Banca Popolare di Cividale

*Società Cooperativa per Azioni*

# Interim financial statements
# 30 June 2016

BANCA POPOLARE DI CIVIDALE
A cooperative joint-stock company – founded in 1886
Registered office and headquarters: Via Sen. Guglielmo Pelizzo n. 8/1;
33043 Cividale del Friuli;
Bank of Italy Register No. 5758.8.0; Italian Banking Association Code 05484;
Taxpayer ID, VAT reg. no. and Udine Companies Register no. 00249360306;
Share capital at 30/06/2016: € 50,913,255, fully paid-in
A member of the Interbank Deposit Protection Fund

**Contents**

## Corporate officers and senior management

| | |
|---|---|
| **Board of Directors** | |
| *Chairperson* | Michela Del Piero |
| *Deputy Chairpersons* | Guglielmo Pelizzo<br>Andrea Stedile |
| *Directors* | Massimo Fuccaro<br>Alessia Fugaro<br>Mario Leonardi<br>Renzo Marinig<br>Franco Sala<br>Livio Semolič |
| **Board of Statutory Auditors** | |
| *Chairperson* | Renato Bernardi |
| *Standing Members* | Giovanni Dal Mas<br>Gianluca Pico |
| *Substitute Members* | Pietro Cicuttini<br>Andrea Volpe |
| **Board of Arbitrators** | |
| *Standing Members* | Aldo Del Negro<br>Ugo Gangheri<br>Giampaolo Piccoli<br>Eugenio Scarbolo<br>Mario Cicuttini |
| *Substitute Members* | Alessandro Rizza<br>Giuseppe Bertolo |
| **Senior management** | |
| *General Manager*<br>** in office since 6 July 2016* | Federico Fabbro* |
| *Assistant General Manager* | Gianluca Picotti |
| **Manager responsible for preparing financial reports** | Gabriele Rosin |
| **Independent Auditors** | EY S.p.A. |

# Financial highlights and balance sheet ratios at 30 June 2016

| BALANCE SHEET DATA | 30/06/2016 | 31/12/2015 | Change % |
|---|---|---|---|
| Loans to customers | 2,635,136 | 2,683,711 | -1.8% |
| Financial assets and liabilities | 1,408,717 | 1,197,886 | 17.6% |
| Investments in associates and companies subject to joint | 3,819 | 6,427 | -40.6% |
| Total assets | 4,320,668 | 4,168,018 | 3.7% |
| Direct funding | 2,574,348 | 2,561,759 | 0.5% |
| Indirect funding | 945,512 | 968,534 | -2.4% |
| - of w ich: Assets under management | 720,092 | 720,359 | 0.0% |
| Total funding | 3,519,861 | 3,530,293 | -0.3% |
| Shareholders' equity | 304,352 | 313,570 | -2.9% |

| | | | Changes | |
|---|---|---|---|---|
| **Income statement data (€ thousands)** | **30/06/2016** | **30/06/2015*** | **Amount** | **%** |
| Net interest income | 31,538 | 33,208 | (1,669) | -5.0% |
| Net commissions | 11,581 | 10,719 | 862 | 8.0% |
| Dividends and net income (loss) of equity investments accounted for using equity method | 1,360 | 914 | 446 | 48.8% |
| Net trading income | 5,845 | 9,421 | (3,576) | -38.0% |
| Other operating income (expenses) | (187) | (60) | (127) | -211.3% |
| Operating income | 50,137 | 54,201 | (4,064) | -7.5% |
| Operating cost | (35,296) | (33,116) | (2,180) | -6.6% |
| Income (loss) from operating | 14,841 | 21,085 | (6,244) | -29.6% |
| Charges/w rite-backs on impairment of loans | (12,357) | (17,418) | 5,061 | 29.1% |
| Charges/w rite-backs on impairment of financial assets and equity investments | (1,205) | (3,264) | 2,059 | 63.1% |
| Net provisions for risks and charges | (175) | (236) | 61 | 25.8% |
| Tax on income from continuing operations | (991) | (717) | (274) | -38.2% |
| **Net income for the period** | **113** | **(550)** | **663** | **ns** |

**normalised comparative period*

| OPERATING STRUCTURE | 30/06/2016 | 31/12/2015 |
|---|---|---|
| N° of employees | 588 | 592 |
| Branches | 75 | 75 |

| Profitability ratios | 30/06/2016 | 31/12/2015 |
|---|---|---|
| Net interest income/Operating Income | 62.9% | 38.5% |
| Net commision income/Operating Income | 23.1% | 13.4% |
| Cost/income | 70.4% | 46.9% |
| Net income for the period/Total Assets | 0.0% | 0.6% |
| Net income for the period/RWA | 0.0% | 1.1% |

| Structure ratios | 30/06/2016 | 31/12/2015 |
|---|---|---|
| Loans to customers / Total net assets | 61.5% | 65.0% |
| Direct funding / Total net assets | 60.1% | 62.1% |
| Assets under management / Indirect funding from customers | 76.2% | 74.4% |
| Loans to customers / Direct funding from customers | 102.4% | 104.8% |
| Total assets / Shareholders' equity | 1419.6% | 1329.2% |

| CREDIT RISK INDICATORS | 30/06/2016 | 31/12/2015 |
|---|---|---|
| Bad Loans / Loans to customers | 16,1% | 15,6% |
| Net bad loans / Loans to customers | 7,4% | 7,5% |
| Net charges/w rite-backs on impairment of loans / Loans to customers | 0,5% | 2,1% |
| Cost of risk / Income (loss) from operating | 84,4% | 73,3% |
| Net bad loans / Regulatory capital | 63,5% | 63,8% |
| Bad loans hedging | 15,1% | 14,8% |
| Other impaired loans hedging | 46,2% | 45,3% |
| Cost of credit (*) | 1,12% | 2,06% |

*(*) Calculated as the ratio of net impairment losses on loans to total estimated loans at year-end.*

| SOLVENCY RATIOS | 30/06/2016 | 31/12/2015 |
|---|---|---|
| Common Equity Tier 1 /Risk-weighted assets (CET1 capital ratio) | 13.0% | 13.0% |
| Tier 1 Capital / Risk-weighted assets (Tier1 capital ratio) | 13.0% | 13.0% |
| Total own funds / Risk-weighted assets (Total capital ratio) | 14.2% | 14.6% |

# Interim report on operations

## The first half of 2016

### *Executive summary*[1]

Economic growth continued in advanced countries, including the euro area, where expansion is being driven by domestic demand. GDP growth in the euro area, following an increase of 0.3% in the fourth quarter of 2015, gained speed in the first few months of the year (+0.6% on the previous period).
Consumer inflation is still essentially nil and is expected to remain very modest in the rest of the year. Within this macroeconomic scenario, the ECB's Governing Council adopted a set of measures in support of the recovery: official interest rates were cut and the asset purchasing programme was further expanded with the introduction, starting in June, of four new Targeted Longer-Term Refinancing Operations (TLTRO2) at very advantageous conditions.
The expansionary monetary policy measures were reflected in the performance of loans to families: during the three months to February, loans to businesses in the euro area increased by 2.1% on an annual basis, whereas the growth of loans to families did not exceed 1.3%.

