925)
250 Income (loss) before tax from continuing operations		**2,985,436**		**532,220**
260 Tax on income from continuing operations		(2,232,436)		700,780
270 Income (loss) after tax from continuing operations		**753,000**		**1,233,000**
290 Net income for the period		**753,000**		**1,233,000**

Statement of other comprehensive income

	31/12/2017	31/12/2016
10 Net profit for the year	**753,000**	**1,233,000**
Other income net of income taxes without transfer to profit and loss account		
40 Actuarial gains (losses) from defined benefit plans	(8,619)	(268,359)
100 AFS financial assets	(1,899,900)	(5,693,229)
130 Total other income, net of income taxes	**(1,908,519)**	**(5,961,588)**
140 Comprehensive income (10 + 130)	**(1,155,519)**	**(4,728,588)**

Statement of changes in shareholders’ equity (2017)

Year 2017	Balance at 31/12/2016	Change in opening balance	Balance at 01/01/2017	Allocation of result for previous period		Changes during the year									
							Equity transactions								
				Reserves	Dividends and other uses	Changes in reserves	New share issues	Purchase of treasury stock	Extraordinary dividend distribution	Change in equity instruments	Derivatives on own shares	Stock options		Total comprehensive income for the period	Shareholders' equity at 30/06/2017
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	**66,985,633**		**66,985,633**	**1,233,000**	-	-	-	-	-	-	-	-		-	**68,218,633**
a) income	66,985,633		66,985,633	1,233,000	-			-	-	-	-	-		-	68,218,633
b) other	-		-	-	-	-	-	-	-	-	-	-		-	-
Valuation reserves:	**17,346,530**		**17,346,530**											**(1,908,519)**	**15,438,011**
Equity instruments	-		-	-	-	-	-	-	-	-	-	-		-	-
Treasury shares								**(791,592)**							**(791,592)**
Net income (loss) for the period	**1,233,000**		**1,233,000**	**(1,233,000)**		-	-	-	-	-	-	-		**753,000**	**753,000**
Shareholders' equity	**303,500,157**		**303,500,157**	-	-	-	-	**(791,592)**	-	-	-	-		**(1,155,519)**	**301,553,046**

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		Changes during the year									
							Equity transactions								
				Reserves	Dividends and other uses	Changes in reserves	New share issues	Purchase of treasury stock	Extraordinary dividend distribution	Change in equity instruments	Derivatives on own sha	Stock options		Total comprehensive income for the period	Shareholders' equity at 30/06/2016
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 period	**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 cash flows - direct method

CASH FLOW STATEMENT				
OPERATING ACTIVITY	**31/12/2017**		**31/12/2016**	
1. Operations		**24,481,731**		**23,081,101**
- interest income received (+)	78,031,236		82,311,667	
- interest expense paid (-)	(18,787,295)		(23,439,281)	
- net commissions (+/-)	29,016,266		17,468,433	
- staff costs	(42,405,070)		(39,237,156)	
- other expenses (-)	(46,485,126)		(36,153,967)	
- other revenues (+)	25,111,720		22,131,406	
2. Liquidity generated/absorbed by financial assets: (+/-)		**320,205,338**		**(129,405,543)**
- financial assets held for trading	(1,788,467)		(1,971,657)	
- financial assets available for sale	335,148,053		(173,401,900)	
- loans to custumers	(11,869,179)		42,148,647	
- due from banks: repayable on demand	8,237,084		13,490,511	
- due from banks: other	10,662,277		(25,331,877)	
- other assets	(20,184,430)		15,660,733	
3. Liquidity generated/absorbed by financial liabilities: (+/-)		**(369,101,823)**		**112,184,746**
- due to banks: repayable on demand	24,030,748		16,183,936	
- due to banks: other	131,112,393		96,372,958	
- due to customers	(330,775,648)		193,003,278	
- securities issued	(179,210,759)		(151,624,306)	
- financial liabilities held for trading	(28,408)		53,904	
- other liabilities	(14,230,149)		(41,805,025)	
Net liquidity generated/absorbed by operating activity A (+/-)		**(24,414,754)**		**5,860,304**
INVESTING ACTIVITY				
1. Liquidity generated by: (+)		**33,306,455**		**3,690,265**
- disposal of equity investments	(39,967)		2,090,000	
- dividends received on equity investments	817,661		1,413,131	
- disposal of financial assets held to maturity	32,528,761		187,134	
2. Liquidity absorbed by: (-)		-		**(784,975)**
- purchase of property, plant and equipment	-		(784,975)	
Net liquidity generated/absorbed by investing activity B (+/-)		**33,306,455**		**2,905,290**
FUNDING ACTIVITY				
- issue/purchase of own shares	(791,592)		(5,961,588)	
- distribution of dividends and other uses	-		(5,341,326)	
Net liquidity generated/absorbed by funding activity C (+/-)		**(791,592)**		**(11,302,914)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD D = A +/- B +/- C		**8,100,109**		**(2,537,320)**

RECONCILIATION		
Financial statement items		
Cash and cash equivalents at the start of the period E	15,844,098	18,381,417
Total net liquidity generated/absorbed during the period D	8,100,109	(2,537,320)
Cash and cash equivalents at the end of the period G = E +/-D+/-F	**23,944,208**	**15,844,098**

NOTES TO THE 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 2017, 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 2017 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 2017 (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 2017, as limited to the cases relevant to the Bank’s business, for which an early application option was not exercised in previous years:

- ✓ Regulation No 2016/1905 of 22 September 2016 adopting IFRS 15, *Revenue from Contracts with Customers*. The new Standard aims to improve the accounting treatment of revenues and thus the overall comparability of revenues in financial statements. The Standard is to be applied, at the latest, from the beginning of the first financial year starting on or after 1 January 2018;
- ✓ Regulation No 2016/2067 of 22 November 2016, adopting IFRS 9 *Financial Instruments*, which aims to improve financial reporting on financial instruments by confronting problems in this area that came to light during the financial crisis. In particular, IFRS 9 responds to the request from the G20 to make a transition to a more far-sighted model for recognising expected losses on financial assets. The Standard is to be applied, at the latest, from the beginning of the first financial year starting on or after 1 January 2018;
- ✓ Regulation No 2017/1986 of 31 October 2017, adopting IFRS 16 *Leasing*, which aims to improve the accounting treatment of lease contracts. The Standard is to be applied, at the latest, from the beginning of the first financial year starting on or after 1 January 2019;
- ✓ Regulation No 2017/1987 of 31 October 2017, adopting clarification to IFRS 15, *Revenue from Contracts with Customers*. The amendments aim to clarify certain requirements and provide additional transitional relief for companies that apply the Standard. The Standard is to be applied, at the latest, from the beginning of the first financial year starting on or after 1 January 2018;
- ✓ Regulation No 2017/1989 of 6 November 2017, adopting amendments to IAS 12 *Income Taxes – Recognition of deferred tax assets for unrealised losses*. The amendments aim to clarify how to account for deferred tax assets relating to debt instruments designated at fair value. The Standard is to be applied, at the latest, from the beginning of the first financial year starting on or after 1 January 2017;
- ✓ Regulation No 2017/1990 of 6 November 2017, adopting amendments to IAS 7 *Statement of Cash Flows – Disclosure Initiative* aimed at clarifying IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The Standard is to be applied, at the latest, from the beginning of the first financial year starting on or after 1 January 2017;
- ✓ Regulation No 2018/182 of 7 February 2018, adopting Annual Improvements to IFRSs 2014-2016 Cycle, amending IAS 28 *Investments in Associates and Joint Ventures*, IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IFRS 12 *Disclosure of Interests in Other Entities*. The objective of the annual improvements is to address non-urgent issues discussed by the

IASB during the project cycle on areas of inconsistency in IFRSs or where clarification of wording is required. The amendments to IAS 28 and IFRS 1 are to be applied, at the latest, from the beginning of the first financial year starting on or after 1 January 2018. The amendments to IFRS 12 are to be applied, at the latest, from the beginning of the first financial year starting on or after 1 January 2017;

- ✓ Regulation No 2018/289 of 26 February 2018, adopting amendments to IFRS 2 *Share-based Payment* aimed at clarifying how entities are to apply the Standard in certain specific cases. The amendments are to be applied, at the latest, from the beginning of the first financial year starting on or after 1 January 2018.

Application of these new standards did not have a significant impact on the Bank's financial position as at, or its financial performance for the year ended on, 31 December 2017.

IFRS 9: the new accounting standard on financial instruments

In accordance with the instructions provided by the European Securities and Markets Authority (ESMA), and in compliance with IAS 8 paragraphs 30 and 31, in this section Banca Popolare di Cividale provides its disclosure regarding the implementation of the standard IFRS 9 – *Financial Instruments*.

The Standard

As is common knowledge, the new accounting standard IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission in Regulation No 2067/2016, replaces, with effect from 1 January 2018, IAS 39, which until 31 December 2017 governed the classification and measurement of financial instruments. IFRS 9 is divided into the three areas of classification and measurement of financial instruments, impairment and hedge accounting.

With regard to the first area, IFRS 9 provides that the classification of financial assets is to be guided, on the one hand, by the characteristics of their contractual cash flows and, on the other, by the management intent (business model) for which such assets are held. In lieu of the current four accounting categories, under IFRS 9 financial assets may be classified into three categories based on the two drivers indicated above: Financial assets measured at amortised cost, financial assets designated at fair value through other comprehensive income (for debt instruments, the reserve is transferred to profit or loss in the event of the sale of the instrument) and, finally, financial assets designated at fair value through profit or loss.

Financial liabilities may be initially classified to the first two categories and then measured at amortised cost or at fair value through other comprehensive income only if it is proved that they give rise to cash flows that are solely payment of principal and interest (the "SPPI test"). Equities are always classified to the third category and designated at fair value through profit or loss, unless the entity elects (irrevocably, upon initial recognition), for shares not held for trading to present changes in value in an equity reserve, which will never be transferred to profit or loss, even if the financial instrument is sold (financial assets designated at fair value through other comprehensive income without recycling).

The new Standard does not substantially modify the classification and measurement of financial liabilities according to the current Standard.

With regard to impairment, for instruments measured at amortised cost and designated at fair value through other comprehensive income (other than equity instruments), a model based on expected loss is introduced in lieu of the current incurred loss, so as to recognise losses more promptly.

IFRS 9 requires that entities recognise expected losses in the following twelve months (stage 1) with effect from the initial recognition of the financial instrument. The time horizon for calculating expected loss instead becomes the entire residual maturity of the asset concerned where the credit quality of the financial instrument has deteriorated "significantly" with respect to initial measurement (stage 2) or is found to be "impaired" (stage 3).

In further detail, the introduction of the new impairment rules entails:

- ✓ the allocation of performing financial assets to the various stages of credit risk ("staging"), corresponding to impairment losses based on the expected losses during the following 12 months ("stage 1"), or on a lifetime basis, i.e. over the instrument's entire residual maturity ("stage 2"), in the presence of a significant increase in credit risk;
- ✓ the allocation of non-performing financial assets to "stage 3", with impairment losses based on lifetime expected losses;
- ✓ the inclusion in the calculation of expected losses ("expected credit losses" or "ECLs") of forward-looking information relating to, among other subjects, the development of the macroeconomic scenario.

The implementation project

Given the pervasive impact of the changes brought on by the IFRS 9 with regard to business, organisational and reporting matters, in August 2016 Banca Popolare di Cividale launched a specific project aimed at exploring the various areas of influence of the Standard, identifying its qualitative and quantitative impacts and designing and implementing the organisational measures required to ensure consistent, organic and effective adoption within the Bank as a whole and at each of the investees within its organisation.

Within the Credit and Tax Administration Areas and the Risk Management Function and, themed working groups were formed with the involvement of the operating departments, on the basis of the guidelines according to which the Standard is structured. In order to ensure operating implementation of the Standard consistent with its provisions and best practices, a specific “working group” was formed with the goal of aiding the themed working groups with analysing and directing the choices on which to base implementation activities. In addition, coordination with the new information technology outsourcer was necessary for projects and initiatives involving information technology systems, with the aim of creating IT solutions consistent with the Standard.

Before proceeding with an analysis of the main activities performed during the project with regard to the aforementioned areas of impact of IFRS 9, it will be appropriate to recall the choices of a “general” nature made by Banca Popolare di Cividale with regard to the representation of the impacts of the application of the new impairment rules on own funds, according to the recent amendments to prudential regulations, and to the representation of comparable figures during the year of initial application of the Standard. In further detail:

- ✓ on 12 December 2017 the European Parliament and the Council enacted Regulation (EU) No 2017/2395, “Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds”, updating Regulation 575/2013 (the “CRR”) to include the new Article 473a “Introduction of IFRS 9”, which allows banks to mitigate the impacts on own funds of the introduction of the accounting standard IFRS 9 over a transitional period of five years (from March 2018 to December 2022), neutralising the impact on CET1, subject to application of decreasing percentages over time. Banca Popolare di Cividale S.c.p.A. has exercised the option to adopt the transitional arrangements, as set out in Regulation (EU) No 2017/2395, with regard to both the static and dynamic components. As provided for in the regulations for banks that have adopted the transitional arrangements, beginning in 2018 Banca Popolare di Cividale will provide information regarding “fully-loaded” capital, RWAs, capital ratios and leverage ratios, in accordance with the guidelines issued on 12 January 2018;
- ✓ with regard to the approach to representing the effects of the first-time application of the Standard, the Bank will exercise the option provided for in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and ER2 of IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, according to which – without prejudice to retrospective application of the new measurement and presentation rules established in the Standard – it is not mandatory to provide a uniform restatement of the comparative figures in the financial statements of first-time application of the new Standard. According to the instructions set out in the implementing act of the fifth update to Circular 262, “Banks' financial statements: layouts and preparation” (issued in late December 2017), banks that make use of the exemption from the obligation to restate comparative figures must in any event include in their first financial statements prepared according to the new Circular 262 a statement of reconciliation that indicates the method used and provides a reconciliation between the figures from the most recent approved financial statements and the first financial statements approved according to the new provisions. The form and content of such disclosure are left to the discretion of the competent company bodies.

Proceeding to an analysis of the course of the IFRS 9 project, the following is a brief review of the activities performed and currently being completed with regard to the main areas of impact, as previously identified.

Classification and measurement

In order to comply with the provisions of IFRS 9 – which introduces a model in which the classification of financial assets is guided, on the one hand, by the contractual characteristics of instruments' cash flows and, on the other, by the business model according to which the instruments are held – the methods for performing the test on the contractual characteristics of cash flows (known as the "SPPI Test") were determined and the business models adopted by the Bank's various operating units were formally described.

The method to be used to perform the SPPI test on financial assets was documented and the analysis of the composition of the current securities and loan portfolio was finalised, in order to identify the proper classification of the portfolio upon the first-time adoption (FTA) of the new Standard.

In the case of debt instruments, a detailed analysis was conducted in respect of the characteristics of the cash flows of the instruments classified at amortised cost and the category of available-for-sale financial assets in accordance with IAS 39 in order to identify those assets that, since they do not pass the SPPI test, must be designated at fair value through profit or loss under IFRS 9. According to the analyses conducted, all debt instruments passed the SPPI test. It should also be noted that, on the basis of the inquiries made and clarification provided by the IFRS Interpretation Committee, investment funds (open-ended and closed-ended funds) must be measured on a compulsory basis at fair value through profit or loss, with the resulting future increase in earnings volatility for instruments of this kind classified among available-for-sale assets according to IAS 39.

With regard to loans and receivables, distinct approaches were adopted for the loan portfolio. Within this framework, only marginal cases that result in failure of the SPPI test by virtue of specific contractual clauses or the nature of the loan were identified. Accordingly, loans and receivables also did not show significant impacts in respect of FTA.

With regard to the second driver of the classification of financial assets (the business model), the process of identifying the business models to be adopted in accordance with IFRS 9 was completed. For hold-to-collect portfolios, thresholds were identified for considering to be permissible frequent but not significant sales (individually and collectively) and or significant but infrequent sales. Concurrently, the parameters were established for identifying sales consistent with this business model as attributable to an increase in credit risk. On the basis of the analyses conducted, securities portfolios currently classified to the "Available-for-sale financial assets" portfolio that present limited trading activity have been reclassified to the portfolio hold-to-collect at "amortised cost" in accordance with the management strategy of a business model based on the collecting of interest streams. A hold-to-collect-and-sell business model was identified for the other debt securities currently classified as available-for-sale financial assets.

In addition, the current model for managing loans, to both retail and corporate counterparties, is essentially to be considered a hold-to-collect business model. Finally, in more general terms, with regard to the business models according to which financial assets are held, it should be noted that a specific rules document – approved by the Board of Directors – has been finalised with the aim of defining and specifying the elements constituting the business model, specifying their role with regard to the classification model governed by the Standard IFRS 9.

With regard to equity instruments, the securities (classified as available-for-sale financial assets under IAS 39) for which to exercise the option for classification at fair value through other comprehensive income (without recycling to profit or loss) were identified. In addition, the general criteria that are to guide the fully-loaded selection process were also determined.

In the light of the foregoing, the transition to the new Standard essentially entails the reclassification of:

- ✓ available-for-sale debt securities in accordance with IAS 39 (€946.3 million), of which €570 million is estimated to be included among financial assets measured at amortised cost and €376.3 million among hold-to-collect-and-sell financial assets;
- ✓ shares of investment funds of approximately €17.3 million, classified among assets designated at fair value through profit or loss on a compulsory basis under IFRS 9, whereas under IAS 39 they were included amongst available-for-sale (AFS) financial instruments;
- ✓ equity instruments of €32.9 million, classified as AFS under IAS 39, which upon FTA are included among financial assets for which the option for designation at fair value through other comprehensive income (without recycling to profit or loss) is irrevocably exercised.

Impairment
With regard to impairment (for which specific projects have been developed as regards loans and debt securities):

- ✓ the parameters were identified for determining a significant increase in credit risk for the purposes of properly allocating performing exposures to stage 1 or stage 2. With regard to impaired exposures, alignment of the accounting and regulatory definitions of default – already achieved – means that the current criteria for classifying exposures as "non-performing" / "impaired" may be considered identical to the criteria for classifying exposures to stage 3;
- ✓ the models used – inclusive of forward-looking information – were those to be used for both stage allocation and calculation of the expected credit loss (ECL) after one year (to be applied to stage 1 exposures) and on a lifetime basis (to be applied to stage 2 and stage 3 exposures). With regard to the tracking of credit quality, in accordance with the Standard and the instructions from the supervisory authority regarding its application, the credit quality of each relationship was analysed to identify any "significant deterioration" of the relationship with respect to the date of initial recognition and the resulting need for classification to stage 2 and, conversely, the requirements for reclassification to stage 1 from stage 2. In other words, the choice made involves, on a case-by-case basis and as at each reporting date, a comparison, for staging purposes, between the credit quality of the financial instrument at the time of measurement and the credit quality of the instrument at the time of initial disbursement and purchase, according to both quantitative and qualitative criteria.