### *The Italian economy*

The economic performance of Italy was similar to that of the rest of the euro area. In the first quarter of the year, GDP is estimated to have increased at a slightly higher rate than in the previous quarter, and leading indicators suggest that moderate growth also continued in the second quarter. Demand continues to be driven by the continuing increase in household spending and more robust investment. Stronger household consumption, driven by the moderate recovery of disposable income and the stabilisation of real-estate prices, is expected to be consolidated in the second quarter. There are also signs of a recovery in industrial production, which increased compared to the beginning of the year, and in services and the construction sector.

### *The regional banking system*

Due in part to the ECB's expansionary policies, credit supply conditions are gradually improving. Already in the previous year, bank loans to customers residing in Friuli Venezia Giulia began to increase once more after approximately three years of decline, due above all to more loans to businesses (up 2.9%), driven by several transactions of significant amounts involving large companies (+4.5%). The increase in loans to consumer households, which was more modest in 2015 (0.7%), seems to have intensified in the first few months of this year (1.1%). This performance may be attributed to the recovery of both loans for home purchases, which account for approximately two-thirds of the total, and consumer loans. Turning to the characteristics of family mortgage loans, the significant decrease in the spread between fixed and variable rate, which fell to 80 basis points, encouraged an increase in fixed-rate loans, which increased from 18.5% to 48.5% of the total.
The increase in loans to businesses (2.4% at the end of March) primarily involved the manufacturing sector (9.1%). The service sector benefited from a lesser increase (1.2%), whereas the decrease in loans to the construction sector continued (-6.1%).

### *Outlook*

The Bank of Italy's projections, prepared at the beginning of June, indicate that growth is to continue (+1.1% in 2016). However, the outcome of the referendum in the United Kingdom, in which votes in favour of the country's departure from the European Union prevailed, resulted in a situation the full repercussions of which are difficult to anticipate. The direct and indirect effects of an economic slowdown in the United Kingdom might not be negligible, but would in any event be limited, translating into a decrease in GDP of a few decimals. However, there has been a significant increase in the risks deriving from an extension of financial and banking tensions or a reduction in confidence, but the effects of these factors on the macroeconomic scenario may be mitigated by the full use of existing monetary policy measures.

## Banca Popolare Di Cividale

### The human resources of Banca Popolare di Cividale

At 30 June 2016 human resources numbered 588, compared to 592 at 31 December 2015.

*1 Source: The Bank of Italy's Bolletino Economico.*

## The branch network of Banca Popolare di Cividale


The Bank's branch network consisted of 75 operational branches at 30 June 2016.
The Bank has a presence in seven provinces in the regions of Friuli Venezia Giulia and Veneto, distributed as follows:
- 41 in the province of Udine;
- 8 in the province of Gorizia;
- 11 in the province of Pordenone;
- 3 in the province of Trieste;
- 6 in the province of Treviso;
- 5 in the province of Venice;
- 1 in the province of Belluno.

**Auditing of the interim financial statements**
The Bank has subjected the interim financial statements to a limited audit by the independent auditors EY S.p.A. The auditing assignment was awarded by the Shareholders' Meeting on 9 May 2010.

**Key operating events in the first half of the year**
*Bonds*
In the first half of 2016, the Bank issued and placed one new bond with a total par value of € 10 million. Outstanding bonds totalled € 557 million nominal at 30 June 2016. Net of repurchases of € 194 million, bonds held by third parties thus came to € 364 million.

*Inspection by the supervisory authority*
An ordinary inspection by the Bank of Italy began on 8 February 2016 and was concluded on 17 June 2016. The interim financial statements at 30 June 2016 already incorporate part of the observations and comments submitted by the supervisory authority, which presumably will deliver its report in September.

*Audits by the Italian Agency of Revenue*
The Friuli Venezia Giulia Regional Department of the Italian Agency of Revenue began a general audit of tax year 2013 on 13 April 2016. The audit process remains ongoing.

*Approval of the 2016-2018 Strategic Plan*
The new 2016-2018 business plan was approved in June.

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

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

*Investigation of Cassa di Risparmio di Ferrara*
As part of the investigations ordered by the Ferrara Public Prosecutor's Office into the capital increase by Cassa di Risparmio di Ferrara in 2011, that same Public Prosecutor's Office also launched inquiries into Banca Valsabbina, Cassa di Risparmio di Cesena, Banca Popolare di Bari and Banca Popolare di Cividale. At the time of the events in question, the Bank's Board of Directors resolved to participate in the capital increase by Cassa di Risparmio di Ferrara for approximately € 2.8 million. One reason for this decision was the fact that CARIFE had long held an approximately 5% interest in NordEst Banca S.p.A., a subsidiary of Banca Popolare di Cividale. On 13 July, Banca Popolare di Cividale's senior management collaborated fully with the tax investigators, providing all of the necessary documentation without the need for a formal search order. The Bank is being investigated solely for a possible breach of Legislative Decree No. 231/2001 governing corporate criminal liability.

With the exception of the foregoing, from the end of the first half of 2016 to the date of approval of these interim financial statements, there were no material events of a sort that would have a significant effect on either the earnings and financial position of the Company or the various entities within the scope of consolidation or on the representation thereof.

## Analysis of main balance sheet aggregates and earnings results

*The earnings figures for the period ended 30 June 2015 have been normalised to ensure a consistent basis of comparison.*

*This was achieved by combining the income statement of Banca Popolare di Cividale S.c.p.A. with the income statement of Civileasing S.p.A., as presented in Annex 1 to these interim financial statements.*

***Earnings results***

In the first half of 2016, Banca Popolare di Cividale recorded net income of € 113 thousand.

**Net interest income** amounted to € 31,538 thousand, down by 5.0% compared to the same period of 2015. Net interest income on business with customers increased by 3.2%, due in part to the effect of repricing measures affecting funding. There was a considerable decline (-26.6%) in trading income. Despite the decline in interest income on government bonds, trading income continued to contribute significantly to net interest income (€ 7,703 thousand). There was an improvement in the interbank interest component.