In view of the foregoing, the decisive factors to be taken into account when assessing the "transfers" between the various stages for performing credit exposures are as follows:

- ✓ the counterparty's rating, where available, quantifies credit risk; the difference in terms of 'notches' between the rating class when the relationship is formed and the rating class assigned on the reporting date is used as a proxy for measuring the change in credit risk (e.g., as the relative threshold for significant deterioration of credit risk);
- ✓ any amounts past due, where applicable – without prejudice to the materiality thresholds identified by the legislation – by at least 30 days. In other words, in such cases the exposure's credit risk is presumed to have "increased significantly", resulting in "transfer" to stage 2 (where the exposure was previously classified to stage 1);
- ✓ any forbearance measures, where applicable, which are also presumed to entail the classification of the exposures in question among those for which credit risk has "increased significantly" since initial recognition;
- ✓ the assignment to the individual relationship or counterparty, where applicable, of qualitative factors relating to non-performance as at the reporting date, defined by the Bank within the framework of the process of identifying particularly risky positions, as part of credit monitoring, the occurrence of which is presumed to indicate that there has been a significant increase in credit risk, unless there is evidence to the contrary.

It should be noted that Banca Popolare di Cividale does not intend to apply the "Low Credit Risk Exemption," which would allow it not to perform the significant deterioration of credit risk test for transactions that as at the measurement date present low credit risk, with the exception of the portfolio of debt securities with an investment grade rating.

Organisational impacts and further developments
Measures of an organisational nature were also implemented. Specifically, the main impacts at the organisational level concerned the revision and adaptation of existing operating processes, the design and implementation of new processes and the corresponding control activities. Specifically, measures relating to classification and measurement had an impact on business and marketing units relating to identification and configuration of business models and the design of processes for managing and monitoring the performance of the SPPI test.
The Bank's goal with regard to impairment is to achieve increasingly effective implementation of its approach to monitoring credit risk, in accordance with the provisions of IFRS 9, in order to ensure preventive measures are taken, with the aim of monitoring potential transfer of positions to stage 2 and identifying timely, consistent impairment losses based on actual credit risk.
Finally, the introduction of IFRS 9 also entailed analyses at the level of product offerings, and thus in terms of a possible revision of the product range and identification of possible approaches to mitigating the risk of

significant deterioration. Among the main impacts on the Bank's business of the application of the new Standard, the following should be mentioned:

- ✓ the possible necessity or appropriateness – at least with regard to some portfolios – of a review of the credit strategies adopted;
- ✓ the modification of some products offered.

Expected impacts

On the basis of the foregoing, the following is an estimate of the expected impacts of the first-time adoption of IFRS 9 on the equity of Banca Popolare di Cividale as at 1 January 2018. These effects – which extend to both the amount and composition of equity – primarily derive from the obligation to restate impairment losses on the financial assets in portfolio (both performing and non-performing) according to the expected credit loss model, inclusive of the aforementioned forward-looking components, in replacement of the previous incurred credit loss model.

As regards performing exposures in particular, the increase in impairment losses may be attributed to (i) the allocation of part of the performing portfolio to stage 2, according to the established stage allocation criteria, with the ensuing need to calculate the expected loss for the residual maturity of the financial assets and (ii) the inclusion in the calculation of expected losses of forward-looking parameters deriving from future macroeconomic scenarios. With regard to non-performing loans, the impact is essentially due to the inclusion in the calculation of expected losses of the sale scenarios provided for in company objectives for the reduction of non-performing assets for a portion of the non-performing portfolio that is suitable for sale.

The application of this criterion yields an estimated impact, in terms of greater provisions, of €8.6 million (€6.2 million net of the tax effect) in respect of performing loans and debt securities and of €24.3 million (€17.6 million net of the tax effect) in respect of non-performing loans. At the level of capital ratios, the estimate of the negative impact of the first-time adoption of IFRS 9 on the fully-phased CET1 ratio of Banca Popolare di Cividale is approximately 132 bps (114 bps net of the tax effect). To mitigate the above effect on its CET1 ratio, Banca Popolare di Cividale has exercised the option of applying the transitional arrangements (phase-in) with regard to both the “static” and “dynamic” components, with the resulting neutralisation of the effect of the application of the accounting standard IFRS 9 over five years (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022).

In 2018 the Bank will thus be able to neutralise approximately €22.7 million at the level of the CET1 ratio, accounting for 95% of the net negative impact of the impairment of performing loans and debt securities and non-performing loans, resulting in a substantially nil estimated impact on CET1 compared with 31 December 2017 – transitional arrangements.

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 2018 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.
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 are expressed in euro, whereas the tables 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 2016. 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 2017) 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 2017 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 2017 was authorised by the Board of Directors on 20 March 2018. 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 2017 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 2016.

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 2017 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. A recovery cannot in any event result in a carrying amount for an instrument 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.

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. This accounting method, based on a financial approach, allows the economic effect of costs/income to be spread over the entire expected residual life of 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, unlikely-to-pay loans and past-due positions according to the Bank of Italy rules, consistent with IAS/IFRS standards and European regulations.
Within the framework of the general concept of restructuring of credit exposures, three specific cases have been identified:
– renegotiations due to "commercial" reasons/practices;
– "forborne" exposures (as defined in Bank of Italy Circular No. 272);
– discharge of debt through the replacement of the debtor or swap of debt for equity instruments.
With regard to the first case, 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 only when it is due to commercial reasons other than the deterioration in the borrower's financial situation (meaning that it thus does not fall within the category of forborne exposures discussed below), provided that the interest rate applied is a market rate at the renegotiation date.

In accordance with Bank of Italy regulations, forborne exposures are defined as debt contracts to which forbearance measures have been applied. Forbearance measures are concessions amending and/or refinancing a previous loan agreement with a debtor who is currently or about to experience difficulty in meeting financial obligations (in other words, the debtor is in financial difficulty). In this regard, forborne exposures may occur in each of the categories of non-performing loans (bad debts, unlikely to pay and past due), as well as among performing loans, on the basis of the risk status of the exposure at the time of the report. Non-performing forborne exposures are those for which – in addition to forbearance measures – there is also objective evidence of a decrease in value.

As an alternative to the above scenarios (renegotiation due to difficulty for the debtor and renegotiation due to commercial reasons/practice), the bank and debtor may agree to discharge the original debt through:

– novation or assignment to another debtor (with full discharge of the original debtor's obligations);

– a substantial change in the nature of the contract involving the exchange of debt for equity.

Such events – which entail a substantial modification of the contractual terms – from an accounting standpoint result in the termination of the previous relationship and the recognition of the new relationship at fair value, recording in the income statement a gain or loss equal to the difference between the carrying amount of the old loan or receivable and the fair value of the assets received.

Non-performing loans and receivables are measured separately, or according to the expected loss for uniform categories and allocation to each separate 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 original effective rate of each loan or receivable remains unchanged over time even if the relationship has been restructured in a way that involves a change of the contractual rate and even if that rate in practice results in the absence of contractual interest. 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.

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 and are classified as property, plant and equipment according to IAS 16. Real property held for investment purposes (held to generate rent or to benefit from the appreciation of property value) is classified as “investment property” in accordance with IAS 40. 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.
Property, plant and equipment is then measured at cost, less accumulated depreciation, adjusted for any impairment losses or recoveries, with the exception of non-investment property and fine art, which are measured according to the appraisal method.
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. Land is not subject to depreciation, regardless of whether it is purchased separately or included in the value of buildings, since it is considered to have an indefinite useful life. Fine art and other objects of historical, artistic and decorative value are also not depreciated, since the useful lives of such assets cannot be estimated and their value normally increases over time. Finally, depreciation does not apply to investment property, which is designated at fair value through profit or loss in accordance with IAS 40.
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 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 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. Where the deferred tax assets and liabilities relate to transactions recognised directly in equity without passing through the income statement (such as adjustments due to the first-time adoption of IASs/IFRSs and the measurement of available-for-sale financial instruments), such assets and liabilities are recognised in equity, through specific reserves, where applicable (e.g., valuation reserves).

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 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.

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 are derecognised when they expire or are discharged. Financial liabilities are also derecognised when bonds in issue are repurchased. The difference between the carrying amount of the liability and the amount paid to repurchase it is recorded in the income statement. The re-sale on the market of own securities previously repurchased is accounted for as a new issuance 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. Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is transferred, along with substantially all of the risks and benefits of ownership of the liabilities.

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

Treasury shares

Any treasury shares in portfolio are deducted from equity. Similarly, the original cost of such treasury shares and the gains and losses on their subsequent sale are recognised as changes in equity.

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 2017, 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 2017.

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);
- ✓ 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	31/12/2017 L1	31/12/2017 L2	31/12/2017 L3	31/12/2016 L1	31/12/2016 L2	31/12/2016 L3
1. Financial assets held for trading	4,469	60	-	2,435	47	-
2. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
3. Financial assets available for sale	941,943	8,266	46,385	1,279,227	2,405	53,931
4. Hedging derivatives	-	-	-	-	-	-
5. Property and equipment	-	-	2,770	-	-	2,770
6. Intangible assets	-	-	-	-	-	-
Total	**946,412**	**8,326**	**49,155**	**1,281,662**	**2,452**	**56,701**
1. Financial liabilities held for trading	-	765	-	-	794	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	**765**	-	-	**794**	-

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	-	-	**53,931**	-	**2,770**	-
2. Increasese	-	-	**1,041**	-	-	-
2.1. Purchases	-	-	1,041	-	-	-
2.2. Gains recognised in:	-	-	-	-	-	-
2.2.1.Income statement	-	-	-	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2. Shareholders' equity	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-
3. Decreases	-	-	**8,587**	-	-	-
3.1. Sales	-	-	5,095	-	-	-
3.2. Redemptions	-	-	-	-	-	-
3.3 Losses recognized in:	-	-	-	-	-	-
3.3.1. Income statement	-	-	-	-	-	-
- of which capital losses	-	-	3,492	-	-	-
3.3.2. Shareholders' equity	X	X	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-
4. Closing balance	-	-	**46,385**	-	**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	31/12/2017				31/12/2016			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets held to maturity	-	-	-	-	32,529	32,529	-	-
2. Due from banks	33,327	-	-	33,325	52,226	-	-	52,226
3. Loans to customers	2,624,176	-	-	2,859,961	2,622,176	-	-	2,400,471
4. Investment property	2,770	-	-	2,770	2,770	-	-	2,770
5. Non-current assets or groups of assets being divested	-	-	-	-	-	-	-	-
Total	**2,660,272**	-	-	**2,896,056**	**2,709,701**	**32,529**	-	**2,455,467**
1. Due to banks	674,119	-	-	676,987	518,976	-	-	518,976
2. Due to customers	2,709,002	-	-	2,714,567	3,039,777	-	-	3,039,386
3. Securities issued	144,996	-	144,996	-	324,206	-	324,206	-
4. Liabilities associated to assets being divested	-	-	-	-	-	-	-	-
Total	**3,528,117**	-	**144,996**	**3,391,554**	**3,882,960**	-	**324,206**	**3,558,362**

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

	31/12/2017	31/12/2016	%
a) Cash	21,443	15,844	35.3%
b) Free deposits with Central banks	2,501	-	100.0%
Total	**23,944**	**15,844**	**51.1%**

Section 2 - Financial assets held for trading - item 20

2.1 Financial assets held for trading: composition by type

	31/12/2017			31/12/2016			%
	L1	L2	L3	L1	L2	L3	
A. Cash assets							
1. Debt securities	4,134	60	-	2,060	47	-	99.1%
1.1 structured securities	-	-	-	-	-	-	-
1.2 other debt securities	4,134	60	-	2,060	47	-	99.1%
2. Equities	53	-	-	0	-	-	100.0%
3. Quotas of UCI	282	-	-	375	-	-	-24.9%
4. Loans	-	-	-	-	-	-	-
4.1 reverse repurchase agreements	-	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-	-
Total A	**4,469**	**60**	**-**	**2,435**	**47**	**-**	**82.4%**
B. Derivatives							
1. Financial derivatives	-	451	-	-	710	-	-36.4%
1.1 trading	-	451	-	-	710	-	-36.4%
1.2 fair value option	-	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-	-
2.2 fair value option	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-
Total B	**-**	**451**	**-**	**-**	**710**	**-**	**-36.4%**
TOTAL (A+B)	**4,469**	**511**	**-**	**2,435**	**757**	**-**	**56.0%**

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

	31/12/2017	31/12/2016	%
A. ON-BALANCE-SHEET FINANCIAL ASSETS			
1. Debt securities	**4,194**	**2,107**	99.1%
a) Governments and central banks	2,562	2,060	24.4%
b) Other government agencies	77	0	100.0%
c) Banks	1	1	0.8%
d) Other issuers	1,554	46	n.s.
2. Equity securities	**53**	**0**	**100.0%**
a) Banks	53	-	100.0%
b) Other issuers	**0**	0	0.0%
- insurance undertakings	-	-	-
- financial companies	0	-	-
- non-financial companies	0	0	0.0%
- other	-	-	-
3. Units in collective investment undertakings	**282**	**375**	**-24.9%**
4. Loans	-	-	-
a) Governments and central banks	-	-	-
b) Other government agencies	-	-	-
c) Banks	-	-	-
d) Other	-	-	-
Total (A)	**4,529**	**2,482**	**82.4%**
B. DERIVATIVES	**451**	**710**	**-36.4%**
a) Banks	-	160	-100%
- fair value	29	0	100%
b) Customers	-	549	-100%
- fair value	422	0	100%
Total (B)	**451**	**710**	**-36.4%**
Total (A + B)	**4,980**	**3,192**	**56.0%**

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

	31/12/2017			31/12/2016			%
	L1	L2	L3	L1	L2	L3	
1. Debt securities	938,897	7,431	-	1,276,852	2,405	-	-26.0%
1.1 Structured securities	-	-	-	-	-	-	-
1.2 Other debt securities	938,897	7,431	-	1,276,852	2,405	-	-26.0%
2. Equities	-	835	32,103	-	-	35,704	-7.7%
2.1 Measured at fair value	-	835	28,961	-	-	32,213	-7.5%
2.2 Measured at cost	-	-	3,142	-	-	3,491	-10.0%
3. Quotas of UCI	3,046	-	14,282	2,375	-	18,227	-15.9%
4. Loans	-	-	-	-	-	-	-
TOTAL	941,943	8,266	46,385	1,279,227	2,405	53,931	-25.4%

The financial assets available for sale included in “2.1 Equity investments designated at fair value” include a position of €54 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

	31/12/2017	31/12/2016	%
1.Debt securities	**946,328**	**1,279,257**	**-26.0%**
a) Governments and central banks	850,529	1,201,221	-29.2%
b) Other governments agencies	-	-	-
c) Banks	84,962	69,705	21.9%
d) Other issuers	10,837	8,331	30.1%
2. Equity securities	**32,938**	**35,704**	**-7.7%**
a) Banks	20,482	22,548	-9.2%
b) Other issuers	12,456	13,157	-5.3%
- insurance undertakings	2,500	2,500	0.0%
- financial companies	4,498	395	n.s.
- non financial companies	5,458	10,262	-46.8%
- other	-	-	-
3. Units in collective investment und	**17,328**	**20,602**	**-15.9%**
4. Loans	-	-	-
a) Governments and central banks	-	-	-
b) Other governments agencies	-	-	-
c) Banks	-	-	-
d) Other	-	-	-
Total	**996,594**	**1,335,563**	**-25.4%**

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 €3,821 thousand.