**Net commission income** came to € 11,581 thousand, up by 8.0% compared to the comparative period, due in part to the reduction in commission expenses associated with "Monti Bonds". There was a decline in the banking and commercial activity component, in particular as regards fees on current accounts (-7.6%). Insurance product distribution revenue improved, but was offset by a decline in the component relating to the placement and intermediation of securities and funds.

**Operating revenues** were € 50,137 thousand, compared to € 54,201 thousand in the comparative period.

**Operating expenses** came to € 35,296 thousand, up by € 2,180 thousand (+6.6%). Personnel expenses increased by € 532 thousand (+2.6%) compared to the same period of the previous year, due in part to the effect of non-recurring components. Administrative expenses stood at € 13,255 thousand, up by 14.1%, primarily attributable to the mandatory contribution to the Single Resolution Fund, which had an impact of € 1,523 thousand on the income statement for the half-year. Depreciation charges on property, plant and equipment remained essentially unchanged compared to the first half of the previous year at € 1,228 thousand.

As a result, **net operating income** stood at € 14,841 thousand, down by 29.6% compared to 30 June 2015.

**Net impairment losses on loans and other financial assets** totalled € 12,357 thousand, resulting in an "annualised" loan loss rate of 112 basis points. The total coverage rate for non-performing loans was 46.2%. Net impairment losses on financial assets and equity investments amounted to € 1,205 thousand and referred to impairment losses on equity securities and funds classified to the AFS portfolio.

Net **provisions for risks and charges** amounted to € 175 thousand, down by 25.8% compared to the same period of the previous year.

**Net income** was € 113 thousand, after taxes of € 991 thousand.

***Balance sheet aggregates***

**Direct funding**, net of the component referring to central counterparties, amounted to € 2,574,348 thousand, up by € 12,590 thousand (+0.5%) compared to 31 December 2015, and included current accounts and deposits of € 1,789,502 thousand (69.5%).

**Loans** stood at € 2,635,136 thousand at 30 June 2016, down by 1.8% compared to 31 December 2015.

At 30 June 2016 total net impaired loans stood at € 398,758 thousand, up by € 715 thousand from the € 398,043 thousand recorded in December 2015 (+0.2%), marking an increase in the impaired portfolio as a percentage of total loans to customers of 15.1%. In particular, net non-performing loans decreased, falling from € 200,473 thousand at the end of 2015 to the present € 195,623 thousand. Non-performing loans accounted for 7.4% of total loans, down slightly compared to the end of 2015. The coverage ratio rose from 57.7% to 59.3%. Unlikely to pay positions amounted to € 184,252 thousand, up by 3.6%, and increased from 6.6% to 7.0% as a percentage of total loans. The total coverage ratio remained essentially unchanged at 22.8%.

Past-due positions stood at € 18,883 thousand, down by 4.0%, while remaining unchanged as a percentage of total loans (0.7%). The coverage ratio for past-due positions was 12.5% (17.4% as at 31 December 2015). The overall coverage ratio for non-performing positions came to 46.2%. Collective adjustments amounted to € 16,542 thousand, an average of approximately 0.7% of gross performing loans to customers. The coverage ratio is deemed appropriate to account for the risk level of regularly performing loans.

**Indirect funding** came to € 945,512 thousand, down by 2.4% compared to December 2015. The decline is primarily attributable to assets under administration, which decreased by 9.2%. Assets under management remained essentially unchanged.

**Financial assets available for sale** totalled € 1,366,757 thousand. The caption consists primarily of government bonds held as part of the liquidity risk management policy, which increased by € 120,492 thousand during the half-year.

Book **shareholders' equity** at 30 June 2016, including the net income for the period, amounted to € 304,352 thousand, down by € 9,218 thousand (-2.9%) compared to December 2015 due to the payment of dividends on the 2015 net income and the change in reserves for government bonds classified to the AFS category.

## Shareholders' equity and capital adequacy

*Shareholders' equity*

At year-end, shareholders' equity, including the net income for the year, amounted to € 304,352 thousand. The Group's own funds stood at € 307,837 thousand at 30 June 2016.

The level of own funds ensures compliance with capital requirements under applicable regulations. Risk-weighted assets came to € 2,171,594 thousand.

Capital ratios were as follows:

- ✓ the "phased in" Common Equity Tier 1 ratio was 13.0% (13.0% at 31/12/2015);
- ✓ the "phased in" Tier 1 ratio was 13.0% (13.0% at 31/12/2015);
- ✓ the "phased in" Total Capital ratio was 14.2% (14.6% at 31/12/2015).

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 the first three months of 2016 at 0%.

*Quantitative disclosures*

| | 30/6/2016 | 31/12/2015 | % |
|---|---|---|---|
| **A. Tier 1 capital before the application of prudential filters** | **303,691** | **307,157** | **-1.1%** |
| of which instruments of CET1 subject to transitional provisions | | | |
| B. CET 1 prudential filters (+/-) | | | |
| **CET1 gross of elements to be deducted and of the effects of the transitional regime (A+/-B)** | 303,691 | 307,157 | -1.1% |
| **D. Elements to be deducted from CET1** | (7,943) | (8,476) | -6.3% |
| **E. Transitional regime - Impact on CET1 (+/-)** | (13,955) | (19,246) | -27.5% |
| **F. Total Common Equity Tier 1 capital (CET1) (C-D+/-E)** | **281,793** | **279,435** | **0.8%** |
| **G. Additional Tier 1 capital (AT1) gross of elements to be deducted and of the effects of the transitional regime** | | | - |
| of which instruments of AT1 subject to transitional provision | | | - |
| **H. Elements to be deducted from AT1** | | | - |
| **I. Transitional regime - Impact on AT1 (+/-)** | | | - |
| **L. Total Additional Tier 1 capital (Additional Tier 1) (G-H+/-I)** | | | - |
| **M. Tier 2 capital (T2) gross of elements to be deducted and of the effects of transitional regime** | **24,068** | **31,559** | -23.7% |
| of which instruments of T2 subject to transitional provisions | 8,560 | 13,824 | -38.1% |
| **N. Elements to be deducted from T2** | **(64)** | **(97)** | **-34.0%** |
| **O. Transitional regime - Impact on T2 (+/-)** | 2,040 | 3,330 | -38.7% |
| **P. Total Tier 2 capital (T2) (M-N+/-O)** | 26,108 | **34,792** | **-25.0%** |
| **Q. Total own funds (F+L+P)** | **307,837** | **314,227** | **-2.0%** |

*Capital adequacy*

| | Unweighted amounts | | Weighted amounts / requirements | |
|---|---|---|---|---|
| | **30/06/16** | **31/12/15** | **30/06/16** | **31/12/15** |
| **A. RISK ASSETS** | | | | |
| A.1 CREDIT AND COUNTERPARTY RISK | **5,792,502** | ***5,543,084*** | **1,975,318** | ***1,965,342*** |
| 1. Standard methodology | 5,792,502 | *5,543,084* | 1,975,318 | *1,965,342* |
| 2. Methodology based on internal ratings | | | | |
| 2.1 Base | | | | |
| 2.2 Advanced | | | | |
| 3. Securitisations | | | | |
| **B. CAPITAL REQUIREMENTS** | | | | |
| B.1 CREDIT AND COUNTERPARTY RISK | | | 158,025 | 157,227 |
| B.2 CREDIT VALUATION ADJUSTMENT RISK | | | 68 | 72 |
| B.3 SETTLEMENT RISK | | | - | - |
| B.4 MARKET RISK | | | 966 | 94 |
| 1. Standard methodology | | | 966 | 94 |
| 2. Internal models | | | - | - |
| 3. Concentration risk | | | - | - |
| B.5 OPERATIONAL RISK | | | 14,668 | 14,668 |
| 1. Base methodology | | | 14,668 | 14,668 |
| 2. Standard methodology | | | - | - |
| 3. Advanced methodology | | | - | - |
| B.6 Other calculation elements | | | - | - |
| B.7 Total capital requirements | | | 173,728 | 172,061 |
| **C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS** | | | | |
| C.1 Risk-weighted assets | | | 2,171,594 | 2,150,765 |
| C.2 Common Equity Tier 1 / Risk-weighted assets (CET 1 capital ratio) | | | 13.0% | 13.0% |
| C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio) | | | 13.0% | 13.0% |
| C.4 Total own funds / Risk weighted assets (Total capital ratio) | | | 14.2% | 14.6% |

# Interim condensed financial statements

## *Balance sheet*

| Balance sheet - Assets | | 30/06/2016 | | 31/12/2015 | |
|---|---|---|---|---|---|
| 10 | Cash and cash equivalents | | 17,244,046 | | 18,381,417 |
| 20 | Financial assets held for trading | | 10,317,676 | | 1,220,268 |
| 40 | Financial assets available for sale | | 1,366,757,289 | | 1,164,689,305 |
| 50 | Invetments held to maturity | | 32,371,683 | | 32,715,895 |
| 60 | Due from banks | | 37,412,209 | | 40,384,674 |
| 70 | Loans to customers | | 2,635,135,986 | | 2,683,710,632 |
| 100 | Investments in associates and companies subject to joint | | 3,819,320 | | 6,427,469 |
| 110 | Property and equipment | | 81,757,017 | | 82,928,755 |
| 120 | Intangible assets | | 9,337,828 | | 9,367,321 |
| | of which: | | | | |
| | - goodwill | 9,135,900 | | 9,135,900 | |
| 130 | Tax assets | | 76,174,609 | | 78,984,982 |
| | a) current | 13,557,747 | | 15,778,146 | |
| | b) deferred | 62,616,862 | | 63,206,836 | |
| | *of which convertible into tax credit (Law no. 214/2011)* | *53,587,853* | | *54,961,901* | |
| 140 | Attività non correnti e gruppi di attività in via di dismissione | | | | |
| 150 | Other assets | | 50,340,527 | | 49,207,070 |
| | **Total assets** | | **4,320,668,190** | | **4,168,017,788** |

| Balance sheet - liabilities and shareholders' equity | | 30/06/2016 | | 31/12/2015 | |
|---|---|---|---|---|---|
| 10 | Due to banks | | 307,655,288 | | 406,419,324 |
| 20 | Due to customers | | 3,189,396,681 | | 2,846,774,190 |
| 30 | Debt securities issued | | 396,682,105 | | 475,729,690 |
| 40 | Financial liabilities held for trading | | 729,174 | | 739,806 |
| 80 | Tax liabilities | | 9,454,625 | | 13,894,972 |
| | a) current | 2,234,628 | | 5,128,327 | |
| | b) deferred | 7,219,997 | | 8,766,645 | |
| 100 | Other liabilities | | 98,439,754 | | 96,322,372 |
| 110 | Employee termination benefits | | 6,003,837 | | 5,588,607 |
| 120 | Provisions for risk and charges: | | 7,954,409 | | 8,978,756 |
| | b) other provisions | 7,954,409 | | 8,978,756 | |
| 130 | Valuation reserves | | 19,318,690 | | 23,308,118 |
| 160 | Reserves | | 66,985,633 | | 48,273,959 |
| 170 | Share premiums | | 167,021,739 | | 167,021,739 |
| 180 | Share capital | | 50,913,255 | | 50,913,255 |
| 200 | Net income (loss) for the period (+/-) | | 113,000 | | 24,053,000 |
| | **Total liabilities and shareholders' equity** | | **4,320,668,190** | | **4,168,017,788** |

## *Income statement*

*The comparative period refers to the 2015 interim financial statements of BPC S.c.p.A. only.*

| Income statement | | 30/06/2016 | | 30/06/2015 | |
|---|---|---|---|---|---|
| 10 | Interest income and similar revenues | | 42,270,731 | | 47,956,387 |
| 20 | Interest expense and similar charges | | (10,732,501) | | (17,167,998) |
| **30** | **Net interest income** | | **31,538,230** | | **30,788,389** |
| 40 | Commission income | | 13,943,181 | | 13,793,990 |
| 50 | Commission expense | | (2,362,390) | | (2,990,098) |
| **60** | **Net commission income** | | **11,580,791** | | **10,803,892** |
| 70 | Dividends and similar income | | 1,359,755 | | 913,893 |
| 80 | Net trading income | | (163,625) | | 322,062 |
| 100 | Profit (loss) on disposal or repurchase of: | | 6,008,784 | | 9,114,362 |
| | a) loans | (146,178) | | - | |
| | b) financial assets available for sale | 6,332,321 | | 9,820,201 | |
| | d) financial liabilities | (177,359) | | (705,839) | |
| **120** | **Total income** | | **50,323,935** | | **51,942,598** |
| 130 | Charges/write-backs on impairment of: | | (13,044,054) | | (19,796,678) |
| | a) loans | (12,356,777) | | (16,532,338) | |
| | b) financial assets available for sale | (704,122) | | (2,915,605) | |
| | d) other financial transactions | 16,845 | | (348,735) | |
| **140** | **Net Financial income** | | **37,279,881** | | **32,145,920** |
| 150 | G&A expenses: | | (37,832,626) | | (34,764,087) |
| | a) personnel expenses | (20,813,500) | | (19,903,983) | |
| | b) other administrative expenses | (17,019,126) | | (14,860,104) | |
| 160 | Net provisions for risks and charges | | (175,000) | | (235,897) |
| 170 | Net impairment/write-backs on property, plant and equipment | | (1,198,600) | | (1,094,720) |
| 180 | Net impairment/write-backs on intangible assets | | (29,493) | | - |
| 190 | Other operating income (expenses) | | 3,577,552 | | 3,650,744 |
| **200** | **Operating cost** | | **(35,658,167)** | | **(32,443,960)** |
| 210 | Profit (loss) on equity investments | | (518,149) | | - |
| **250** | **Income (loss) before tax from continuing operations** | | **1,103,565** | | **(298,040)** |
| 260 | Tax on income from continuing operations | | (990,565) | | (501,960) |
| **270** | **Income (loss) after tax from continuing operations** | | **113,000** | | **(800,000)** |
| **290** | **Net income for the period** | | **113,000** | | **(800,000)** |