Section 5 - Financial assets held to maturity - item 50

5.1 Financial assets held to maturity: composition by type

	31/12/2017				31/12/2016			
	Valore Bilancio	Fair value			Valore Bilancio	Fair value		
		L1	L2	L3		L1	L2	L3
1. Titoli di debito	-	-	-	-	32,529	32,529	-	-
1.1 strutturati	-	-	-	-	-	-	-	-
1.2 altri	-	-	-	-	32,529	32,529	-	-
2. Finanziamenti	-	-	-	-	-	-	-	-
Totale	-	-	-	-	**32,529**	**32,529**	-	-

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

	31/12/2017	31/12/2016
1. Debt securities	-	32,529
a) Governments and central banks	-	22,119
b) Other government agencies	-	-
c) Banks	-	10,410
d) Other issuers	-	-
2. Loans	-	-
a) Governments and central banks	-	-
b) Other governments agencies	-	-
c) Banks	-	-
d) Other	-	-
Total	-	**32,529**
Total fair value	-	**32,529**

Section 6 - Due from banks - item 60

6.1 Due from banks: composition by type

	31/12/2017				31/12/2016				%
	BV	FV			BV	FV			
		L1	L2	L3		L1	L2	L3	
A. Claims on central banks	19,265			19,265	28,488				-32.4%
1. Time deposits	-	X	X	X	-	X	X	X	-
2. Reserve requirement	19,265	X	X	X	28,488	X	X	X	-32.4%
3. Repurchase agreements	-	X	X	X	-	X	X	X	-
4. Other	-	X	X	X	-	X	X	X	-
B. Due from banks	14,062	-	-	14,060	23,738	-	-	-	-40.8%
1. Loans	14,062	-	-	14,060	23,738	-	-	-	-40.8%
1.1 Current accounts and free depo	9,945	X	X	X	19,619	X	X	X	-49.3%
1.2 Time deposits	4,117	X	X	X	4,118	X	X	X	0.0%
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	-	X	X	X	-
2. Debt securities	0	-	-	-	-	-	-	-	-
2.1 structured	-	X	X	X	-	X	X	X	-
2.2 other debt securities	0	X	X	X	-	X	X	X	-
Total (carrying amount)	**33,327**	-	-	**33,325**	**52,226**	-	-	**40,385**	**-36.2%**

Section 7 - Loans to customers - item 70

7.1 Loans to customers: composition by type

	31/12/2017						31/12/2016						%
	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	286,888	-	65,296	X	X	X	269,191	-	86,178	X	X	X	-0.9%
2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X	-
3. Mortgage loans	1,480,967	-	219,734	X	X	X	1,391,192	-	244,788	X	X	X	4.0%
4. Credit cards, personal loans and loans repaid by automatic deductions from wages	47,980	-	1,606	X	X	X	60,392	-	1,670	X	X	X	-20.1%
5. Finance leases	195,360	-	37,518	X	X	X	205,438	-	46,785	X	X	X	-7.7%
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X	-
7. Other	274,795	-	14,031	X	X	X	301,916	-	14,627	X	X	X	-8.8%
Debt securities	-	-	-	X	X	X	-	-	-	X	X	X	-
8. structured	-	-	-	X	X	X	-	-	-	X	X	X	-
9 other debt securities	-	-	-	X	X	X	-	-	-	X	X	X	-
Total	**2,285,990**	-	**338,185**	-	-	**2,859,961**	**2,228,129**	-	**394,047**	-	-	**2,400,471**	**0.08%**

7.2 Loans to customers: composition by borrower/issuer

	31/12/2017			31/12/2016			%
	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:	**2,285,990**	-	**338,185**	**2,228,129**	-	**394,047**	**0.1%**
a) Governments	0	-	0	70	-	-	-100.0%
b) Other government agencies	7,771	-	0	8,279	-	-	-6.1%
c) Other	2,278,219	-	338,185	-	-	-	-
- non-financial companies	1,183,866	-	269,035	1,190,396	-	325,091	-4.1%
- financial companies	98,326	-	5,312	126,863	-	6,230	-22.1%
- insurance undertakings	13,239	-	-	12,763	-	-	3.7%
- other	982,788	-	63,838	889,757	-	62,726	9.9%
Total	**2,285,990**	-	**338,185**	**2,228,129**	-	**394,047**	**0.08%**

7.4 Finance leases

	Total 31/12/2017							
	Up to 3 months	Between 3 and 6 moths	Between 6 month and 1 year	Over 1 year	Performing loans	Specific writedowns	Portfolio writedowns	Net exposure
Bad debts	-	-	-	33,621	-	15,855	-	17,766
Unlikely to pay	9,907	708	73	11,330	-	3,179	-	18,839
Past-due	5	83	102	820	-	98	-	912
Other	-	-	-	-	208,752	-	1,067	207,685
Total	**9,912**	**791**	**175**	**45,771**	**208,752**	**19,132**	**1,067**	**245,203**

At 31 December 2017 net finance lease exposures amounted to €245,203 thousand, after deducting provisions for impairment of €19,132 thousand. Net non-performing exposures came to €37,518 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.
During the year, charges for potential lease payments of €3,608 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	100.00%	
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 n. 8	Cividale del Friuli (UD) - Via G. Pelizzo n. 8	30.01%	

** Civitas SPV S.r.l. is a special purpose entity included among the equity investments of Banca Popolare di Cividale due to its status as originator of the securitisation operation (without derecognition of the assets transferred) and the contractual conditions of the transaction.*

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	100	-	-
B. Companies subject to joint control			
C. Companies under significant influence			
1 Acileasing S.p.A.	579	-	-
2 Acrent S.p.A.	548	-	-
3 Help Line	2,553	-	-
	3,780	-	-

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	1,131	1,241	185	2,187	1,643	X	X	(150)	(145)		(145)		(145)
2 Acirent S.p.A. **	X	4,031	1,066	3,243	1,854	3,109	X	X	29	29		29		29
3 Help Line **	X	4,847	17,753	-	11,641	35,288	X	X	137	32		32		32
Total	**-**	**10,009**	**20,060**	**3,428**	**15,682**	**40,040**	**-**	**-**	**16**	**(84)**	**-**	**(84)**	**-**	**(84)**

10.5 Equity investments: annual changes

	31/12/2017	31/12/2016
A. Opening balance	**3,819**	**6,427**
B. Increases	**60**	**60**
B.1 Purchases	60	60
of which business combinations	-	-
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	**99**	**2,668**
C.1 Sales	20	2,150
C.2 Writedowns	79	518
C.3 Other changes	-	-
of which business combinations	-	-
D. Closing balance	**3,780**	**3,819**
E. Total revaluations	**-**	**-**
F. Total writedowns	**79**	**518**

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

	31/12/2017	31/12/2016	%
1. Property and equipment owned	**76,448**	**78,501**	**-2.6%**
a) land	4,933	4,933	0.0%
b) buildings	67,085	68,706	-2.4%
c) movables	3,919	4,220	-7.1%
d) electrical plant	510	640	-20.3%
e) other	1	1	0.0%
2. Property and equipment acquired under finance lease	-	-	-
a) land	-	-	-
b) buildings	-	-	-
c) movables	-	-	-
d) electrical plant	-	-	-
e) other	-	-	-
Total	**76,448**	**78,501**	**-2.6%**

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	87,851	13,055	12,295	49	120,954
A.1 Total net writedowns	-	19,145	8,835	11,656	49	39,684
A.2 Opening net balance	7,703	68,706	4,220	640	1	81,270
B. Increases	-	-	335	41	-	376
B.1 Purchases	-	-	335	3	-	338
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	-	-	-	38	-	-
C. Decreases	-	1,622	636	170	-	2,428
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	1,615	537	170	-	2,322
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	-	7	99	-	-	106
D. Closing net balance	7,703	67,084	3,919	511	1	79,218
D.1 Total net writedowns	-	20,767	9,471	11,826	49	42,112
D.2 Closing gross balance	7,703	87,851	13,390	12,336	49	121,330
E. Measurement at cost	-	-	-	-	-	-

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

	Total 31/12/2017	
	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 operat	-	-
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

	31/12/2017		31/12/2016		
	finite useful life	indefinite useful life	finite useful life	indefinite useful life	%
A.1 Goodwill	X	2,190	X	3,796	-42.3%
A.2 Other intangible assets	-	-	-	-	-
A.2.1 Assets measured at cost	124	-	172	-	-28.0%
a) Internally generated intangible assets	-	-	-	-	-
b) Other assets	124	-	172	-	-28.0%
A.2.2 Assets measured at fair value	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-
b) Other assets	-	-	-	-	-
Total	**124**	**2,190**	**172**	**3,796**	**-39.0%**

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	-	-	332	-	9,367
A.1 Total net adjustments	5,340	-	-	160	-	5,500
A.2 Net initial carrying amount	3,796	-	-	172	-	3,968
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	1,606	-	-	48	-	1,654
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	1,606	-	-	-	-	1,606
- Amortisation	X	-	-	48	-	48
- Write-downs recognised in	-	-	-	-	-	-
shareholders' equity	X	-	-	-	-	-
income statement	1,606	-	-	-	-	1,606
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	2,190	-	-	124	-	2,314
D.1 Total net adjustments	6,946	-	-	208	-	7,154
E. Gross final carrying amount	**9,136**	-	-	**332**	-	**9,468**
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
- ✓ updated economic projections for the period 2018-2022.

Projections of future results have been extended through 2022 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 2018-2022, 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 by the Bank of Italy for Banca Popolare di Cividale following the SREP prudential revision process for 2018. The minimum CET1 ratio was assumed to be 9.3% in 2017, increasing to 9.9% by 2019. The Total Capital ratio was 11.7% in 2016 and 12.4% in 2019. For the purposes of determining capital requirements, this ratio was applied to the Bank's prospective RWAs (risk-weighted assets).
- ✓ **Discounting rate (Ke)**: future cash flows have been discounted by using a cost of equity capital (Ke) determined as the sum of the nominal rate of return on risk-free assets and a specific risk premium that reflects the risk level of the industry of reference and the specific risks associated with the Bank's operations. In further detail, the cost of equity capital has been estimated as **8.95%** 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 2017 (source: Market Information Provider) at 2.08%;

- **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 2017 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 5.08%, in line with professional practice; and
- **g-rate:** the long-term growth rate expected after the explicit forecasting period of 1.67%.

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 8.95%.

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 €1.6 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 €58,174 thousand and may be broken down as follows:

13.1 Deferred tax assets: composition

Composition by type:	31/12/2017	31/12/2016
Tax effect on AFS reserve	165	430
Staff costs	610	1,010
Credit losses	47,817	52,214
Fiscal losses	6,627	6,350
Property and equipment	1,827	1,827
Other	1,127	1,266
Total	**58,174**	**63,097**

Deferred tax liabilities came to €3,559 thousand and may be broken down as follows:

Composition by type:	31/12/2017	31/12/2016
Tax effect on AFS	3,258	4,730
Other	301	435
Total	**3,559**	**5,165**

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

	31/12/2017	31/12/2016
1. Opening balance	62,512	62,973
2.Increases	3,732	4,325
2.1 Deferred tax assets recognised during the year	3,732	4,325
a) in respect of previous periods	60	50
b) due to changes in accounting policies	-	-
c) writebacks	-	-
d) other	3,672	4,276
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	8,393	4,787
3.1 Deferred tax assets derecognised during the year	8,393	4,787
a) reversals	-	-
b) writedowns for supervening non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	8,393	4,787
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
a) conversion in tax assets set forth in Italian Law 214/2011	57,851	-
b) other	115,702	-
4.Closing balance	**57,851**	**62,512**

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

	31/12/2017	31/12/2016
1. Opening balance	**52.214**	**54.962**
2.Increases	-	-
of which: business combination	-	-
3. Decreases	4.397	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	4.397	2.748
4.Closing balance	**47.817**	**52.214**

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

	31/12/2017	31/12/2016
1.Opening balance	435	1,615
2. Increases	-	484
2.1 Deferred tax liabilities recognised during the year	-	484
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	-	484
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	134	1,665
3.1 Deferred tax liabilities derecognised during the year	134	1,665
a) reversals	-	-
b) due to change in accounting policies	-	-
c) other	134	1,665
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**301**	**435**

13.5 Changes in deferred tax assets (through equity)

	31/12/2017	31/12/2016
1.Opening balance	585	234
2. Increases	101	465
2.1 Deferred tax assets recognised during the year	101	465
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	101	465
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	363	114
3.1 Deferred tax assets derecognised during the year	363	114
a) reversals	-	-
b) writedowns for supervening non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	363	114
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4.Closing balance	**323**	**585**

13.6 Changes in deferred tax liabilities (through equity)

	31/12/2017	31/12/2016
1.Opening balance	4,730	7,152
2. Increases	3,258	4,730
2.1 Deferred tax liabilities recognised during the year	3,258	4,730
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	3,258	4,730
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	4,730	7,151
3.1 Deferred tax liabilities derecognised during the year	4,730	7,151
a) reversals	-	-
b) due to change in accounting policies	-	-
c) other	4,730	7,151
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	3,258	4,730

13.7 - Other information

Probability test on deferred taxes

According to international accounting standard IAS 12, deferred tax assets and liabilities are recognised according to the following criteria:

- ✓ a deferred tax liability must be recognised for all taxable 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 for the deductible temporary differences. Deferred tax assets not previously recognised – inasmuch as the requirements 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 future taxable income will permit the recovery of the assets.

Considering the amount of the Bank's recognised deferred tax assets, for the 2017 financial statements, as for previous years, an analysis was conducted with the aim of verifying whether forecast earnings are sufficient to ensure the recovery of such assets and therefore justify their continuing recognition in the financial statements (a process known as the “probability test”).

In conducting the probability test on deferred tax assets carried in the financial statements as at 31 December 2017, as for 2016, deferred tax assets deriving from deductible temporary differences relating to impairment and losses on loans and receivables were considered separately, as were those on goodwill and other intangible assets with indefinite useful lives (“qualified deferred tax assets” and “qualified temporary differences”), provided that they were recognised in or before financial year 2014. In this regard, it is relevant that, with effect from the
tax period ended on 31 December 2011, IRES (corporate income) deferred tax assets recognised in the financial statements on the basis of tax losses deriving from the deferred deduction of qualified temporary

differences may be converted into tax credits (Art. 2 (56-*bis*) of Law Decree No. 225 of 29 December 2010, introduced by Art. 9 of Law Decree No. 201 of 6 December 2011). With effect from tax period 2013, a similar conversion option applies when a net negative value of production is declared in an IRAP (regional production tax) return, including in the case of IRAP deferred tax assets deriving from qualified temporary differences that have formed part of the net negative value of production (Art. 2 (56-*bis*) of Law Decree No. 225 of 29 December 2010, introduced by Law No. 147/2013). These forms of convertibility – which are in addition to those already envisaged where the individual financial statements present a loss for the year (Art. 2 (55) and (56) of Law Decree No. 225/2010, as most recently amended by Law No. 147/2013) – represent an additional, complementary means of recovery, which is intended to ensure that deferred tax assets may be recovered in all situations, regardless of the company's future profitability. In fact, if qualified temporary differences exceed taxable income or the net value of production 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 or net negative value of production, convertible into tax credits pursuant to Article 2 (56-bis) and (56-bis.1) of Law Decree No. 225/2010. The convertibility of deferred tax assets on tax losses and the net negative value of production resulting from qualified temporary differences is therefore a sufficient condition for the recognition of qualified deferred tax assets in the financial statements, excluding them from the scope of application of the earnings probability test.

A further limit on the outright deductibility of deferred tax assets was introduced by Article 11 of Law Decree No. 59 of 3 May 2016, amended by Law Decree No. 237 of 23 December 2016, which rendered the eligibility for conversion into a tax credit of qualified deferred tax asset that is not associated with an actual prepayment of taxes (a “type-2 DTA”) contingent on an annual payment of 1.5% of the total value of the asset in the years 2016-2030. No payment is due to convert into tax credits qualified deferred tax assets associated with an actual prepayment of greater taxes (“type-1 DTAs”). Considering that the qualified deferred tax assets recognised by the company were all found to be “type-1 DTAs”, the Bank was not actually required to make such payments for 2017.

Accordingly, the probability test is structured as follows:

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.

Consequently, the recoverability test was conducted on the basis of the following assumptions:

- ✓ estimates of future taxable income were prepared on the basis of projected earnings performance, in turn based on Banca Popolare di Cividale's 2016-2018 Strategic Plan and the updates to this document applied for the purposes of impairment testing of goodwill;
- ✓ deferred tax liabilities (DTLs) were set off against DTAs where the temporary differences were reversed in the same year;
- ✓ the Italian tax code does not provide for any time limits on the recovery of IRES (corporate income tax) losses (Art. 84 (1) of Presidential Decree No. 917 of 22 December 1986).

The investigations thus performed supported the recoverability of the DTAs that cannot be converted over a reasonably defined time horizon, even where more extended than the strategic plan's express forecasting period.

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

	31/12/2017	31/12/2016	%
Other assets - Amounts due from the tax authorities	11,829	16,615	-28.8%
Other assets - Other	17,898	21,173	-15.5%
Other assets - Transit items	1	20	-94.0%
Other items - Costs and advances pending financial allocation	329	234	40.3%
Other items - Varius items	31,976	4,000	699.4%
Value date differences on portfolio transactions	**62,033**	**42,043**	**47.5%**

The various items include, among others:

- €5,416 thousand of commission income to be received;
- €2,772 thousand of invoices issued for lease payments;
- €2,534 thousand of TLTRO interest;
- €6,869 thousand of third-party bills and documents in portfolio;
- €6,647 thousand of tax prepayments;
- €5,603 thousand of cheques in processing.

LIABILITIES

Section 1 - Due to banks - item 10

1.1 Due to banks: composition by type

	31/12/2017	31/12/2016	%
1. Due to central banks	555,670	400,000	38.9%
2. Due to banks	118,449	118,896	-0.4%
2.1 Current accounts and demand deposits	11,187	22,633	-50.6%
2.2 Time deposits	5,000	-	100.0%
2.3 Borrowings	102,262	96,263	6.2%
2.3.1 Repurchase agreements	-	-	-
2.3.2 other	102,262	96,263	6.2%
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	-	-
2.5 Other payables	-	80	-100.0%
Totale	**674,119**	**518,976**	29.9%
Fair value-livello 1	-	-	-
Fair value-livello 2	-	-	-
Fair value-livello 3	676,987	518,976	30.4%
Fair value	**676,987**	**518,976**	30.4%

Section 2 - Due to customers - item 20

2.1 Due to customers: composition by type

	31/12/2017	31/12/2016	%
1. Current accounts and demand deposits	1,802,007	1,628,732	10.6%
2. Time deposits	301,816	243,986	23.7%
3. Borrowings	291,580	809,143	-64.0%
3.1 Repurchase agreements	219,296	666,820	-67.1%
3.2 Other	72,285	142,323	-49.2%
4. Liabilities in respect of commitments to repurchase own equity instruments	-	-	-
5. Other payables	313,598	357,916	-12.4%
Total	**2,709,002**	**3,039,777**	-10.9%
Fair value - L1	-	-	-
Fair value - L2	-	-	-
Fair value - L3	**2,714,567**	**3,039,386**	-10.7%
Fair value	**2,714,567**	**3,039,392**	-10.7%

Section 3 - Debt securities issued - item 30

3.1 Debt securities issued: composition by type

	31/12/2016				31/12/2016			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	131,945	-	131,945	-	295,892	-	295,892	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	131,945	-	131,945	-	295,892	-	295,892	-
2. Other	13,050	-	13,050	-	28,314	-	28,314	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	13,050	-	13,050	-	28,314	-	28,314	-
Total	**144,996**	-	**144,996**	-	**324,206**	-	**324,206**	-

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

Description	Amount	
	31/12/2017	31/12/2016
Subordinated securities	25,933	36,292

The amount included under "Debt securities issued" came to €25,933 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 €22.35 million issued on 19/12/2014 having the following characteristics:
- ✓ fixed interest rate of 2.75%;
- ✓ bullet repayment at maturity:
- ✓ maturity: 19 December 2019;

Section 4 - Financial liabilities held for trading - item 40

4.1 Financial liabilities held for trading: composition by type

	31/12/2017					31/12/2016				
		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	-	-	765	-	-	-	-	794	-	-
1.1 trading	X	-	765	-	X	X	-	794	-	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**	-	**765**	-	**X**	**X**	-	**794**	-	**X**
Total (A+B)	**X**	-	**765**	-	**X**	**X**	-	**794**	-	**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

	31/12/2017	31/12/2016	%
Other liabilities - Sundry and residual items	57,245	59,712	-4.1%
Other liabilities - Amouns due to tax authorities	4,284	8,230	-47.9%
Other liabilities - Items in transit between branches	53	1,731	-96.9%
Total	**61,582**	**67,942**	**-9.4%**

The various items include:

- ✓ securitisation liabilities (€10,727 thousand);
- ✓ SEPA credit transfers to be settled (€12,287 thousand);
- ✓ other liabilities due to accruals basis accounting (€6,405 thousand);
- ✓ F24 tax payment forms to be settled (€1,954 thousand);
- ✓ leasing direct debits to be collected (€1,775 thousand).