## *Statement of comprehensive income*

| | | 30/06/2016 | 30/06/2015 |
|---|---|---|---|
| 10 | **Net profit for the year** | **113,000** | **(800,000)** |
| | Other income net of income taxes without transfer to profit and loss account | | |
| 40 | Actuarial gains (losses) from defined benefit plans | (365,888) | 111,843 |
| 100 | AFS financial assets | (3,623,540) | 49,513,855 |
| 130 | **Total other income, net of income taxes** | **(3,989,428)** | **49,625,698** |
| 140 | **Comprehensive income (10 + 130)** | **(3,876,428)** | **48,825,698** |

## *Statement of changes in shareholders' equity*

| Year 2016 | Balance at 31/12/2015 | Change in opening balance | Balance at 01/01/2016 | Allocation of result for previous period: Reserves | Allocation of result for previous period: Dividends and other uses | Changes during the year: Changes in reserves | Changes during the year – Operazioni sul patrimonio netto: 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 30/06/2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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** | | | | | | | | | | **(3,989,428)** | **19,318,690** |
| **Equity instruments** | - | | - | - | - | - | - | - | - | - | - | - | - | - |
| **Treasury shares** | | | - | | | | | - | | | | | | |
| **Net income (loss) for the period** | **24,053,000** | | **24,053,000** | **(18,711,675)** | **(5,341,325)** | - | - | - | - | - | - | - | **113,000** | **113,000** |
| **Shareholders' equity** | **313,570,071** | | **313,570,071** | - | **(5,341,325)** | - | - | - | - | - | - | - | **(3,876,428)** | **304,352,317** |

| 2015 | Balance at 31/12/2014 | Change in opening balance | Balance at 01/01/2015 | Allocation of result for previous period: Reserves | Allocation of result for previous period: Dividends | Changes during the year: Changes in reserves | Changes during the year – Equity operations: New share issues | Purchase of treasury stock | Extraordinary dividend distribution | Change in equity instruments | Derivatives on own shares | Stock options | Change in shareholdings | Total comprehensive income for the period | Shareholders' equity Group at 30/06/2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Share capital** | **50,913,255** | - | **50,913,255** | - | - | - | - | - | - | - | - | - | - | - | **50,913,255** |
| a) ordinary shares | 50,913,255 | - | 50,913,255 | - | - | - | - | - | - | - | - | - | - | - | 50,913,255 |
| b) other shares | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Share premium reserve** | **167,021,739** | - | **167,021,739** | - | - | - | - | - | - | - | - | - | - | - | **167,021,739** |
| **Reserves** | **42,922,245** | - | **42,922,245** | **5,803,000** | - | - | - | - | - | - | - | - | - | - | **48,725,245** |
| a) income | 42,922,245 | - | 42,922,245 | 5,803,000 | - | - | - | - | - | - | - | - | - | - | 48,725,245 |
| b) other | (0) | - | (0) | - | - | - | - | - | - | - | - | - | - | - | (0) |
| **Valuation reserves:** | **11,126,085** | - | **11,126,085** | - | - | - | - | - | - | - | - | - | - | **49,625,698** | **60,751,783** |
| **Equity instruments** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Treasury shares** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Net income (loss) for the period** | **5,803,000** | - | **5,803,000** | **(5,803,000)** | - | - | - | - | - | - | - | - | - | **(800,000)** | **(800,000)** |
| **Shareholders' equity** | **277,786,324** | - | **277,786,324** | - | - | - | - | - | - | - | - | - | - | **48,825,698** | **326,612,022** |

# *Statement of cash flows*

| OPERATING ACTIVITY | 30/06/16 | | 30/06/15 | |
|---|---|---|---|---|
| **1. Operations** | | **24,678,862** | | **24,656,182** |
| - interest income received (+) | 42,557,134 | | 47,883,096 | |
| - interest expense paid (-) | (7,223,958) | | (15,465,731) | |
| - net commissions (+/-) | 14,670,491 | | 13,878,220 | |
| - staff costs | (16,896,990) | | (20,482,128) | |
| - other expenses (-) | (18,020,082) | | (14,567,296) | |
| - other revenues (+) | 9,592,267 | | 13,410,021 | |
| **2. Liquidity generated/absorbed by financial assets: (+/-)** | | **(172,459,931)** | | **(452,657,078)** |
| - financial assets held for trading | (9,097,408) | | (364,683) | |
| - financial assets available for sale | (202,772,106) | | (354,327,919) | |
| - loans to custumers | 37,854,271 | | (68,800,237) | |
| - due from banks: repayable on demand | (26,083,224) | | 83,323 | |
| - due from banks: other | 28,935,547 | | (27,123,888) | |
| - other assets | (1,297,011) | | (2,123,674) | |
| **3. Liquidity generated/absorbed by financial liabilities: (+/-)** | | **147,084,801** | | **432,752,050** |
| - due to banks: repayable on demand | 17,621,045 | | (59,149) | |
| - due to banks: other | (116,818,483) | | (400,552,801) | |
| - due to customers | 339,547,350 | | 904,906,116 | |
| - securities issued | (79,151,658) | | (116,982,748) | |
| - financial liabilities held for trading | (10,632) | | 82,049 | |
| - other liabilities | (14,102,821) | | 45,358,583 | |
| **Net liquidity generated/absorbed by operating activity A (+/-)** | | **(696,268)** | | **4,751,154** |
| INVESTING ACTIVITY | | | | |
| **1. Liquidity generated by: (+)** | | **1,359,755** | | **913,893** |
| - dividends received on equity investments | 1,359,755 | | 913,893 | |
| **2. Liquidity absorbed by: (-)** | | **3,540,467** | | **(4,453,472)** |
| - purchase of equity investments | 2,090,000 | | 0 | |
| - purchase of financial assets held to maturity | 344,212 | | 138,942 | |
| - purchase of property, plant and equipment | 1,076,762 | | (4,592,413) | |
| - purchase of intangible assets | 29,493 | | (0) | |
| **Net liquidity generated/absorbed by investing activity B (+/-)** | | **4,900,222** | | **(3,539,579)** |
| FUNDING ACTIVITY | | | | |
| - distribution of dividends and other uses | (5,341,325) | | - | |
| **Net liquidity generated/absorbed by funding activity C (+/-)** | | **(5,341,325)** | | **-** |
| NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD D = A +/- B +/- C | | **(1,137,371)** | | **1,211,575** |

| RECONCILIATION | | |
|---|---|---|
| **Financial statement items** | | |
| Cash and cash equivalents at the start of the period E | 18,381,417 | 18,486,299 |
| Total net liquidity generated/absorbed during the period D | -1,137,371 | 1,211,575 |
| **Cash and cash equivalents at the end of the period G = E +/-D+/-F** | **17,244,046** | **19,697,874** |

# Notes

## *Accounting policies*

### *Statement of compliance with international accounting standards*

Pursuant to Legislative Decree No. 38 of 28 February 2005, these interim financial statements have been prepared in accordance with the international accounting standards issued by the International Accounting Standards Board (IASB) and the pertinent interpretations of the International Financial Reporting Interpretations Committee (IFRIC), and endorsed by the European Commission, as established by Regulation (EC) No 1606 of 19 July 2002.

These financial statements have also been drawn up in condensed form in accordance with IAS 34. Consequently, they do not include all of the disclosures required in the annual financial statements and must be read in conjunction with those prepared as at 31 December 2015.

The accounting policies adopted are consistent with those adopted for the financial statements at 31 December 2015, with the exception of the new standards, amendments and interpretations in effect from 1 January 2016.

The following is a list of the regulations endorsing several new standards or amendments to existing standards, applicable on a compulsory basis effective financial year 2016, as limited to the cases of interest to the Bank's business, for which an early application option was not exercised in previous years:

- ✓ Commission Regulation (EU) 2015/28 of 17 December 2014, amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standards 2, 3 and 8 and International Accounting Standards 16, 24 and 38;
- ✓ Commission Regulation (EU) 2015/29 of 17 December 2014 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 19;
- ✓ Commission Regulation (EU) 2015/2113 of 23 November 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards 16 and 41;
- ✓ Commission Regulation (EU) 2015/2173 of 24 November 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 11;
- ✓ Commission Regulation (EU) 2015/2231 of 2 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standards 16 and 38;
- ✓ Commission Regulation (EU) 2015/2343 of 15 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standards 5 and 7 and International Accounting Standards 19 and 34;
- ✓ Commission Regulation (EU) 2015/2406 of 18 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 1;
- ✓ Commission Regulation (EU) 2015/2441 of 18 December 2015 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 27.

Application of these new standards did not have a significant impact on results for the period.

In addition, a process of assessing the potential impacts on the Bank of the new international accounting standards issued by the IASB but not yet endorsed by the European Union at the date of this report (IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leasing*) will be launched in 2016.

IFRS 9 *Financial Instruments*
In July 2014 the IASB issued IFRS 9 *Financial Instruments*, the accounting standard that will replace IAS 39 *Financial Instruments: Recognition and Measurement*. The process of revising IAS 39 is divided into three stages: "classification and measurement", "impairment" and "hedge accounting".
The "classification and measurement" of financial assets will depend on the business model and the cash flow characteristics of the financial instrument. These elements will determine the method of measuring the financial instrument, which may be amortised cost, fair value through profit or loss or fair value through other comprehensive income.
In most cases, the results of classification and measurement may be regarded as consistent with those resulting from the application of IAS 39, but potential differences currently cannot be excluded.
The combined effect of the application of the business model and cash flow characteristics
of the instrument may entail a different allocation among instruments at fair value and amortised cost than under IAS 39.
It should also be noted that embedded derivatives no longer need to be separated for all financial assets.
The classification of financial liabilities has not changed substantially compared to IAS 39. For financial liabilities at fair value, changes in the creditworthiness of the instruments are to be accounted for in an equity reserve rather than in profit or loss, as instead required by IAS 39.
The Standard sets out a single impairment model to be applied to all financial assets not measured at fair value through profit or loss, with a particular emphasis on setting rules for calculating impairment losses according to a uniform concept of expected loss. Specifically, upon initial recognition, impairment losses will be determined on the basis of the expected loss in 12 months. However, if there is a significant increase in credit risk compared to the date of initial recognition, impairment losses must be determined on the basis of the expected loss calculated for the entire life of the financial instrument.
Financial instruments are classified to three distinct "stages" on the basis of the above elements:

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

The expected loss used must consider all available information, including information concerning past events, current conditions and forecast economic conditions.
In terms of impact on the income statement, recognition of impairment will be more focused on the forward-looking component and, at least upon initial application, will entail an increase in impairment losses compared to the current provisions of IAS 39 (incurred loss model).
The impact on the balance sheet of initial application of the new standard currently cannot be reliably estimated.
The revised standard aims to simplify hedge accounting by creating a stronger link to risk management strategies. The standard does not govern macro hedge accounting, which will be handled in a separate project.
In addition, on this subject IFRS 9 also allows for the use of certain accounting treatments within the scope of IAS 39.
Application of IFRS 9 is mandatory from 1 January 2018, with the possibility of early application of all of the standard or of just those parts relating to the accounting treatment of creditworthiness for financial liabilities at fair value.

*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 defines the recognition of revenues with regard to both timing and amount:
identifying the contract with a customer; identifying all of the individual performance obligations within the contract; determining the transaction price (estimated, if necessary);
allocating the price to the performance obligations; and recognising revenue as the performance obligations are fulfilled.

*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 tenants 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 tenant 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 tenant and establishes a new accounting treatment. Tenants 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.

***General basis of preparation of the interim financial statements***
The interim financial statements comprise the following documents, presented in euro: the balance sheet, income statement, statement of other comprehensive income, statement of changes in shareholders' equity, statement of cash flows and these notes. The notes have been presented in thousands of euro for certain items of the financial statements.
The interim financial statements at 30 June 2016 are accompanied by a statement by the manager responsible for preparing financial reports, pursuant to Art. 154-*bis* of the Consolidated Law on Finance, and are subject to a limited audit by EY S.p.A., following the award of the independent auditing assignment to that company for the period 2010-2018.