Section 11 - Employee termination benefits - item 110

11.1 Employee termination benefits: annual changes

	31/12/2017	31/12/2016
A. Opening balance	**5,685**	**5,589**
B. Increases	**1,755**	**2,126**
B.1 Provision for the year	1,755	1,719
B.2 Other increases	-	407
C. Decreases	**2,367**	**2,029**
C.1 Severance payments	653	574
C.2 Other decreases	1,714	1,455
D. Closing balance	**5,073**	**5,685**
Total	**5,073**	**5,685**

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: 1.30%;
- ✓ annual inflation rate: 1.50%;
- ✓ annual rate of termination benefit increase: 2.50%.

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

	31/12/2017	31/12/2016
1. Company pension plans	-	-
2. Other provisions	1,690	3,678
2.1 legal disputes	101	703
2.2 staff costs	1,351	2,500
2.3 other	238	474
Total	**1,690**	**3,678**

12.2 Provisions for risks and charges: annual changes

	Pension plans	Other provisions	Total
A. Opening balance	-	3,678	3,678
B. Increases	-	979	979
B.1 Provision for the year	-	979	979
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	-	2,966	2,966
C.1 Use during the year	-	2,122	2,122
C.2 Changes due the changes in discount rate	-	-	-
C.3 Other decreases	-	844	844
D. Closing balance	-	1,690	1,690

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 €101.0 thousand as at 31 December 2017 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 2017 this provision amounted to €1,589.0 thousand, of which €739.0 thousand of accruals for complaints by customers and legal disputes with former employees and €850.0 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 2017, 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

	31/12/2017	31/12/2016	%
1. Share capital	50,913	50,913	0.0%
2. Share premiums	167,022	167,022	0.0%
3. Reserves	68,219	66,986	1.8%
4. (Treasury shares)	(792)	-	-
5. Valuation reserves	15,438	17,347	-11.0%
6. Capital instruments	-	-	-
7. Net income (loss) for the period	753	1,233	-38.9%
Total	**301,553**	**303,500**	**-0.6%**

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	53,012	-
C.1 Cancellation	-	-
C.2 Purchase of own shares	53,012	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**16,918,073**	-
D.1 Treasury stock (+)	53,012	-
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 31/12/2017	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	15,438	A-B	15,438	15,438	-
Other reserves	-	**A - B - C**	-	-	-
- legal reserve	22,317	B	22,317	22,317	-
- reserve for the purchase of tre:	(792)	-	-	-	-
- statutory reserve	40,402	A - B	40,402	40,402	-
- other reserves	5,500	A - B	5,500	5,500	-
- retained earnings	-	A - B	-	-	-
Net income for the period	753	-	-	-	-
Total	**301,553**	-	**250,678**	**250,678**	-
Non available	-	-	-	-	-
Available	**301,553**	-	**250,678**	**250,678**	-

a) for share capital increases; b) for coverage of losses c) for distribution to shareholders

14.4 Earnings reserves: other information

	31/12/2017	31/12/2016	%
Legal reserve	22,317	22,193	0.6%
Statutory reserve	40,402	39,293	2.8%
Other reserves	5,500	5,500	0.0%
Total	**68,219**	**66,986**	**1.8%**

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

	31/12/2017	31/12/2016	%
1) Financial guarantees issued	15,008	12,340	21.6%
a) Banks	-	1,281	-100.0%
b) Customers	15,008	11,059	35.7%
2) Commercial guarantees issued	61,745	55,400	11.5%
a) Banks	-	-	-
b) Customers	61,745	55,400	11.5%
3) Irrevocable commitments to disburse funds	56,331	28,298	99.1%
a) Banks	-	367	-100.0%
i) certain use	-	367	-100.0%
ii) uncertain use	-	-	-
b) Customers	56,331	27,931	101.7%
i) certain use	109	103	5.7%
ii) uncertain use	56,222	27,827	102.0%
4) Commitments underlying credit derivatives: sales of protection	-	-	-
5) Assets pledged as collateral for third-party debts	-	-	-
6) Other commitments	-	-	-
Total	**133,084**	**96,037**	**38.6%**

2. Assets pledged as collateral for liabilities and commitments

	31/12/2017	31/12/2016	%
1. Financial assets held for trading	-	270,816	-100.0%
2. Financial assets recognized at fair value	-	-	-
3. Financial assets available for sale	218,755	1,327,831	-83.5%
4. Financial assets held to maturity	-	32,529	-100.0%
5. Loans to banks	-	-	-
6. Loans to customers	130,974	52,442	149.8%
7. Property, plant and equipment	-	-	-

It is further reported that the Bank has posted off-balance sheet securities of €324,471 thousand as collateral for funding transactions.

4. Management and intermediation services

	31/12/2017	31/12/2016
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	**216,489**	**232,691**
a) individual	216,489	232,691
b) collective	-	-
3. Custody and administration of securities	**3,246,014**	**3,770,148**
a) third-party securities held as part of depository bank services (excluding	-	-
1.securities issued by reporting entity	-	-
2. other	-	-
b) other third-party securities on deposit (excluding portfolio management): other	981,593	528,197
1. securities issued by reporting entity	154,095	233,841
2. other	827,498	294,356
c) third-party securities deposited with third parties	775,749	523,183
d) securities owned by bank deposited with third parties	1,642,768	2,952,609
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 31/12/2017 (f=c-d-e)	Net amount 31/12/2016
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	22	-	22	-	-	22	20
2. Repurchase agreements							
3. Securities lending							
4. Other							
Total 31/12/2017	**22**	**-**	**22**	**-**	**-**	**22**	**X**
Total 31/12/2016	**20**	**-**	**20**	**-**	**-**	**X**	**20**

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 31/12/2017 (f=c-d-e)	Net amount 31/12/2016
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	798	-	798	868	-	(70)	(436)
2. Repurchase agreements							
3. Securities lending							
4. Other							
Total 31/12/2017	**798**	**-**	**798**	**868**	**-**	**(70)**	**X**
Total 31/12/2016	**582**	**-**	**582**	**1,018**	**0**	**X**	**(436)**

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	31/12/2017	31/12/2016	%
1. Financial assets held for trading	31	-	-	31	61	-49.4%
2. Financial assets available for sale	7,562	-	-	7,562	12,133	-37.7%
3. Financial assets held to maturity	638	-	-	638	1,438	-55.6%
4. Due from banks	-	2,800	-	2,800	243	n.s.
5. Loans to customers	-	65,082	-	65,082	67,428	-3.5%
6. Financial assets recognised at fair value	-	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-	-
8. Other assets	X	X	2,632	2,632	3,215	-18.1%
Total	8,231	67,882	2,632	78,745	**84,519**	**-6.8%**

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

	31/12/2017	31/12/2016	%
Interest income on foreign-currency financial assets - securities	59	62	-4.5%
Total	**59**	**62**	**-4.5%**

1.3.2 Interest income on finance lease transactions

	31/12/2017	31/12/2016	%
Interest income on financial lease payables	5,551	6,057	-8.3%
Total	**5,551**	**6,057**	**-8.3%**

1.4 Interest expense and similar charges: composition

	Debt	Securities	Other liabilities	31/12/2017	31/12/2016	%
1. Due to Central Banks	-	X	-	-	110	-100.0%
2. Due to banks	1,539	X	-	1,539	1,652	-6.8%
3. Due to customers	12,529	X	-	12,529	13,416	-6.6%
4. Securities issued	X	4,650	-	4,650	8,363	-44.4%
5. Financial liabilities held for trading	-	-	-	-	-	-
6. Financial liabilities at fair value	-	-	-	-	-	-
7. Other liabilities	X	-	69	69	-	100.0%
8. Hedging derivatives	X	X	-	-	-	-
Total	**14,068**	**4,650**	**69**	**18,787**	**23,540**	**-20.2%**

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

	31/12/2017	31/12/2016	%
Interest expence on foreign-currency financial assets	437	221	97.9%
Total	**437**	**221**	**97.9%**

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	31/12/2017	31/12/2016	%
a) guarantees issued	1,010	953	5.9%
b) credit derivatives	-	-	-
c) management, intermediation and advisory services:	9,566	8,258	15.8%
1. trading in financial instruments	16	-	-
2. foreign exchange	515	579	-11.0%
3. asset management	2,098	2,070	1.4%
3.1 individual	2,098	2,070	1.4%
3.2 collective	-	-	-
4. securities custody and administration	158	223	-29.1%
5. depository services	-	-	-
6. securities placement	5,175	3,728	38.8%
7. reception and transmission of orders	379	437	-13.4%
8. advisory services	-	-	-
8.1. on investments	-	-	-
8.2. on financial structure	-	-	-
9. distribution of third-party services	1,226	1,220	0.4%
9.1 asset management	-	-	-
9.1.1 individual	-	-	-
9.1.2 collective	-	-	-
9.2 insurance products	1,226	1,220	0.4%
9.3 other	-	-	-
d) collection and payment services	8,894	8,630	3.1%
e) servicing activities for securitizations	-	-	-
f) services for factoring transactions	-	-	-
g) tax collection services	-	-	-
h) management of multilateral trading facilities	-	-	-
i) management of current accounts	5,958	5,569	7.0%
j) other	7,449	5,228	42.5%
Total	**32,877**	**28,638**	**14.8%**

2.2 Commission income: distribution channels for products and services

Channels/Amounts	31/12/2017	31/12/2016	%
a) at Bank branches:	8,498	6,957	22.16%
1. portfolio management	2,098	2,008	4.47%
2. placement of securities	5,175	3,728	38.79%
3. third party products and services	1,226	1,220	0.44%
b) outside bank branches:	-	-	-
1. portfolio management	-	-	-
2. placement of securities	-	-	-
3. third party products and services	-	-	-
c) other distribution channels:	-	61	-100.00%
1. portfolio management	-	61	-100.00%
2. placement of securities	-	-	-
3. third party products and services	-	-	-

2.3 Commission expenses: composition

	31/12/2017	31/12/2016	%
a) guarantees received	37	77	-51.6%
b) credit derivatives	-	-	-
c) management and intermediation services:	12	6	103.2%
1. trading in financial instruments	12	4	191.5%
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	-100.0%
6. off-premises distribution of securities, products and service	-	-	-
d) collection and payment services	2,846	2,618	8.7%
e) other services	965	2,020	-52.2%
Total	**3,860**	**4,720**	**-18.2%**

Commission expense for "other services" includes commissions of €194 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

	31/12/2017		31/12/2016		%
	Dividends	Income from UCI	Dividends	Income from UCI	
A. Financial assets held for trading	30	-	23	-	28.6%
B. Financial assets available for sale	788	-	1,390	-	-43.3%
C. Financial assets recognised at fair value	-	-	-	-	-
D. Equity investments	-	X	-	X	-
Total	**818**	-	**1,413**	-	**-42.1%**

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	94	192	61	292	(67)
1.1 Debt securities	91	123	37	247	(70)
1.2 Equity securities	2	20	0	-	22
1.3 Units in collective investment undertakings	-	50	24	45	(19)
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	64
4. Derivatives	-	-	-	-	267
4.1 Financial derivatives	-	-	-	-	-
- on debt securities and interest rates	-	-	-	-	-
- on equity securities and equity indices	-	-	-	-	-
- on foreign currencies and gold	X	X	X	X	267
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**187**	**385**	**122**	**584**	**264**

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 31/12/2017			Total 31/12/2016		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Loans to banks	-	-	-	-	-	-
2. Loans to customers	305	544	(240)	78	225	(146)
3. Financial assets available for sale	13,580	2,016	11,564	17,141	1,820	15,321
3.1 Debt securities	11,869	2,016	9,853	17,141	1,820	15,321
3.2 Equity securities	1,710	-	1,710	-	-	-
3.3 Units in collective investment undertakings	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	0	-	-	-	-	-
Total assets	**13,884**	**2,560**	**11,324**	**17,219**	**2,044**	**15,175**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	50	44	5	43	333	(290)
Total liabilities	**50**	**44**	**5**	**43**	**333**	**(290)**

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)				31/12/2017	31/12/2016	%
	Specific			Specific		Portfolio				
	Writeoffs	Other		A	B	A	B			
A. Loans to banks	-	-	-	-	-	-	-	-	-	-
- Loans	-	-	-	-	-	-	-	-	-	-
- Debt securities	-	-	-	-	-	-	-	-	-	-
B. Loans to customers	(9,594)	(36,831)	(478)	8,099	18,160	-	4	(20,640)	(22,052)	-6%
Non performing loans purchased	-	-	-	-	-	-	-	-	-	-
- Loans	-	-	X	-	-	X	X	-	-	-
- Debt securities	-	-	X	-	-	X	X	-	-	-
Other	(9,594)	(36,831)	(478)	8,099	18,160	-	4	(20,640)	(22,052)	-6%
- Loans	(9,594)	(36,831)	(478)	8,099	18,160	-	4	(20,640)	(22,052)	-6%
- Debt securities	-	-	-	-	-	-	-	-	-	-
C. Total	**(9,594)**	**(36,831)**	**(478)**	**8,099**	**18,160**	**-**	**4**	**(20,640)**	**(22,052)**	**-6%**

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)		31/12/2017 (3)	31/12/2016
	Specific		Specific			
	Writeoffs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	(3,821)	X	X	(3,821)	(2,528)
C. Units in collective investment undertakings	-	-	X	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(3,821)**	**-**	**-**	**(3,821)**	**(2,528)**

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 €3,821 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 €1,790 thousand;
- ✓ Cassa di Risparmio di Cesena (through the Interbank Deposit Protection Fund) of €388 thousand;
- ✓ Banca Valsabbina Scpa of €195 thousand;
- ✓ KB 1909 of €116 thousand;
- ✓ CR Bolzano of €82 thousand;
- ✓ Torre Natisone Gal of €1 thousand.

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

- ✓ Fondo Atlante of €554 thousand;
- ✓ Fondo Immobiliare Asset Bancari of €298 thousand;
- ✓ Fondo Immobiliare Asset Bancari III of €146 thousand;
- ✓ Fondo Italiano FII Vent. Nom of €116 thousand;
- ✓ Fondo Sviluppo PMI of €99 thousand;
- ✓ Fondo Immobiliare Finint FVG of €18 thousand;
- ✓ Fondo Finint Fenice of €17 thousand;
- ✓ Alladin Ventures of €2 thousand.

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

	Writedowns (1)			Writebacks (2)				31/12/2017	31/12/2016
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Guarantees issued	(41)	-	(4)	-	828	-	-	783	169
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	**(41)**	**-**	**(4)**	**-**	**828**	**-**	**-**	**783**	**169**

Key: A = interest B = other write-backs

Section 9 - G&A expenses - item 150

9.1 Personnel expenses: composition

	31/12/2017	31/12/2016	%
1) Employees	39,634	39,068	1.4%
a) wages and salaries	27,788	26,953	3.1%
b) social security contributions	7,415	7,093	4.5%
c) severance benefits	106	366	-70.9%
d) pensions	-	-	-
e) allocation to employee severance benefit provision	1,670	1,730	-3.5%
f) allocation to provision for pensions and similar liabilities	-	-	-
- defined contribution	-	-	-
- defined benefit	-	-	-
g) payments to external pension funds	1,149	1,308	-12.2%
- defined contribution	1,149	1,308	-12.2%
- defined benefit	-	-	-
h) costs in respect of agreements to make payments	-	-	-
in own equity instruments	-	-	-
i) other employee benefits	1,507	1,618	-6.9%
2) Other personnel	966	503	92.1%
3) Board of Directors	593	598	-0.8%
4) Early retirement costs	-	-	-
entities	-	-	-
seconded to the Bank	-	-	-
Total	**41,194**	**40,169**	**2.6%**

9.2 Average number of employees by category

	2017	2016
Employees		
a) Senior management	10	11
b) Middle management	235	236
of which Grade III and IV	115	115
c) Other personnel	339	340
Other personnel		
Total	**584**	**587**

9.4 Other employee benefits

Other employee benefits include €534 thousand in meal vouchers and €758 thousand in insurance policies.

9.5 Other administrative expenses: composition

	31/12/2017	31/12/2016	%
Compensation for professional and consultancy services	5,518	4,262	29.5%
Insurance	219	215	2.0%
Advertising	735	1,020	-27.9%
Telephone, postal and data transmission	529	505	4.8%
Office supplies and printing	197	299	-34.1%
Maintenance and repairs	970	837	16.0%
Electricity, heating and shared property service charges	986	1,058	-6.8%
Services provided by third parties	10,209	8,663	17.9%
Cleaning	457	543	-15.9%
Travel expenses	1,315	1,091	20.6%
Security and transport of valuables	159	149	6.5%
Membership fees	512	545	-5.9%
Commercial information	841	1,040	-19.1%
Magazine and newspaper subscriptions	34	55	-38.4%
Rent payable	2,150	2,220	-3.1%
Entertaining expenses	114	51	123.3%
Taxes and duties	6,668	6,680	-0.2%
Contributions to SFR and DGS	3,656	5,375	-32.0%
Other expenses	1,943	1,092	78.0%
Total	**37,211**	**35,695**	**4.2%**

Contributions to deposit guarantee schemes and resolution mechanisms

In enacting Directive 2014/49/EU (Deposit Guarantee Schemes Directive – "DGSD") of 16 April 2014, Directive 2014/59/EU (Bank Recovery and Resolution Directive – "BRRD") of 15 May 2014, and establishing the Single Resolution Mechanism (Regulation (EU) No 806/2014 of 15 July 2014), European lawmakers made significant changes to the rules for bank crises, with the strategic aim of reinforcing the single market and systemic stability. Following the transposition of the above Directives into national legislation, with effect from 2015 credit institutions have been required to provide the financial resources necessary to fund the Interbank Deposit Protection Fund (FITD) and National Resolution Fund (merged into the Single Resolution Fund – SRF – with effect from 2016) by paying ordinary contributions and, where necessary, extraordinary contributions. In accordance with the DGSD, the FITD has required Italian banks to pay ordinary annual contributions until target level has been reached. This target level has been set at 0.8% of the total protected deposits of Italian banks participating in the FITD. This level must be reached by 3 July 2024. The amount of the contribution required of each bank is proportionate to the amount of its protected deposits as at 30 September of each year, as a percentage of the total protected deposits of Italian banks participating in the FITD, and to the risk level of the participating bank with protected deposits compared with the risk levels of all other banks participating in the FITD.

Under the BRRD, Italian banks must pay ordinary annual contributions until the SRF has reached financial resources of at least 1% of the total protected deposits of all authorised credit institutions in all participating Member States. This level must be reached by 1 January 2024. Each entity's contributions are calculated according to the ratio of its liabilities (net of protected deposits and own funds and, for entities belonging to a group, net of intra-group liabilities) to the total liabilities (net of protected deposits and own funds) of all Italian banks and to the risk level associated with each credit institution compared with the risk levels of all other Italian banks. It bears emphasising that if the available financial resources of the FITD and/or the SRF should prove insufficient to ensure reimbursement of depositors or to finance resolution, respectively, credit institutions are required to cover these needs through extraordinary contributions.

Ordinary contributions are recognised in item "150. b) Other administrative expenses" in application of interpretation IFRIC 21 *Levies*, according to which the liability associated with the payment of a levy (the contributions in question are considered equivalent to a levy from an accounting standpoint) arises when the "obligating event" occurs, i.e. when the obligation to pay the annual dues is incurred. In the case of the contributions in question, it has been determined that the "obligating event" occurs in the first quarter for the SRF and in the third quarter for the FITD.

In further detail, in 2017:

- ✓ the ordinary contribution to the SRF amounted to €1,489 thousand, charged to the income statement entirely in 2017, on the basis of the notification received from the Bank of Italy in April 2017. It bears clarifying that this contribution was paid solely in "cash", since Banca Popolare di Cividale did not exercise the option of paying 15% of the amount through irrevocable payment commitments;

- ✓ the ordinary contribution to the FITD amounted to €1,136 thousand, was charged to the income statement in its entirety in 2017 and was paid in 2017, in accordance with the notification received from the FITD that same month. This contribution, in addition to taking account of the protected deposits as at 30 September 2017, was also calculated to take account of the risk adjustment, according to the risk assessment method approved by the Bank of Italy in its note of 1 June 2017. The ordinary contribution levied for 2017 thus includes the balance payments requested from Banca Popolare di Cividale for the years 2015 and 2016, collectively €85 thousand, equal to the difference between the amount paid and the amount actually due according to the risk level.

Interbank Deposit Protection Fund – Voluntary Scheme

Banca Popolare di Cividale is a participant in the FITD Voluntary Scheme, created in November 2015 to provide action in support of participating banks in extraordinary administration, in default or at risk of default. On the basis of the notifications received from the Voluntary Scheme, on 21 December 2017 rescue measures were completed for three banks, Caricesena, Carim and Carismi, which were acquired by Crédit Agricole Cariparma. In detail, the conditions of the rescue measures were as follows:

- ✓ the three banks were recapitalised by the Voluntary Scheme, receiving a total of €464 million, in addition to the contribution to Caricesena of €280 million in 2016;
- ✓ the fund subscribed for €12 million of mezzanine securities and €158 million of junior securities created through the securitisation of a portfolio of bad debt and unlikely-to-pay loans extended by the three banks.

The total amount of the relief provided by the Voluntary Scheme in 2017 thus came to €634 million and was financed with €510 million of resources provided by the participating banks on 20 September and 7 December 2017 and with €130 million of proceeds of the sale of the three banks to Crédit Agricole Cariparma, which amount was used by the Voluntary Scheme to finance the overall transaction. The fact that the resources called up from the participating banks were excessive (€510 million versus the required €504 million) may be attributed to the lesser required contribution to Caricesena due to the lesser adjustments to the balance sheet during the closing phase than initially expected. Considering Banca Popolare di Cividale's participation in the Voluntary Scheme, as at the respective call dates, the total contribution paid in 2017 amounted to €1,030 thousand.

With regard to the measurement of the investment in the Voluntary Scheme, it bears clarifying that:

- ✓ the portion of the investment in support of the recapitalisation of the three banks was fully charged to the income statement under item "100. Profit (Loss) on disposal of available-for-sale financial assets" since the sale of the three banks to Crédit Agricole Cariparma effectively rendered the investment irrecoverable. This charge amounted to €388 thousand and is equal to Banca Popolare di Cividale's share of the contributions to recapitalise the three banks (€514 thousand), net of the impairment losses recognised in the 2016 financial statements (€126 thousand);
- ✓ the portion of the investment in junior securitisation notes, €8.6 million, was written down by €7.7 million. For the purposes of this measurement, reference was made to the fair value measurement prepared by PricewaterhouseCoopers Advisory S.p.A., the advisor engaged by the Voluntary Scheme to measure the mezzanine and senior notes, as announced by the Voluntary Scheme in its press release of 19 January 2018.

In view of the foregoing, on 31 December 2017 Banca Popolare di Cividale's residual investment in the Voluntary Scheme, carried among "Loans to customers", amounted to €52 thousand.

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

10.1 Net provisions for risks and charges: composition

	31/12/2017	31/12/2016	%
Customer disputes	183	859	78.7%
Interbank Guarantee Fund (FITD)	-	129	100.0%
Revocatory actions	(334)	(85)	n.s.
Other	(491)	(45)	n.s.
Total	**(642)**	**858**	**174.8%**

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) 2017
A. Property, plant and equipment				
A.1 owned	(2,322)	-	-	(2,322)
- operating assets	(2,322)	-	-	(2,322)
- investment property	-	-	-	-
A.2 acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
Total	**(2,322)**	-	-	**(2,322)**

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 2017 (a+b-c)
A. Intangible assets				
A.1 Owned	48	-	-	48
- generated internally by the Bank	-	-	-	-
- other	48	-	-	48
A.2 Acquired under finance leases	-	-	-	-
Total	**48**	-	-	**48**

Section 13 - Other operating income/expenses - item 190

13.1 Other operating expenses: composition

	31/12/2017	31/12/2016	%
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	(420)	(2,078)	79.8%
d) other	(133)	(195)	31.6%
Total	**(553)**	**(2,273)**	**75.7%**

13.2 Other operating income: composition

	31/12/2017	31/12/2016	%
Other income - rentals and fees	394	329	19.8%
Expenses charged to others - recovery of taxes	5,444	5,464	-0.4%
Expenses charged to others on deposits and current accounts	554	465	19.2%
Expenses charged to others - other	1,845	1,601	15.2%
Out-of-period income and reductions in liabilities	785	1,354	-42.0%
Total	**9,022**	**9,214**	**-2.1%**

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)

	31/12/2017	31/12/2016	%
A. Revenues	-	-	-
1. Revaluations	-	-	-
2. Profits on disposal	-	-	-
3. Write-backs	-	-	-
4. Other	-	-	-
B. Charges	84	518	**84%**
1. Write-downs	-	518	100%
2. Impairment losses	79	-	-100%
3. Losses on disposal	5	-	-100%
4. Other	-	-	-
Net result	**(84)**	**(518)**	**84%**

Impairment losses referred to the impairment loss of €79 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

As stated in the Report on Operations, impairment losses of €1,606 thousand were recognised during the year on the basis of impairment testing.

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

	31/12/2017	31/12/2016	%
1. Current taxes (-)	(218)	(369)	40.9%
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 (+)	57,851	-	-
4. Change in deferred tax assets (+/-)	(2,148)	(110)	n.s.
5. Change in deferred tax liabilities (+/-)	134	1,181	88.6%
6. Taxes for the period (-) (-1+/-2+3+/-4+/-5)	**55,619**	**701**	**7836.7%**

18.2 Reconciliation of theoretical tax liability and actual tax liability recognised

	31/12/2017	31/12/2016
Income (loss) before tax from continuing operations	2,985	532
Theoretical taxable income	2,985	532
Income tax - theoretical tax expense	(821)	(146)
Effect of revenues that do not form taxable income	(756)	1,443
Income tax - actual tax expense	**(1,577)**	**1,297**
Theoretical tax expense - Irap	(139)	(25)
Effect of other changes	(517)	(571)
Actual tax expense - IRAP	**(656)**	**(596)**
Actual tax expenses for the period	**(2,232)**	**701**

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	31/12/2017	31/12/2016
Adjusted attributable profit	753	1,233
Weighted average number of shares	16,971,085	16,971,085
Basic Earning per share	**0.04**	**0.07**

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**	**753**
	Other comprehensive income without reclassification to profit or loss			
40	Defined-benefit plans	(11)	(3)	(9)
100	Financial assets available-for-sale:	(3,107)	(1,207)	(1,900)
	a) fair value changes	(3,107)	(1,207)	(1,900)
130	**Total other comprehensive income**	**(3,118)**	**(1,210)**	**(1,909)**
140	**TOTAL COMPREHENSIVE INCOME (Item 10+130)**			**(1,156)**

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, Recovery Plan, 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 Function and Compliance Function, which are to report directly to the Board of Directors, as the level-two control functions. This is also assured for the Auditing Function, 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 Function

It performs a risk control function, as prescribed by the specific supervisory rules. From a structural standpoint, in accordance with the current head office organisation chart, the Risk Management Function includes a separate sub-unit known as Credit Risk, focused on systematic, integrated measurement and monitoring of the credit risk assumed by the bank.

In general, the Risk Management Function 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 is also responsible for the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) mandated by supervisory regulations. It coordinates the company organisational units involved in preparing the Recovery Plan.

Compliance Function

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 is responsible for supervising legal compliance in respect of financial intermediation and complaints handling services. The Anti-Money Laundering Function, which reports to the Compliance Function, is responsible for preventing and managing the risk of non-compliance with laws governing money-laundering and terrorist financing. The Head of the Compliance Function 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, ILAAP and the Recovery Plan 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.
With effect from 2017, regulations also require banks to prepare a Recovery Plan, a document dedicated to responding promptly and effectively to crisis situations, specifying the measures to be taken to restore the bank to financial equilibrium. Preparation of the Plan is based on the proportionality principle, in a manner consistent with the Bank's business model, associated risk profile, degree of complexity and the volume of the various businesses conducted. Specific qualitative and quantitative recovery indicators are identified to be used as means of promptly identifying any leading signals of a potential state of crisis, integrated into the RAF scheme as thresholds. Within the framework of the escalation process, the Plan sets out the roles, responsibilities and decision-making levels that permit or do not permit crisis management action to be taken, providing the Bank with access to a broader range of concretely implementable options and allowing it to maximise their effects for recovery purposes. This document is also approved and signed by the Board of Directors at least once every two years.
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). Specific stress tests are also introduced to permit a better assessment of risk exposure and how risks respond to adverse conditions, the relating mitigation and control systems and the adequacy of financial and organisational safeguards.
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, 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 and Administration Area: it operates according to guidelines set by the Board of Directors and by the Management Committee, in accordance with the guidelines and/or directives provided by the general management; the area is charged with responsibility for, coordination and management of the sectors operating within its assigned remit.
- ✓ Loan Department: it is tasked with overseeing the process of assuming all types of risks associated with lending, with the support of the Loan Administration and Loan Application Review functions. Through the general management, in consultation with 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. It supervises all roles involved in the lending process and ensures that the NPL Department receives support with its monitoring and ongoing management of risk positions, in order to keep credit quality within acceptable limits.
- ✓ The NPL Department, created in January 2018, was formed by merging the previous Anomalous Loan and Dispute functions, charged with optimising management of NPLs and identifying the best combination of the various possible recovery actions. It reports directly to the general management, with the following duties: optimising the management of non-performing loans (NPLs) and identifying the best combination of the various recovery measures; providing support for the preparation of operating plans for managing NPLs; undertaking special projects (e.g., sales, securitisations, etc.); and verifying and reporting on the results achieved. The two functions' specific activities are described below.
    - ✓ Anomalous Loan Function: with the aid of the loan monitoring IT procedure, it manages positions that present operational anomalies within the framework of the credit limits granted and/or unauthorised uses of credit, or that have been directly or indirectly affected by detrimental events, assigned to the unit on the basis of pre-defined quantitative and qualitative portfolio classification criteria; it provides instructions to the network in order to ensure that the necessary actions are taken at the operational level to restore positions to performing status, where possible, and in any event to ensure the best possible management of credit claims, including assessment of opportunities for transfer to the enforcement

procedure. In accordance with internal rules and procedures, it submits proposals to the competent bodies regarding the amount of the provisions to be set aside when preparing the financial statements.

  - ✓ Dispute Function: it manages legal aspects of positions classified as bad debts, and in particular is responsible for taking legal measures and actions aimed at recovering the amounts concerned. It is also tasked with conducting assessments of loss projections for individual disputed positions and proposing the necessary provisions.

- ✓ Loan Monitoring Function (an operating unit of the general management staff): it proposes monitoring rules, manages and implements the MC procedure. It oversees relations with the outsourcers tasked with loan recovery activity. It coordinates deputy department heads with regard to activities relating to the "credit quality" functions assigned to them. It performs controls of a systemic and/or spot-based nature regarding the actual completion of the tasks assigned to the various problem loan management functions. It reports and submits periodic reports to the general management.
- ✓ Risk Management Function/Credit Risk Unit: it is responsible for identifying, assessing and monitoring, according to an integrated, systemic approach, the credit risk assumed by the bank, exposures to large risks and related-party transactions, while ensuring an adequate system for reporting to company bodies and the responsible production units. It collaborates in the preparation of the RAF, in the drafting of the lending policy with regard to the assumption of credit and concentration risk, and in setting the related operating limits. It proposes the quantitative and qualitative parameters required to define credit risk assumption policies, while also referring to stress scenarios. It is tasked with verifying the proper conduct of performance monitoring of individual exposures, in particular non-performing positions, and with assessing the consistency of classification, the appropriateness of provisions and the adequacy of the recovery process. Finally, it is charged with formulating advance opinions regarding the consistency with the RAF of the most significant transactions relating to credit facilities.
- ✓ Treasury & Funding Function: in the context of its specific operations, it is tasked with ensuring the compliance of financing activity with the rules and procedures governing credit risk as regards credit limits for institutional counterparties (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 the head 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 factors including the amount of the credit facility, any collateral securing the facility, reports on the use of various services, the classification of the counterparty as non-performing, and specific cases falling within the exclusive purview of the Board of Directors.

The credit decision-making process is supported by an internal procedure (the Credit Portal), which allows management of all phases of the lending process (from contact with the customer to application review, disbursement, management and final closure), and which includes integrated consultation of the various external databases. 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 (foremost among which are: the Bank of Italy Central Credit Register; CRIF credit information system; CRIF Strategy One, an engine used to calculate an initial score used for individual borrowers only; the Cerved database for excerpts of chamber of commerce certificates and adverse judgments; and the Centrale Bilancio financial statement database).

One fundamental element of the set of parameters and instruments used to manage credit risk by Banca Popolare di Cividale is represented by the ratings calculated on the basis of specific statistical models and estimated specifically for the various customer segments (Corporate, Retail SME-Corporate, and Retail

Individuals). With effect from 9 October 2017, following the change of IT outsourcer, Banca Popolare di Cividale implemented a rating system developed by the CSE consortium, the Bank's new IT provider. Its main objective is to prepare monthly estimates, based on an associated rating class, of the creditworthiness of the Bank's borrowers and to monitor both the risk of default and the risk of downgrading.

The factors considered in the internal rating model for corporates are: a) the internal performance score, a quantitative score based on a statistical analysis of internal data relating to the performance of the borrower's relationships with the Bank; b) the nationwide performance score, a quantitative score based on a statistical analysis of information from the Centrale Rischi database regarding the customer's behaviour with other intermediaries in the banking system; and c) the financial statement score: a quantitative score based on a statistical analysis of earnings and financial performance indicators drawn from the company's annual financial statements in the Centrale Bilanci database or obtained by the Bank. The factors considered in the internal rating model for individuals are: a) the internal performance score, a quantitative score based on a statistical analysis of internal data relating to the performance of the borrower's relationships with the Bank; b) the nationwide performance score, a quantitative score based on a statistical analysis of information from the Centrale Rischi database regarding the customer's behaviour with other intermediaries in the banking system; and c) the socio-demographic score, a quantitative score based on a statistical analysis of the customer's personal particulars, behaviour and finances according to the Bank's internal records.

The Bank's borrowers are classified according to a score of one to ten, consisting of nine categories of performing borrowers and one category of defaulted borrowers (D). A probability of default is associated with each rating class in each segment, referring to the probability that a borrower classified to a certain rating class will be reclassified to default status within a period of one year. Rating models are estimated on the basis of statistical analyses of the CSE Consortium's historical data and according to a calibration factor that takes account of the Bank's historical series.

Another parameter used by the Bank to measure and manage credit risk is loss given default (LGD), which represents the rate of loss in the event of a default, i.e. the expected value (possibly contingent on adverse scenarios) for the relationship of the loss due to the default and the amount of the exposure at the time of default (exposure at default or “EAD”), expressed in percent terms. The estimated LGD on bad debts and the danger rate are taken as the basis for determining LGD. These parameters are also derived from models developed by the CSE Consortium and adopted by the Bank starting in October 2017.

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 Function, as part of validation activity for models used for non-regulatory purposes.

Risk parameters play a central role in disbursement, monitoring and performance management processes, and in particular they contribute to steering managers in deciding on the performance classification of positions. In addition, the risk parameters indicated above are used in assessing the portfolio of performing loans to 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 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. Further specific assessments may be conducted on the basis of reports or on the initiative of dedicated units such as the Anomalous Loan Function, which is responsible for performance control of relationships, undertaken according to a new management model that calls for the assignment to portfolios of positions belonging to the various credit risk segments (Corporate, Retail SME and Retail Individual), through the application of the new Loan Monitoring procedure, intended to prevent positions from deteriorating, while ensuring active management.

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 the previously existing classifications, without replacing them.

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 Unit, 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 management reporting tools, 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 Unit has implemented a level-two control system aimed at ensuring compliance with regulations. The main activities entrusted to the Credit Risk Unit 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 Function – Credit Risk Unit, 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-one and 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.

Loans classified as unlikely-to-pay, above a certain threshold, fall within the remit of the Anomalous Credit Function, whereas bad debt positions are the responsibility of the Dispute Function.

The competent bodies resolve to reclassify individual positions as unlikely to pay, normally by proposal of the branch or Anomalous Loan Function. 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 Function, 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 loans. Decisions concerning the amounts of individual provisions, as well as any changes, are taken by the competent bodies upon the recommendation of the Dispute Function.