***Company performance and outlook (Bank of Italy, Consob and ISVAP Documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010)***
With respect to Bank of Italy, Consob and ISVAP Document no. 2 of 6 February 2009 and the subsequent Document no. 4 of 3 March 2010, concerning disclosures to be provided in financial reports regarding business outlook, with especial regard to continuity of operation, financial risks, tests aimed at detecting impairment and uncertainties in the use of estimates, the Directors of Banca Popolare di Cividale confirm that they may reasonably expect that the company will continue to operate as a going concern for the foreseeable future. Accordingly, the financial report at 30 June 2016 has been prepared on such a going-concern basis. The Directors further confirm that they have not found any cause for doubt on the subject of the going-concern principle at the level of financial position or operating performance.
Loans have been classified and measured according to the customary conservative approach aimed at duly and properly capturing the consequences of the adverse development of the current economic scenario. The speed and extent of the exacerbation of the crisis have required constant revision of loans that previously showed signs of distress as well as those without any outward symptoms of deterioration.
In addition, specific impairment tests have been conducted for equity investments, available-for-sale securities, intangible assets and goodwill on the basis of an analysis of the presence of indicators of impairment. Impairment losses have been determined by using the same methods and criteria as illustrated in the 2015 financial statements, to which the reader is therefore referred.
For further information concerning credit and financial risks, the reader is referred to the chapter on risk management.

***Use of estimates and assumptions in preparing the interim financial statements***
In preparing the interim 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. It should be noted that certain valuation processes, and in particular the most complex, such as determining impairment losses, are generally conducted in complete form when preparing the annual financial statements, when all required information is available, unless there are significant indicators of impairment that require immediate assessment of possible losses.

***Other issues***

On 17 June 2016 the extraordinary meeting of banks participating in the Interbank Deposit Protection Fund's Voluntary Scheme (including Banca Popolare di Cividale) approved amendments to its bylaws aimed at increasing the Scheme's resources (from € 300 million to € 700 million).
The approval of the above amendments created the conditions for completing the recapitalisation of Cassa di Risparmio di Cesena, the first step of which is a capital increase of € 280 million reserved for the Interbank Deposit Protection Fund's Voluntary Scheme (following which the Voluntary Scheme would hold a controlling equity interest in Cassa di Risparmio di Cesena). That increase was approved by the Shareholders' Meeting of Cassa di Risparmio di Cesena on 3 July 2016.
On 19 July 2016 the Interbank Deposit Protection Fund informed the Banks participating in the Voluntary Scheme that, once authorisation has been obtained from the ECB for acquiring the controlling interest in Cassa di Risparmio di Cesena, the Interbank Deposit Protection Fund will call in the contributions required of each participating bank (the Bank's share is estimated at € 512 thousand). At present, no payments have been made. In that same notice, the Interbank Deposit Protection Fund indicated that inquiries were still in progress, with a group of experts from participating banks, the Italian Banking Association, the Bank of Italy and Consob, concerning the accounting, tax and prudential treatment appropriate for the contributions in question.
Consequently, for the purposes of preparation of the interim financial statements at 30 June 2016, the Bank recorded the maximum commitment assumed towards the Interbank Deposit Protection Fund's Voluntary Scheme, on a proportional basis with respect to the € 700 million approved, i.e., € 1,280 thousand.

## Earnings results

*Reconciliation of the income statement and reclassified income statement*

| RECLASSIFIED INCOME STATEMENT | Income statement | 30/06/2016 | 30/06/2015 * |
|---|---|---|---|
| Net interest income (including result of hedging) | 30 - Net interest income | 31,538 | 33,208 |
| | 90 - Fair value adjustments in hedge accounting | - | - |
| **Total Net interest income (including result of hedging)** | | **31,538** | **33,208** |
| Dividends and net income (loss) of equity investments accounted for using equity method | 70 - Dividends and similar income | 1,360 | 914 |
| **Total Dividends and net income (loss) of equity investments accounted for using equity method** | | **1,360** | **914** |
| **Net commissions** | **60 - Net commissions** | **11,581** | **10,719** |
| Other operating income (net of recovered expenses) | 190 - Other operating income (expenses) | 3,578 | 3,838 |
| | 190 (partial) - Other operating income (expenses) - Recovery of indirect taxes | (3,764) | (3,898) |
| **Total Other operating income (net of recovered expenses)** | | **(187)** | **(60)** |
| **Net trading income** | 80 - Net trading income | (164) | 322 |
| Gains (losses) from purchase/sale of loans and financial assets | 100 - Profit (loss) on disposal or repurchase of: | | |
| | a) loans | (146) | (16) |
| | b) financial assets available for sale | 6,332 | 9,820 |
| | c) financial assets held to maturity | - | - |
| | d) financial liabilities | (177) | (705) |
| **Total Gains (losses) from purchase/sale of loans and financial assets** | | **5,845** | **9,421** |
| **OPERATING REVENUES** | | **50,137** | **54,202** |
| Personnel expenses | 150 a) personnel expenses | (20,814) | (20,282) |
| Other administrative expenses (net of recovered expenses) | 150 b) other administrative expenses | (17,019) | (15,512) |
| | 190 (partial) - Other operating income (expenses) - Recovery of indirect taxes | 3,764 | 3,898 |
| **Total Other administrative expenses (net of recovered expenses)** | | **(13,255)** | **(11,614)** |
| Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill) | 170 - Net impairment/write-backs on property, plant and equipment | (1,199) | (1,191) |
| | 180 - Net impairment/write-backs on intangible assets | (29) | (30) |
| **Total Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill)** | | **(1,228)** | **(1,221)** |
| **OPERATING COST** | | **(35,296)** | **(33,116)** |
| **INCOME (LOSS) FROM OPERATING** | | **14,841** | **21,085** |
| Goodwill impairment | 230 - Goodwill impairment | - | - |
| Charges/write-backs on impairment of loans | 130 a) loans | (12,357) | (17,418) |
| Charges/write-backs on impairment of other assets | 130 b) financial assets available for sale | (704) | (2,916) |
| | 130 c) financial assets held to maturity | - | - |
| | 130 d) other financial transactions | 17 | (348) |
| Charges/write-backs on impairment of goodwill and equity investments | 210 - Profit (loss) on equity investments | (518) | |
| **Total Charges/write-backs** | | **(13,562)** | **(20,682)** |
| Net provisions for risks and charges | 160 - Net provisions for risks and charges | (175) | (236) |
| **Income (loss) before tax from continuing operations** | | **1,104** | **167** |
| Tax on income from continuing operations | 260 - Tax on income from continuing operations | (991) | (717) |
| **Income (loss) after tax from continuing operations** | | **113** | **(550)** |
| Income (loss) after tax from discontinued operations | 280 - Income (loss) after tax from discontinued operations | - | - |
| **NET INCOME FOR THE PERIOD** | | **113** | **(550)** |