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	-	-	-	-	946,328	946,328
2. Financial assets held to maturity	-	-	-	-	-	-
3. Due from banks	-	-	-	-	33,327	33,327
4. Loans to customers	161,448	162,150	14,587	71,445	2,214,546	2,624,176
5. Financial assets recognized at fair value	-	-	-	-	-	-
6. Financial assets being divested	-	-	-	-	-	-
Total 31/12/2017	**161,448**	**162,150**	**14,587**	**71,445**	**3,194,200**	**3,603,830**
Total 31/12/2016	**200,380**	**178,026**	**15,642**	**152,541**	**3,439,599**	**3,986,187**

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	-	-	-	946,328	-	946,328	946,328
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Due from banks	-	-	-	33,327	-	33,327	33,327
4. Loans to customers	692,298	354,113	338,185	2,297,311	11,321	2,285,990	2,624,176
5. Financial assets recognized at fair value	-	-	-	X	X	-	-
6. Financial assets being divested	-	-	-	-	-	-	-
Total 31/12/2017	**692,298**	**354,113**	**338,185**	**3,276,966**	**11,321**	**3,265,645**	**3,603,830**
Total 31/12/2016	**737,300**	**343,253**	**394,047**	**3,602,986**	**10,846**	**3,592,140**	**3,986,187**

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	118,290	X	-	118,290
- Of which: forborne exposures	X	X	X	X	-	X	-	-
TOTAL A	-	-	-	-	-	-	-	**118,290**
B. OFF-BALANCE-SHEET EXPOSURES	-	-	-	-	-	-	-	-
a) Non performing	-	-	-	-	-	-	X	-
b) Performing	X	X	X	X	29	X	-	29
TOTAL B	-	-	-	-	**29**	-	-	**29**
TOTAL (A+B)	-	-	-	-	**29**	-	-	**118,319**

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	0	0	0	466,502	X	305,054	X	161,448
- Of which: forborne exposures	-	-	-	9,979	X	5,802	X	4,177
b) Unlikely to pay	65,918	5,965	14,638	122,500	X	46,871	X	162,150
- Of which: forborne exposures	42,493	1,707	4,538	34,010	X	18,112	X	64,636
c) Non performing, past due exposures	768	2,583	5,253	8,171	X	2,188	X	14,587
- Of which: forborne exposures	-	98	1,029	3,288	X	600	X	3,815
d) Performing past due exposures	-	X	X	X	71,888	X	443	71,444
- Of which: forborne exposures	-	X	X	X	6,282	X	56	6,227
e) Other performing exposures	-	X	X	X	3,090,982	X	10,877	3,080,104
- Of which: forborne exposures	-	X	X	X	60,485	X	309	60,176
TOTAL A	**66,686**	**8,547**	**19,891**	**597,173**	**3,162,869**	**354,113**	**11,321**	**3,489,734**
B. OFF-BALANCE-SHEET EXPOSURES								
a) Non performing	6,428	-	-	-	X	208	X	6,220
b) Performing	X	X	X	X	127,227	X	363	126,864
TOTAL B	**6,428**	-	-	-	**127,227**	**208**	**363**	**133,084**
TOTAL (A+B)	**73,114**	**8,547**	**19,891**	**597,173**	**3,290,096**	**354,320**	**11,684**	**3,622,818**

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	493,054	226,374	17,872
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	36,746	27,880	11,705
B.1 from performing positions	1,793	9,453	8,262
B.2 transfers from other categories of impaired positions	22,305	8,676	15
B.3 other increases	12,648	9,751	3,428
- of which: business combinations	-	-	-
C. Decreases	63,299	45,233	12,802
C.1 to performing positions	-	639	93
C.2 writeoffs	24,647	-	-
C.3 collections	38,652	24,168	2,139
C.4 assignments	-	-	-
C.5 losses on sale	-	-	-
C.6 transfers to other categories of impaired positions	-	20,426	10,570
C.7 other decreases	-	-	-
D. Closing gross exposure	466,501	209,021	16,775
- 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	97,403	78,242
- of which: exposures assigned but not derecognized	-	-
B. Increases	23,968	15,467
B.1 from performing positions	779	7,858
B.2 transfers from other categories of impaired positions	3,520	-
B.3 transfers from forborne non performing positions	-	4,753
B.4 other increases	19,669	2,856
C. Decreases	24,229	26,941
C.1 to performing positions	-	16,359
C.2 to other categories of performing forborne positions	4,753	-
C.3 to other categories of non performing forborne positions	-	3,520
C.4 write offs	1,279	-
C.5 collections	11,961	6,909
C.6 assignments	-	-
C.7 losses on sale	-	-
C.8 other decreases	6,236	153
D. Closing gross exposure	97,142	66,768
- 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	292,674	6,351	48,349	13,658	2,230	459
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	44,177	7,240	15,830	8,118	1,556	405
B.1. writedowns	35,360	5,974	14,772	7,892	1,556	405
B.2. losses on sale	-	-	-	-	-	-
B.3. transfers from other categories of impaired positions	8,817	1,266	1,058	226	-	-
B.4. other increases	-	-	-	-	-	-
- of wich: business combinations	-	-	-	-	-	-
C. Decreases	31,798	7,789	17,308	3,665	1,598	264
C.1. writebacks from valuations	6,393	185	5,411	2,726	52	1
C.2.writebacks from collection	4,381	1,460	3,327	939	242	4
C.3. gains on sale	-	-	-	-	-	-
C.4. writeoffs	21,024	6,144	-	-	-	-
C.5. transfers to other categories of impaired positions	-	-	8,570	-	1,304	259
C.6. other decreases	-	-	-	-	-	-
D. Total closing adjustments	305,053	5,802	46,871	18,111	2,188	600
- 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:	**2,131,762**	**1,525,519**	**179,003**	**11,313**	**106,469**	-	-	-	-	-	-	**39,092**	**189**	**243,695**	**2,105,278**
1.1. totally secured	2,047,261	1,503,003	179,003	8,397	100,760	-	-	-	-	-	-	30,736	180	225,046	2,047,125
- of which impaired	265,196	198,765	31,973	633	7,600	-	-	-	-	-	-	401	7	25,807	265,187
1.2. partially secured	84,501	22,516	-	2,916	5,708	-	-	-	-	-	-	8,356	9	18,649	58,153
- of which impaired	34,145	17,765	-	960	55	-	-	-	-	-	-	216	5	5,296	24,299
2. Secured off balance sheet credit exposure:	**76,045**	**23,529**	-	**5,972**	**10,806**	-	-	-	-	-	-	-	**300**	**26,728**	**67,336**
2.1. totally secured	61,546	23,239	-	4,408	8,091	-	-	-	-	-	-	-	300	25,508	61,546
- of which impaired	1,085	157	-	-	2	-	-	-	-	-	-	-	-	926	1,085
2.2. partially secured	14,499	290	-	1,564	2,715	-	-	-	-	-	-	-	-	1,221	5,790
- 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	694	4,121	X	-	-	X	133,371	269,689	X	27,383	31,244	X
- Of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	3,676	5,579	X	501	223	X
A.2. Unlikely to pay	-	-	X	-	-	X	4,601	4,294	X	-	-	X	125,441	36,975	X	32,108	5,601	X
- Of which: forborne exposures	-	-	X	-	-	X	1,561	1,451	X	-	-	X	53,147	15,290	X	9,928	1,371	X
A.3. Non performing, past due exposures	0	0	X	0	0	X	17	2	X	-	-	X	10,222	1,530	X	4,348	655	X
- Of which: forborne exposures	-	-	X	-	-	X	-	-	X	-	-	X	3,072	483	X	743	116	X
A.4. Other performing exposures	853,092	-	-	7,848	-	0	109,221	X	65	13,239	X	65	1,185,363	X	6,138	982,788	X	5,053
- Of which: forborne exposures	-	-	-	-	-	-	8	-	0	-	-	-	53,274	-	296	13,121	-	68
TOTAL A	853,092	0	-	7,848	0	0	114,533	8,418	65	13,239	-	65	1,454,398	308,194	6,138	1,046,626	37,501	5,053
B. OFF-BALANCE-SHEET EXPOSURES																		
B.1 Bad loans	-	-	X	-	-	X	-	-	X	-	-	-	1,750	-	X	2	-	X
B.2 Unlikely to pay	-	-	X	-	-	X	-	-	X	-	-	X	4,317	190	X	25	-	X
B.3 Other non performing assets	-	-	X	-	-	X	-	-	X	-	-	X	116	17	X	10	1	X
B.4 Other performing assets	-	X	-	726	X	-	1,195	X	6	-	X	-	117,504	X	336	7,851	X	21
TOTAL B	-	-	-	726	-	-	1,195	-	6	-	-	-	123,688	206	336	7,888	1	21
TOTAL (A+B) 31/12/2017	853,092	0	-	8,574	0	0	115,728	8,418	71	13,239	-	65	1,578,085	308,401	6,475	1,054,514	37,502	5,073
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

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

Exposures/Geographical areas	ITALY		OTHER EUROPEAN		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. ON-BALANCE-SHEET EXPOSURES										
A.1. Bad loans	161,193	301,062	47	3,928	-	-	-	-	208	64
A.2. Unlikely to pay	161,888	46,555	262	316	0	0	-	-	-	-
A.3. Non performing, past due expos	14,506	2,176	81	12	-	-	0	0	0	0
A.4. Other performing exposures	3,138,655	11,262	11,880	54	520	2	417	2	79	0
TOTAL A	3,476,242	361,055	12,269	4,310	520	2	417	2	287	64
B. OFF-BALANCE-SHEET EXPOSURES										
B.1 Bad loans	1,752	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	4,342	190	-	-	-	-	-	-	-	-
B.3 Other non performing assets	126	18	-	-	-	-	-	-	-	-
B.4 Other performing assets	127,250	363	26	0	-	-	-	-	-	-
TOTAL B	133,471	571	26	0	-	-	-	-	-	-
TOTAL (A+B) 31/12/2017	**3,609,713**	**361,626**	**12,295**	**4,310**	**520**	**2**	**417**	**2**	**287**	**64**
TOTAL (A+B) 31/12/2016	**3,938,485**	**351,193**	**11,424**	**4,253**	**377**	**2**	**326**	**2**	**299**	**65**

In further detail, exposures in Italy break down by geographical area as shown in the following table:

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	1,021	6,155	153,108	282,856	5,772	10,689	1,292	1,362
A.2. Unlikely to pay	14,113	4,042	144,000	40,690	3,631	1,800	144	23
A.3. Non performing, past due exposure	26	3	14,443	2,167	33	5	3	1
A.4. Other performing exposures	22,200	114	2,205,069	11,014	907,923	117	3,462	18
TOTAL A	37,361	10,314	2,516,620	336,727	917,360	12,610	4,901	1,403
B. OFF-BALANCE-SHEET EXPOSURES								
B.1 Bad loans	-	-	1,752	-	-	-	-	-
B.2 Unlikely to pay	-	-	4,342	190	-	-	-	-
B.3 Other non performing assets	-	-	126	18	-	-	-	-
B.4 Other performing assets	6,001	3	120,232	357	554	0	464	2
TOTAL B	6,001	3	126,452	565	554	0	464	2
TOTALE (A+B) 31/12/2017	43,362	10,317	2,643,072	337,292	917,913	12,611	5,365	1,406
TOTALE (A+B) 31/12/2016	39,324	10,313	2,596,213	327,435	1,298,111	12,092	4,837	1,353

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

Exposures/Geographical areas	ITALY		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 exposure	-	-	-	-	-	-	-	-	-	-
A.4. Other performing exposures	107,007	-	7,053	-	4,032	-	-	-	197	-
TOTAL A	107,007	-	7,053	-	4,032	-	-	-	197	-
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	9	-	20	-	-	-	-	-	-	-
TOTAL	9	-	20	-	-	-	-	-	-	-
TOTAL 31/12/2017	**107,017**	-	**7,073**	-	**4,032**	-	-	-	**197**	-
TOTAL 31/12/2016	**125,910**	-	**5,587**	-	**2,751**	-	-	-	**6**	-

In further detail, exposures in Italy break down by geographical area as shown in the following table:

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	42,629	-	5,130	-	59,104	-	145	-
TOTAL A	42,629	-	5,130	-	59,104	-	145	-
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	2	-	-	-	8	-	-	-
TOTAL B	2	-	-	-	8	-	-	-
TOTAL 31/12/2017	**42,630**	-	**5,130**	-	**59,111**	-	**145**	-
TOTAL 31/12/2016	**78,954**	-	**149**	-	**46,030**	-	**777**	-

B.4 Large exposures

In accordance with the Bank of Italy's instructions set forth in the letter dated 28 February 2011, the amount of “risk positions” that qualify as “large exposures” is disclosed on the basis of both carrying amounts and weighted value. In particular, as provided for in Regulation EU No 575/2013, and as transposed in Italy by Bank of Italy circulars 154 and 286, the value of the exposure is presented in the financial statements, whereas the weighted value is taken as the value of the exposure after applying credit risk mitigation and the exemptions pursuant to Article 400 of the CRR.

The report 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 €937,095 thousand and exposures to Cassa Compensazione e Garanzia of €238,738 thousand, with the remainder attributable to exposures to financial counterparties.

	31/12/2017	31/12/2016
Amount - Book value	1,270,853	2,101,341
Amount - Weighted value	95,020	150,925
Number	4	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 S.r.l. - RMBS - 2012;
- ✓ Civitas Spv S.r.l. - SME - 2012;
- ✓ Civitas Spv S.r.l. - RMBS - 2017;

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 – 2012, since the other transactions, Civitas SPV S.r.l. – SME – 2012 and Civitas Spv Srl – RMBS – 2017 are of the originate-to-retain variety, in which the originator subscribes for all of the liabilities issued by the vehicle at the moment of issuance.

In 2017 the Bank completed the securitisation operation Civitas SPV S.r.l. – RMBS – 2017 through the sale of performing residential mortgage loans, resulting in subscription for the partly-paid securities issued by the special-purpose 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 31/12/2017	122 mln
Residual values of loans and receivables as at 31/12/2017	381 mln
Rating of senior securities	AA Standard&poor's - A2 Moody's

Objectives, strategies and processes: The main objective pursued through the three 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 operations is retained by the Bank. Consequently, internal risk measurement and control systems are applied in an entirely uniform manner to both securitised and non-securitised assets.

QUANTITATIVE DISCLOSURES

On 12 July 2017 the contractual documentation was signed for the restructuring of new securitisation Civitas SPV S.r.l. – RMBS – 2017. The operation has a partly paid structure in which additional tranches of loans may be sold during a "ramp-up" period of three years from issuance, up to a maximum of €600 million. During the issuance phase, the operation thus entailed:

- ✓ the transfer without recourse of an initial portfolio of performing residential mortgage loans with a face value of €253 million;
- ✓ the issuance of securities with a nominal value of €600 million, divided into senior (€456 million), mezzanine (€51 million) and junior notes (€93 million).

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 – 2012 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	380,982	-	-	241,492	-	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 ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES (OTHER THAN SECURITISATION VEHICLES)

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

E. TRANSFERS

A. Financial assets sold but not fully derecognised

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

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	31/12/17	31/12/16
A. Cash asseets	-	-	-	-	-	-	218,755	-	-	-	-	-	-	-	-	-	-	-	599,737	1,099,620
1. Debt securities	-	-	-	-	-	-	218,755	-	-	-	-	-	-	-	-	-	-	-	218,755	664,421
2. Equities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCIS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	380,982	-	-	380,982	435,199
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31/12/2017	-	-	-	-	-	-	**218,755**	-	-	-	-	-	-	-	-	**380,982**	-	-	**599,737**	**X**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,457	-	-	13,457	X
Total 31/12/2016	-	-	-	-	-	-	**664,421**	-	-	-	-	-	-	-	-	**435,199**	-	-	**X**	**1,099,620**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	X	12,718

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	-	-	219,296	-	-	120,564	339,860
a) for assets recognised in full	-	-	219,296	-	-	120,564	339,860
b) for assets recognised in part	-	-	-	-	-	-	-
2. Due to banks	-	-	-	-	-	-	-
a) for assets recognised in full	-	-	-	-	-	-	-
b) for assets recognised in part	-	-	-	-	-	-	-
TOTAL AT 31/12/2017	-	-	**219,296**	-	-	**120,564**	**339,860**
TOTAL AT 31/12/2016	**2,060**	-	**664,760**	-	**309,137**	-	**975,957**

E.3 – Sales with liabilities subject to recovery solely for the assets sold: fair value

Type / Portfolio	Financial assets held for trading		Financial assets measured at fair value		Financial assets available for sale		Financial assets held to maturity		Due froma banks (fair value)		Loan to customers (fair value)		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	2017	2016
A. Cash assets	-	-	-	-	-	-	-	-	-	-	**443,410**	-	**443,410**	-
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Equities	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCI	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	443,410	-	443,410	-
B. Derivatives	-	-	X	X	X	X	X	X	X	X	X	X	-	-
Total assets	-	-	-	-	-	-	-	-	-	-	443,410	-	443,410	-
C. Associated liabilities	-	-	-	-	-	-	-	-	-	-	124,311	-	X	X
1. Due to customers	-	-	-	-	-	-	-	-	-	-	124,311	-	X	X
2. Due to banks	-	-	-	-	-	-	-	-	-	-	-	-	X	X
Total liabilities	-	-	-	-	-	-	-	-	-	-	124,311	-	-	-
Net value 2017	-	-	-	-	-	-	-	-	-	-	**319,099**	-	**443,410**	X
Net value 2016	-	-	-	-	-	-	-	-	-	-	-	-	X	-

A = financial assets sold but fully recognised (carrying amounts). B = financial assets sold but partly recognised (carrying amounts).

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 credit rating of the Italian Republic and, to a minimal extent, those of major Italian banks.

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	8	5	0	4,053	77	-
1.1 Debt securities	-	45	8	5	0	4,053	77	-
- with early redemption option	-	44	8	4	0	1,496	4	-
- other	-	1	-	1	-	2,558	73	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Derivatives	-	36,674	17,470	13,552	94,662	49,720	5,674	-
3.1 With underlying security	-	20	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	20	-	-	-	-	-	-
+ long positions	-	10	-	-	-	-	-	-
+ short positions	-	10	-	-	-	-	-	-
3.2 Without underlying security	-	36,655	17,470	13,552	94,662	49,720	5,674	-
- Options	-	-	6,631	13,043	89,698	46,494	4,523	-
+ long positions	-	-	3,316	6,522	44,849	23,247	2,262	-
+ short positions	-	-	3,316	6,522	44,849	23,247	2,262	-
- Other derivatives	-	36,655	10,839	509	4,963	3,225	1,151	-
+ long positions	-	4,154	5,419	254	2,482	1,613	576	-
+ short positions	-	32,500	5,419	254	2,482	1,613	576	-

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	-	36,655	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	36,655	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	36,655	-	-	-	-	-	-
+ long positions	-	32,500	-	-	-	-	-	-
+ short positions	-	4,154	-	-	-	-	-	-

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

	Listed			Unlisted
	Italy	USA	Other	
A. Equity instruments				
+ long positions	52		0	
+ short positions				
B. Forward value equity trades				
+ long positions				
+ short positions				
C. Other derivatives on equity				
+ long positions				
+ short positions				
D. Derivatives on equity indexes				
+ long positions				
+ short positions				

2.2 INTEREST-RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

The banking book consists entirely of financial assets and liabilities not included in the trading book. The largest item consists of loans to and amounts due to banks and customers.

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.

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 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 conducts quarterly monitoring of the Bank's exposure to interest rate 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 internal limits.

B. Fair-value hedging
As at 31 December 2017 the Bank had not entered into any derivative contracts for hedging purposes.

B. Fair-value hedging
As at 31 December 2017 the Bank had not entered into any derivative contracts for hedging purposes.

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	522,242	1,614,896	231,887	131,218	857,044	86,907	147,149	-
1.1 Debt securities	-	42,992	183,438	36,389	682,124	-	-	-
- with early redemption option	-	9,136	-	14,518	5,022	-	-	-
- other	-	33,856	183,438	21,871	677,101	-	-	-
1.2 Loans to banks	6,996	19,265	-	-	-	-	-	-
1.3 Loans to customers	515,246	1,552,639	48,449	94,830	174,920	86,907	147,149	-
- current acct.	317,647	3,626	5,441	13,141	12,328	1	-	-
- other loans	197,600	1,549,012	43,008	81,688	162,593	86,906	147,149	-
- with early repayment option	18,970	1,247,765	24,242	23,420	80,712	74,320	138,560	-
- other	178,629	301,247	18,766	58,269	81,881	12,586	8,588	-
2. Liabilities	2,064,935	418,446	79,778	79,436	800,505	36,886	6,269	-
2.1 Due to customers	2,017,949	350,134	48,989	73,888	160,183	9,736	6,269	-
- current acct.	1,737,729	43,881	44,559	69,730	142,538	-	-	-
- other payables	280,220	306,253	4,429	4,158	17,645	9,736	6,269	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	280,220	306,253	4,429	4,158	17,645	9,736	6,269	-
2.2 Due to banks	46,630	7,234	1,001	3,264	588,833	27,149	-	-
- current acct.	11,113	-	-	-	-	-	-	-
- other payables	35,517	7,234	1,001	3,264	588,833	27,149	-	-
2.3 Debt securities	356	61,078	29,788	2,284	51,489	-	-	-
- with early redemption option	-	2,999	35	-	-	-	-	-
- other	356	58,079	29,753	2,284	51,489	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	40,788	13,418	1,511	10,025	10,229	32,194	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	40,788	13,418	1,511	10,025	10,229	32,194	-
- Options	-	40,788	13,418	1,511	10,025	10,229	32,194	-
+ long positions	-	210	290	1,511	10,025	10,229	31,818	-
+ short positions	-	40,578	13,128	-	-	-	377	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other operations	-	199	-	-	-	-	-	-
+ long positions	-	99	-	-	-	-	-	-
+ short positions	-	99	-	-	-	-	-	-

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	-	42,992	183,438	36,389	682,124	-	-	-
1.1 Debt securities	-	1,385	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	1,385	-	-	-	-	-	-
1.2 Loans to banks	7,066	-	-	-	-	-	-	-
1.3 Loans to customers	32	4,004	-	-	-	-	-	-
- current acct.	0	-	-	-	-	-	-	-
- other loans	31	4,004	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	31	4,004	-	-	-	-	-	-
2. Liabilities	41,862	-	-	-	-	-	-	-
2.1 Due to customers	41,855	-	-	-	-	-	-	-
- current acct.	41,855	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	7	-	-	-	-	-	-	-
- current acct.	7	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
4. Other operations	-	-	-	-	-	-	-	-
+ 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, and the subsequent changes introduced by the 20th update to the above Circular, issued by the Bank of Italy on 21 November 2017.
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).
Under the Bank of Italy regulatory model, as at 31 December 2017 the application of specific shifts to each node of the interest rates structure based on the largest upward and downward swings actually recorded during a six-year observation period (considering the first and 99th percentile of the distribution, respectively) results, respectively, in an increase in economic capital of €19 million (1st percentile) and a decrease in economic capital of €3.5 million (99th percentile positive shock). In parallel shock conditions (+/- 200 bps, without assuming negative nominal rates), the change in economic capital amounts to positive values in both cases.
The Bank's exposure remains below the limits set by internal rules and supervisory regulations.

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 2017 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	**5,761**	**2,605**	**38**	**866**	**2,711**	**685**
A.1 Debt securities	-	1,385	-	-	-	-
A.2 Equity securities	179	-	-	-	-	-
A.3 Loans to banks	4,102	1,219	38	866	156	685
A.4 Loans to customers	1,480	0	-	-	2,555	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**238**	**287**	**22**	**38**	**194**	**102**
C. Financial liabilities	**38,140**	**2,854**	**6**	**532**	**272**	**58**
C.1 Due to banks	1	-	6	-	-	-
C.2 Due to customers	38,139	2,854	0	532	272	58
C.3 Due to customers	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**8**	-	-	-	-	-
E. Financial derivatives	**32,895**	**25**	**37**	**343**	**2,650**	**704**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other	32,895	25	37	343	2,650	704
+ Long positions	32,401	-	-	-	-	99
+ Short positions	3,550	-	-	-	-	605
Total assets	**38,401**	**2,892**	**60**	**904**	**2,905**	**886**
Total liabilities	**41,699**	**2,854**	**6**	**532**	**272**	**663**
Difference (+/–)	**(3,298)**	**38**	**54**	**372**	**2,634**	**223**

2.4 DERIVATIVES

A. FINANCIAL DERIVATIVES

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

	31/12/2017		31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	26,045	-	-	-
a) Options	15,701	-	16,678	-
b) Swaps	10,344	-	11,295	-
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	35,502	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	35,502	-	21,569	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
TOTAL	**61,546**	-	**49,542**	-

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			
	31/12/2017		31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	451	-	-	-
a) Options	29	-	18	-
b) Interest rate swaps	419	-	632	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	2	-	173	-
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	**451**	-	**823**	-

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

	Negative Fair value			
	31/12/2017		31/12/2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	765	-	-	-
a) Options	29	-	18	-
b) Interest rate swaps	419	-	647	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	317	-	242	-
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	**765**	-	**908**	-

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	-	**7,053**	**13,471**	-	-	**6,418**	-
- notional amount	-	6,836	13,022	-	-	6,187	-
- positive fair value	-	210	29	-	-	210	-
- negative fair value	-	8	419	-	-	22	-
- future exposure	-	38	128	-	-	7	-
2. Equities and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	-	-	**35,556**	-	-	**265**	-
- notional amount	-	-	35,239	-	-	263	-
- positive fair value	-	-	0	-	-	2	-
- negative fair value	-	-	317	-	-	-	-
- future exposure	-	-	352	-	-	3	-
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	-	-	9,585	-	-	-	-
- positive fair value	-	-	22	-	-	-	-
- negative fair value	-	-	(411)	-	-	-	-
2. Equities and stock indices							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Foreign exchange rates and gold							
- notional amount	-	-	34,451	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	(387)	-	-	-	-
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	**37,523**	**10,489**	**13,534**	**61,546**
A.1 Financial derivatives on debt securities and interest ra	2,021	10,489	13,534	26,045
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign exchange rates and g	35,502	-	-	35,502
A.4 Financial derivatives - other	-	-	-	-
B. Banking book	-	-	-	-
B.1 Financial derivatives on debt securities and interest ra	-	-	-	-
B.2 Financial derivatives on equities and stock indices	-	-	-	-
B.3 Financial derivatives on foreign exchange rates and g	-	-	-	-
B.4 Financial derivatives - other	-	-	-	-
Total 31/12/2017	**37,523**	**10,489**	**13,534**	**61,546**
Total 31/12/2016	**23,497**	**10,484**	**15,560**	**49,542**

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 at the level of types, counterparties, markets and sources of funding; the Bank intends to maintain a high level of retail funding by pursuing the strategic objective of reducing dependency on market funds (interbank funding and issuance intended for institutional investors), while reinforcing stable, structural forms;
- ✓ 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;
- ✓ the preparation of an annual ILAAP (internal liquidity adequacy assessment process) report.

Operational management of liquidity risk is the responsibility of the Finance Department, through the Treasury and Funding Function, 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.

The Risk Management Function 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 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, along with the Recovery Plan on liquidity risk, define and formally establish the organisational escalation procedure, goals and management mechanisms required to protect the company's assets in situations of extreme, unforeseen, extreme outflows 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	**435,855**	**3,058**	**6,216**	**34,079**	**77,326**	**105,803**	**393,563**	**1,487,953**	**1,081,247**	**19,265**
A.1 Government securities	-	-	32	-	4,034	1,179	5,245	754,006	67,500	-
A.2 Other debt securities	1,500	-	88	3,044	5,385	8,130	37,665	41,354	2,809	-
A.3 Units in collective investment undertakings	12,016	-	-	-	-	-	-	-	-	-
A.4 Loans	422,339	3,058	6,096	31,035	67,906	96,494	350,653	692,593	1,010,938	19,265
- banks	2,879	-	-	-	-	-	-	4,000	-	19,265
- customers	419,459	3,058	6,096	31,035	67,906	96,494	350,653	688,593	1,010,938	-
On-balance-sheet liabilities	**1,778,723**	**298,490**	**3,670**	**31,258**	**42,114**	**69,742**	**144,635**	**1,010,095**	**110,453**	-
B.1 Deposits	1,771,892	6,491	3,408	6,815	32,220	44,756	70,618	142,538	-	-
- banks	11,180	-	-	-	5,000	-	-	-	-	-
- customers	1,760,712	6,491	3,408	6,815	27,220	44,756	70,618	142,538	-	-
B.2 Debt securities	356	708	262	11,841	6,688	5,968	39,729	77,994	2,697	-
B.3 Other liabilities	6,475	291,290	-	12,602	3,206	19,018	34,288	789,563	107,756	-
Off-balance-sheet transactions	**6,268**	**11,025**	**9,720**	**16,136**	**316**	**230**	**1,443**	**2,447**	**5,194**	-
C.1 Financial derivatives with exchange of capital	-	10,772	9,720	16,136	37	-	-	10	-	-
- long positions	-	753	552	2,813	37	-	-	10	-	-
- short positions	-	10,019	9,168	13,323	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	897	-	-	-	-	-	-	-	-	-
- long positions	449	-	-	-	-	-	-	-	-	-
- short positions	449	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	-	199	-	-	-	-	-	-	-	-
- long positions	-	99	-	-	-	-	-	-	-	-
- short positions	-	99	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	5,371	54	-	-	279	230	1,443	2,437	5,194	-
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	**7,277**	-	-	**13**	**5,416**	-	-	-	-	-
A.1 Government securities	-	-	-	-	1,387	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Units in collective investment undertakings	179	-	-	-	-	-	-	-	-	-
A.4 Loans	7,098	-	-	13	4,030	-	-	-	-	-
- banks	7,066	-	-	-	-	-	-	-	-	-
- customers	32	-	-	13	4,030	-	-	-	-	-
On-balance-sheet liabilities	**41,862**	-	-	-	-	-	-	-	-	-
B.1 Deposits	41,862	-	-	-	-	-	-	-	-	-
- banks	7	-	-	-	-	-	-	-	-	-
- customers	41,855	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	**10,762**	**9,720**	**16,136**	**37**	-	-	-	-	-
C.1 Financial derivatives with exchange of capital	-	10,762	9,720	16,136	37	-	-	-	-	-
- long positions	-	10,009	9,168	13,323	-	-	-	-	-	-
- short positions	-	753	552	2,813	37	-	-	-	-	-
C.2 Financial derivatives without exchange of	-	-	-	-	-	-	-	-	-	-
- 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, all asset-backed securities issued by the special-purpose vehicle formed pursuant to Law No. 130/99 have been fully subscribed by the Bank, in the case of the securitisation operations Civitas SPV S.r.l. – SME – 2012 and Civitas SPV S.r.l. – RMBS – 2017, whereas in the case of the operation Civitas SPV S.r.l. – RMBS – 2012 the Bank only holds junior securities (thus retaining, for all three of the transactions cited, the credit risk associated with the underlying loans disbursed). Accordingly, since essentially all of the risks and rewards associated with the transferred portfolio have been retained, the loans concerned have not been derecognised. The 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 31/12/2017	122 mln
Residual values of loans and receivables as at 31/12/2017	381 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	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	175 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 31/12/2017	320 mln
Residual values of loans and receivables as at 31/12/2017	273 mln
Rating of senior securities	A+ Standard&poor's - AA DBRS
Main information	
Date of transaction	July 2017
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	253 mln
RMBS Restructuring	0 mln
Original aggregate amount of transferred loans and receivables	253 mln
Securities issued and subscribed by Banca Popolare di Cividale	600 mln
of which senior securities a	95 mln
of which junior securities b	95 mln
of which mezzanine securities	22 mln
of which junior securities	40 mln
Rating of senior securities	A+ Standard&poor's - AA DBRS
Overall residual notional amount of the securities as at 31/12/20	253 mln
Residual values of loans and receivables as at 31/12/2017	236 mln
Rating of senior securities	A+ Standard&poor's - AA DBRS

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.
Measurement/assessment of operating risks is the responsibility of the Risk Management Function, which performs this activity at a central level. 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 2017 the Bank was a defendant in 21 law suits in which total damages of €3,340 thousand are sought, for which a total loss of €1,999 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 disuptes	Petitum	Provision
Investment services	4	26	191
Disputes concerning interest in excess of the legal limit	6	1,039	186
Revocatory disputes	3	887	43
Other	8	1,389	1,580
Total	**21**	**3,340**	**1,999**

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 2017 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 committal of Banca Popolare di Cividale to trial, witnesses are still being heard in the trial proceedings that began in 2017 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 2017.

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 Operations Department. With effect from 9 October 2017, the Bank decided to outsource the management of the new IT system to a new supplier, Consorzio CSE, while continuing to adopt a full-outsourcing model. Accordingly, as a first priority, the risk analysis is conducted annually by the supplier on the basis of its own internal 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 2017 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 Board of Directors as part of the activities aimed at achieving compliance with the new supervisory provisions.

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

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

	31/12/2017	31/12/2016	%
Share capital	50,913	50,913	0.00%
Share premium reserve	167,022	167,022	0.00%
Reserves	68,219	66,986	1.84%
- Retained earnings:	68,219	66,986	1.84%
a) legal reserve	22,317	22,193	0.56%
b) statutory reserve	40,402	39,293	2.82%
c) treasury shares	-	-	-
d) other	5,500	5,500	0.00%
- other	-	-	-
4. Equity instruments	-	-	-
5. (Treasury shares)	(792)	-	-
6. Valuation reserves:	15,438	17,347	-11.00%
- Financial assets available for sale	16,030	17,930	-10.60%
- 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	(592)	(584)	-1.48%
- Share of valuation reserves connected with investments carried at equity	-	-	-
- Legally-required revaluations	-	-	-
7. Net income (loss)	753	1,233	-38.93%
Total	**301,553**	**303,500**	**-0.64%**

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

	31/12/2017		31/12/2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	5,411	(207)	7,894	-
2. Equities	10,079	0	10,079	-
3. Quotas of UCI	748	-	-	(43)
4. Loans	-	-	-	-
Total	**16,237**	**(207)**	**17,973**	**(43)**

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

	Debts securities	Equities	Quotas of UCI	Loans
1. Opening balance	**7,895**	**10,078**	**(43)**	-
2. Positive fair value differences	**2,356**	**1**	**793**	-
2.1. Fair value increases	1,211	1	793	-
2.2 Reversal to the income statement of negative reserves	-	-	-	-
- impairment	-	-	-	-
- disposal	-	-	-	-
2.3 Other changes	1,145	-	-	-
3. Negative fair value differences	**5,047**	-	**2**	-
3.1 Fair value decreases	2,347	-	2	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to the income statement of positive reserves: disposal	-	-	-	-
3.4 Other changes	2,700	-	-	-
4. Closing balance	**5,204**	**10,079**	**748**	-

B.4 Valuation reserves related to defined-benefit plans: annual changes
Valuation reserves related to actuarial gains (losses) on defined-benefit plans amounted to -€592 thousand, a decrease of €8.6 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 December 2015 of 0.9% in respect of the report relating to the 2017 financial statements, raising the minimum requirements:

- ✓ a CET1 ratio of 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 2017, a capital conservation buffer of 1.25%;
- ✓ 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 6.65%;
- ✓ Tier 1 ratio of 8.15 %;
- ✓ a Total Capital Ratio of 10.15%.

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 2017, own funds have been calculated by applying the new regulations mentioned above. However, those regulations provided for transitional arrangements until the end of 2017, under which the new regulatory framework was 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. These transitional arrangements also apply to certain subordinated instruments that do not meet 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. The neutralisation option was thus adopted in accordance with previous reports and on a prudential basis for 2017 as well;
- ✓ as at 31 December 2017 the fully neutralised AFS reserve relating to securities issued by the central governments of European Union Member States amounted to a positive €4.8 million (compared to €7.9 million at 31 December 2016).
- ✓ 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 2017, amounted to €286,793 thousand. The changes in tier 1 capital compared to 31/12/2016 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) and the progressive inclusion of reserves for AFS securities in accordance with the aforementioned transitional arrangements.

The main CET1 instruments include:

- ✓ capital instruments of €50,913 thousand;
- ✓ share premium reserves of €167,022 thousand;
- ✓ other reserves of €68,219 thousand;
- ✓ other comprehensive income attributable to reserves on securities available for sale of €16,030 thousand.

Among deductions, the following should be noted:

- ✓ own common equity capital instruments, or common equity instruments for which the Bank has a real purchase obligation, of €2,500 thousand;
- ✓ supervisory adjustments of €58 thousand;
- ✓ goodwill, net of the associated tax liabilities, of €55 thousand;
- ✓ other intangible assets of €124 thousand;
- ✓ deferred tax assets that are based on future profitability and not on temporary differences of €4,350 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 €2,247 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 €4,795 thousand;
- ✓ the positive filter relating to deferred tax assets that are based on future profitability and not on temporary differences of €870 thousand.

2. Additional tier 1 (AT1) capital

At 31 December 2017, 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 rules, tier 2 capital amounted to €9,917 thousand.

The main T2 instruments include:

- ✓ eligible subordinated liabilities of €9,187 thousand;
- ✓ the positive filter relating to unrealised gains on available-for-sale securities other than government bonds of €1,124 thousand;

Among deductions, the following should be noted:

- ✓ own tier 2 capital instruments held, or instruments for which the Bank has a real purchase obligation, of €393 thousand.

In particular, it should be remarked that:

- ✓ the notional amortisation of the loans was calculated daily, in accordance with the provisions of Regulation EU No 575/2013;
- ✓ the subordinated instruments with amortisation clauses eligible for inclusion in accordance with the transitional rules issued by Banca Popolare di Cividale S.c.p.A. are subject to the grandfathering

clause for capital instruments that do not constitute state aid, according to which such instruments are 50% eligible for inclusion in own funds in 2017, resulting in the amount of €398 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:

Emittente	Codice Identificativo	Tasso della cedola	Tasso cedola ed eventuale indice correlato	Data di emissione	Data di scadenza	Rimborso anticipato a partire dal	Valuta	Oggetto di grandfathering	Importo originario in unità di valuta	Apporto al patrimonio di vigilanza
Banca Popolare di Cividale Scpa	IT0004352917	Tasso variabil	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	Tasso fisso	2,75%	19/12/2014	19/12/2019		Euro	n	22.350.000	13.255.778
Totale									**37.350.000**	**15.532.886**

B. Quantitative disclosures

	31/12/2017	31/12/2016	%
A. Capitale primario di classe 1 (Common Equity Tier 1 - CET1) prima dell'applicazione dei filtri prudenziali	299.629	301.852	-0,7%
di cui strumenti di CET1 oggetto di disposizioni transitorie	-	-	-
B. Filtri prudenziali del CET1 (+/-)	-	-	-
C. CET1 al lordo degli elementi da dedurre e degli effetti del regime transitorio (A+/-B)	299.629	301.852	-0,7%
D. Elementi da dedurre dal CET1	(6.664)	(5.659)	17,8%
E. Regime transitorio - Impatto su CET1 (+/-)	(6.172)	(11.905)	-48,2%
F. Totale Capitale primario di classe 1 (Common Equity Tier 1 - CET1) (C-D+/-E)	286.793	284.288	0,9%
G. Capitale aggiuntivo di classe 1 (Additional Tier 1 - AT1) al lordo degli elementi da dedurre e degli effetti del regime transitorio	-	-	-
di cui strumenti di AT1 oggetto di disposizioni transitorie	-	-	-
H. Elementi da dedurre dall' AT1	-	-	-
I. Regime transitorio - Impatto su AT1 (+/-)	-	-	-
L. Totale Capitale aggiuntivo di classe 1 (Additional Tier 1 - AT1) (G-H+/-I)	-	-	-
M. Capitale di classe 2 (Tier 2 _ T2) al lordo degli elementi da dedurre e degli effetti del regime transitorio	9.186	18.490	-50,3%
di cui strumenti di T2 oggetto di disposizioni transitorie	398	5.234	-92,4%
N. Elementi da dedurre dal T2	**(393)**	**(19)**	**1968,4%**
O. Regime transitorio - Impatto su T2 (+/-)	**1.124**	**2.023**	**-44,4%**
P. Totale Capitale di classe 2 (tier 2 - T2) (M-N+/-O)	**9.917**	**20.494**	**-51,6%**
Q. Totale fondi propri (F+L+P)	**296.710**	**304.782**	**-2,6%**

2.2 Capital adequacy

A. Qualitative disclosures

As at 31/12/2017, the ratio of common equity tier 1 capital to risk-weighted assets stood at 13.10%, whereas the ratio of own funds to risk-weighted assets came to 13.55%. 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. With effect from April 2013, the Bank has availed itself of the agency DBRS in respect of the following portfolios:

- ✓ 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	
	31/12/17	31/12/16	31/12/17	31/12/16
A. RISK ASSETS				
A.1 CREDIT AND COUNTERPARTY RISK	**4,731,601**	**5,647,114**	**2,012,651**	**1,948,588**
1. Standard methodology	**4,731,601**	**5,647,114**	**2,012,651**	**1,948,588**
2. Methodology based on internal ratings				
2.1 Base				
2.2 Advanced				
3. Securitisations				
B. CAPITAL REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			161,047	155,887
B.2 CREDIT VALUATION ADJUSTMENT RISK			-	72
B.3 SETTLEMENT RISK			-	-
B.4 MARKET RISK			462	193
1. Standard methodology			462	193
2. Internal models			-	-
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			13,624	13,513
1. Base methodology			13,624	13,513
2. Standard methodology			-	-
3. Advanced methodology			-	-
B.6 Other calculation elements			-	-
B.7 Total capital requirements			175,133	169,665
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,189,164	2,120,818
C.2 Common Equity Tier 1 / Risk-weighted assets (CET 1 capital ratio)			13.10%	13.41%
C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			13.10%	13.41%
C.4 Total own funds / Risk weighted assets (Total capital ratio)			13.55%	14.38%

Risk weighted assets amounted to €2,189,164 thousand at 31 December 2017, compared with €2,120,818 thousand at 31 December 2016.

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 *	2,674
b) Post-employement benefits	107
c) Other	-
Total	**2,781**

** The amount indicated includes the remuneration paid to directors of €466 thousand, to the Board of Statutory Auditors of €101 thousand and to the Supervisory Body of €26 thousand (including VAT and contributions).*

2. Information on transactions with related parties

In accordance with IAS 24, as applied to the organisational and governance structures of Banca Popolare di Cividale S.c.p.A., 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.

	COMPANIES UNDER EXCLUSIVE CONTROL	ASSOCIATED COMPANIES	EXECUTIVES AND CONTROL BODIES	OTHER RELATED PARTIES	% incidence
Assets					
Loans to customers	***-***	***324***	***274***	***903***	***0.06%***
Board of Directors			27	431	0.02%
Board of Statutory Auditors			90	274	0.01%
Managers with strategic responsibilities			157	198	0.01%
Liabilities					
Due to customers	***52***	***1,551***	***1,013***	***2,027***	***0.19%***
Board of Directors			461	1,326	0.07%
Board of Statutory Auditors			57	235	0.01%
Managers with strategic responsibilities			495	466	0.04%
Income statement					
Net interest income	***-***	***10***	***(3)***	***9***	***0.03%***
Board of Directors			(1)	1	*0.00%*
Board of Statutory Auditors			1	7	*0.01%*
Managers with strategic responsibilities			(3)	1	***0.00%***
Net commission income	***-***	***6***	***16***	***19***	***0.14%***
Board of Directors			12	9	*0.07%*
Board of Statutory Auditors			1	5	*0.02%*
Managers with strategic responsibilities			3	5	*0.03%*
Administrative expenses	***-***	***-***	***(1,474)***	***-***	***2.08%***
Board of Directors (*)			(466)	-	0.66%
Board of Statutory Auditors			(127)	-	0.18%
Managers with strategic responsibilities			(881)	-	1.24%
Guarantees and commitments	**-**	**-**	**-**	**-**	***0.00%***
Board of Directors			-	-	*0.00%*
Board of Statutory Auditors			-	-	*0.00%*
Managers with strategic responsibilities			-	-	*0.00%*
Indirect funding	**-**	**-**	***1,833***	***1,517***	***0.33%***
Board of Directors			1,322	541	*0.18%*
Board of Statutory Auditors			33	60	*0.01%*
Managers with strategic responsibilities			478	916	*0.14%*

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	31/12/2017			31/12/2016		
	LEASING	BANK	TOTAL	LEASING	BANK	TOTAL
Net interest income	5,551	54,407	59,958	6,200	54,779	60,979
Net commissions	(85)	29,101	29,016	(83)	24,001	23,918
Dividends and net income (loss) of equity investments accounted for using equity method (1)	-	733	733	-	1,413	1,413
Net trading income	-	11,511	11,511	-	15,058	15,058
Other operating income (expenses) (4)	297	745	1,043	-	(272)	(272)
Operating income	**5,763**	**96,498**	**102,262**	**6,117**	**94,979**	**101,096**
Personnel expenses	(631)	(40,563)	(41,194)	(611)	(39,558)	(40,169)
Other administrative expenses (2)	(1,721)	(28,065)	(29,786)	(1,553)	(26,929)	(28,482)
Net impairment/write backs on property, plant and equipment and intangible assets (3)	(296)	(2,074)	(2,370)	(319)	(2,183)	(2,502)
Operating cost	**(2,648)**	**(70,702)**	**(73,350)**	**(2,484)**	**(68,670)**	**(71,153)**
Income (loss) from operating	**3,116**	**25,796**	**28,912**	**3,633**	**26,310**	**29,943**
Charges/write-backs on impairment of loans and financial assets	(2,290)	(21,388)	(23,678)	(4,892)	(19,519)	(24,411)
Charges/write-backs on impairment of goodwill and equity investments	-	(1,606)	(1,606)	-	(5,858)	(5,858)
Net provisions for risks and charges	98	(740)	(642)	-	858	858
Profit (loss) on equity investments	-	-	-	-	-	-
Income (loss) before tax from continuing operations	**923**	**2,062**	**2,985**	**(1,259)**	**1,791**	**532**
Tax on income from continuing operations	(297)	(1,935)	(2,232)	333	367	701
Net income for the period	**626**	**127**	**753**	**(925)**	**2,158**	**1,233**

Segment results – Balance-sheet data

ASSETS	31/12/2017			31/12/2016		
	LEASING	BANK	TOTAL	LEASING	BANK	TOTAL
Financial assets held for trading	-	4,980	4,980	-	3,192	3,192
Financial assets available for sale	-	996,594	996,594	-	1,335,563	1,335,563
Financial assets held to maturity	-	-	-	-	32,529	32,529
Due from banks	-	33,327	33,327	-	52,226	52,226
Loans to customers	245,203	2,378,973	2,624,176	258,187	2,363,989	2,622,176

LIABILITIES	31/12/2017			31/12/2016		
	LEASING	BANK	TOTAL	LEASING	BANK	TOTAL
Due to banks	-	965,700	965,700	-	1,328,119	1,328,119
Due to customers	1,812	2,415,610	2,417,422	1,172	2,229,462	2,230,634
Debt securities issued	-	144,996	144,996	-	324,206	324,206

Cividale del Friuli, 20 March 2018
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						INCOME ALLOCATED TO THE SHAREHOLDERS	SHARES		
		SHAREHOLDERS	SHARES	SHARE CAPITAL AND RESERVES			NET INCOME		DIVIDENDS	NOMINAL VALUE	PRICE
				SHARE CAPITAL	RESERVES	TOTAL					
1	1887	216	1,357	33,925	110	34,035	1,276	-	-	25	-
5	1891	468	1,607	40,175	2,451	42,626	4,734	2,410	1.50	25	-
10	1896	798	1,936	48,400	19,456	67,856	6,131	2,904	1.50	25	-
15	1901	767	1,995	49,875	36,631	86,506	11,717	3,990	2.00	25	-
20	1906	649	5,347	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	-
55	1941	985	6,755	337,750	1,332,931	1,670,681	75,230	35,463	5.25	50	-
60	1946	1,008	6,755	337,750	1,711,204	2,048,954	76,164	40,530	6.00	50	-
65	1951	564	4,084	2,042,000	5,564,395	7,606,395	562,026	408,400	100.00	500	1,500
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
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
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
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
131	2017	14,916	16,971,085	50,913	249,886	300,799	753	-	-	3.00	15.00

Statement of property, plant and equipment subject to monetary revaluation

Site	Historical cost	Currency revaluations	Impairments	Carrying amount
ATTIMIS - Via Cividale	245	305	344	206
BUTTRIO - Via Div. Julia	247	871	558	560
CERVIGNANO - Via XX Settembre	350	-	24	326
CIVIDALE - Corso Mazzini	846	72	368	550
CIVIDALE - Piazza Duomo	2161	10,233	5,501	6,892
CIVIDALE - Via Carlo Alberto	634	-	168	466
CIVIDALE - Via Cavour	87	756	312	531
GORIZIA - Corso verdi	913	133	368	678
GRADO - Via Marina	399	89	196	292
MANZANO - Via della Stazione	929	53	334	648
PALMANOVA - Piazza Grande	546	73	244	375
PAVIA DI UDINE - Via Persereano	264	203	191	276
PORDENONE - Corso Garibaldi	717	92	303	506
POVOLETTO - Piazza Libertà	353	623	540	436
PRATA DI PORDENONE - Fraz. Puja - Via Dante	207	10	74	143
REMANZACCO - Piazza P. Diacono	402	1,199	711	890
S. GIOVANNI AL NATISONE - Via L. Da Vinci	486	1,872	1,136	1,222
S. LEONARDO - Via Scrutto	181	218	250	149
S. VITO AL TAGLIAMENTO - Viale del Mattino	635	17	190	462
SACILE - Viale Lacchin	497	66	149	414
SAN GIORGIO DI NOGARO - Via Europa Unita	276	21	94	203
SPILIMBERGO - Corso Roma	320	73	158	235
TAVAGNACCO - Via Udine	1406	360	662	1,104
UDINE - Piazzale XXIV Luglio	1279	173	582	870
UDINE - Via Marsala	546	9	232	323

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 2017
Services provided to the Banca Popolare di Cividale Scpa	**197**
Independent auditors: Reconta Ernest & Young	
- Auditing services	194
- Inspection services for the purpose of issuing certification	3
- Other services	-

Reconciliation of the income statement and reclassified income statement

RECLASSIFIED INCOME STATEMENT	Income statement	31/12/2017	31/12/2016
Net interest income (including result of hedging)	30 - Net interest income	59,958	60,979
Total Net interest income (including result of hedging)		**59,958**	**60,979**
Dividends	70 - Dividends and similar income	818	1,413
Total Dividends and net income (loss) of equity investments accounted for using equity method		**818**	**1,413**
Net commissions	**60 - Net commissions**	**29,016**	**23,918**
Other operating income (net of recovered expenses)	190 - Other operating income (expenses)	8,468	6,941
	190 (partial) - Other operating income (expenses) - Recovery of indirect taxes	(7,426)	(7,213)
Total Other operating income (net of recovered expenses)		**1,043**	**(272)**
Net trading income	80 - Net trading income	182	173
	100 - Profit (loss) on disposal or repurchase of:		
	a) loans	(240)	(146)
	b) financial assets available for sale	11,564	15,321
	d) financial liabilities	5	(290)
Total Gains (losses) from purchase/sale of loans and financial assets		**11,511**	**15,058**
OPERATING REVENUES		**102,346**	**101,096**
Personnel expenses	150 a) personnel expenses	(41,194)	(40,169)
Other administrative expenses (net of recovered expenses)	150 b) other administrative expenses	(37,212)	(35,695)
	190 (partial) - Other operating income (expenses) - Recovery of indirect taxes	7,426	7,213
Total Other administrative expenses (net of recovered expenses)		**(29,786)**	**(28,482)**
Net impairment/write backs on property, plant and equipment and intangible assets (excluding ;	170 - Net impairment/write-backs on property, plant and equipment	(2,322)	(2,443)
	180 - Net impairment/write-backs on intangible assets	(48)	(59)
Total Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill)		**(2,370)**	**(2,502)**
OPERATING COST		**(73,350)**	**(71,153)**
INCOME (LOSS) FROM OPERATING		**28,996**	**29,943**
Goodwill impairment	230 - Goodwill impairment	(1,606)	(5,340)
Charges/write-backs on impairment of loans	130 a) loans	(20,640)	(22,052)
Charges/write-backs on impairment of other assets	130 b) financial assets available for sale	(3,821)	(2,528)
	130 d) other financial transactions	783	169
Charges/write-backs on impairment of goodwill and equity investments	210 - Profit (loss) on equity investments	(84)	(518)
Total Charges/write-backs		**(25,369)**	**(30,269)**
Net provisions for risks and charges	160 - Net provisions for risks and charges	(642)	858
Profit (loss) on disposal of investments	240 - Profit (loss) on disposal of investments	-	-
Income (loss) before tax from continuing operations		**2,985**	**532**
Tax on income from continuing operations	260 - Tax on income from continuing operations	(2,232)	701
Income (loss) after tax from continuing operations		**753**	**1,233**
NET INCOME FOR THE PERIOD		**753**	**1,233**

Reconciliation of the balance sheet and reclassified balance sheet

RECLASSIFIED BALANCE SHEET - Assets	Balance sheet - Assets	31/12/2017	31/12/2016
Cash and cash equivalents	10 - Cash and cash equivalents	23,944	15,844
Financial assets held for trading	20 - Financial assets held for trading	4,980	3,192
Financial assets available for sale	40 - Financial assets available for sale	996,594	1,335,563
Financial assets held to maturity	50 - Invetments held to maturity	-	32,529
Due from banks	60 - Due from banks	33,327	52,226
Loans to customers	70 - Loans to customers	2,624,176	2,622,176
Hedging derivatives	80 - Hedging derivatives	-	-
Equity investments	100 - Investments in associates and companies subject to joint	3,780	3,819
Property and equipment and intangible assets	110 - Property and equipment	79,218	81,271
	120 - Intangible assets	2,314	3,968
Other assets	130 - Tax assets	73,564	78,775
	140 - Non-current assets held for sale and discontinued operations	-	-
	150 - Other assets	62,033	42,043
Total assets		**3,903,929**	**4,271,406**

RECLASSIFIED BALANCE SHEET - Liabilities	Balance sheet - Liabilities and shareholders' equity	31/12/2017	31/12/2016
Due to banks	10 - Due to banks	674,119	518,976
Direct funding from customers	20 - Due to customers	2,709,002	3,039,777
	30 - Debt securities issued	144,996	324,206
Financial liabilities held for trading	40 - Financial liabilities held for trading	765	794
Hedging derivatives	60 - Hedging derivatives	-	-
Other liabilities	80 - Tax liabilities	5,148	6,848
	90 - Liabilities associated with discontinued operations	-	-
	100 - Other liabilities	61,582	67,942
Specific provisions	110 - Employee termination benefits	5,073	5,685
	120 - Provisions for risk and charges:	1,690	3,678
Shareholders' equity	130 - Valuation reserves	15,438	17,347
	160 - Reserves	68,219	66,986
	170 - Share premiums	167,022	167,022
	180 - Share capital	50,913	50,913
	190 - Treasury shares (-)	(792)	-
	200 - Net income (loss) for the period (+/-)	753	1,233
Total liabilities		**3,903,929**	**4,271,406**

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 31/12/2017	
b) Sales (1)	101,304
c) Number of full-time equivalents (2)	419
d) Profit or loss before taxes (3)	2,985
e) Income taxes (4)	(2,232)
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;