## Net interest income

| Net interest income | 30/06/2016 | 30/06/2015 | % |
|---|---|---|---|
| Relations with customers | 29,034 | 30,664 | -5.3% |
| Debt securities issued | (4,376) | (6,619) | -33.9% |
| Certificates of deposit | (128) | (277) | -54.0% |
| **Net income from customers** | 24,530 | **23,769** | **3.2%** |
| Financial assets AFS | 6,773 | 8,741 | -22.5% |
| Financial assets HTF | 46 | 17 | 167.4% |
| Financial assets L&R | 1 | 84 | -98.7% |
| Financial assets HTM | 715 | 1,400 | -48.9% |
| Capitalization policies | 169 | 250 | -32.6% |
| **Financial assets** | 7,703 | **10,492** | -26.6% |
| Relations with banks | (696) | (1,053) | -34.0% |
| **Total net interest** | **31,538** | **33,208** | **-5.0%** |

### *Dividends and net income (loss) of equity investments measured at equity*

| | 30/06/2016 | | 30/06/2015 | | % |
|---|---|---|---|---|---|
| | Dividends | Income from UCI | Dividends | Income from UCI | |
| A. Financial assets held for trading | 24 | - | 8 | - | 185.7% |
| B. Financial assets available for sale | - | - | - | - | - |
| C. Financial assets recognised at fair value | - | - | - | - | - |
| D. Equity investments | 1,336 | X | 905 | X | 47.5% |
| **Total** | **1,360** | - | **914** | - | 48.8% |

### *Net commission income*

| | 30/06/2016 | 30/06/2015 | % |
|---|---|---|---|
| Guarantees issued | 409 | 466 | -12.1% |
| Collection and payment services | 787 | 771 | 2.1% |
| Current accounts | 2,619 | 2,833 | -7.6% |
| Commisions on credit facilities | 2,513 | 2,499 | 0.6% |
| Credit and debit cards | 910 | 868 | 4.8% |
| **Commercial banking activities** | **7,238** | **7,437** | **-2.7%** |
| Trading and placement of securities (including mutual funds) | 1,893 | 2,250 | -15.9% |
| MEF's guarantees | (654) | (1,443) | 54.6% |
| Currency dealing | 250 | 246 | 1.7% |
| Portfolio management | 1,153 | 1,147 | 0.6% |
| Distribution of insurance products | 713 | 320 | 122.6% |
| **Management, intermediation and advisory services** | **3,355** | **2,521** | **33.1%** |
| Other net fee and commission income | 987 | 761 | 29.7% |
| **Net fee and commission income** | **11,581** | **10,719** | **8.0%** |

### *Net trading income or loss and profit/loss from purchase/sale of loans and financial assets*

| **Net trading income (loss)** | 30/06/2016 | 30/06/2015 | % |
|---|---|---|---|
| Financial assets held for trading | (171) | 312 | -154.9% |
| Financial liabilities held for trading | - | - | - |
| Derivatives | 4 | 5 | -19.2% |
| **Net trading income/(loss) (interest rates, equity, foreign exchanges)** | **(167)** | **317** | **-152.7%** |
| Credit derivatives | - | - | - |
| Other financial assets and liabilities: exchange differences | 4 | 5 | -25.8% |
| **Net trading income/(loss) on financial assets/liabilities held for trading** | **(164)** | **322** | **-150.8%** |
| Profit (loss) on disposal or repurchase of financial assets AFS and other financial transactions | **6,009** | 9,099 | -34.0% |
| **Net trading income/(loss)** | **5,845** | **9,421** | **-38.0%** |

### *Other operating income (expenses)*

| **Other operating income** | 30/06/2016 | 30/06/2015 | % |
|---|---|---|---|
| Out-of-period expenses and reductions in assets | (622) | (576) | -8.0% |
| **Total operating expenses** | **(622)** | **(576)** | **-8.0%** |
| Other income - rentals and fees | 29 | 76 | -61.6% |
| Expenses charged to others on deposits and current accounts | - | - | - |
| Expenses charged to others - other | 293 | 191 | 53.3% |
| Out-of-period income and reductions in liabilities | 113 | 249 | -54.7% |
| **Total operating income** | **435** | **516** | **-15.7%** |
| **Total operating income and expenses** | **(187)** | **(60)** | **-213.5%** |

Other operating income and expenses is a residual caption that includes income and expenses of various types. The caption does not include recoveries of expenses, taxes and duties, which have instead been deducted from administrative expenses in this income statement. The caption stood at € 3,764 thousand for the period ended 30 June 2016.

### *Operating costs*

| Other operating costs | 30/06/2016 | 30/06/2015 | % |
|---|---|---|---|
| Wages and salaries | 14,134 | 13,400 | 5.5% |
| Social security contributions | 3,649 | 3,760 | -3.0% |
| Other personnel expenses | 3,032 | 3,122 | -2.9% |
| **Total personnel expenses** | **20,814** | **20,282** | **2.6%** |
| Information technology expenses | 164 | 229 | -28.4% |
| Real estate management costs | 2,186 | 2,507 | -12.8% |
| General structure costs | 2,433 | 2,274 | 7.0% |
| Contributions to SRF | 1,523 | - | 100.0% |
| Professional, insurance and legal expenses | 2,148 | 1,808 | 18.8% |
| Advertising | 513 | 310 | 65.5% |
| Outsourcing costs and other services provided by third parties | 4,075 | 4,318 | -5.6% |
| Indirect personnel costs | 556 | 539 | 3.2% |
| Recovery of expenses and charges | (658) | (677) | -2.8% |
| Indirect taxes and duties | 3,421 | 3,527 | -3.0% |
| Recovery of indirect taxes and duties | (3,107) | (3,222) | -3.6% |
| **Total other administrative expenses** | **13,255** | **11,614** | **14.1%** |
| Net impairment/write-backs on property, plant and equipment | 1,199 | 1,191 | 0.6% |
| Net impairment/write-backs on intangible assets | 29 | 30 | -1.7% |
| **Total net impairments** | **1,228** | **1,221** | **0.6%** |
| **Total operating costs** | **35,296** | **33,116** | **6.6%** |

### *Operating income*

Operating income stood at € 14,841 thousand, down compared to 30 June 2015 (-29.6%).

### *Net impairment/write-backs on loans and other assets*

| Net impairment/write-backs on loans and other assets | 30/06/2016 | 30/06/2015 | % |
|---|---|---|---|
| Bad loans | (8,951) | (9,836) | -9.0% |
| Unlikeliy to pay | (5,232) | (7,946) | -34.2% |
| Past due loans | 1,450 | (1,859) | -178.0% |
| Performing loans | 376 | 2,224 | -83.1% |
| **Net impairment losses on loans** | **(12,357)** | **(17,417)** | **-29.1%** |
| **Net adjustments on financial assets** | **(704)** | **(2,916)** | **-75.9%** |
| **Net adjustments on other financial transactions** | **17** | **(349)** | **-104.8%** |
| **Total charges/write-backs** | **(13,044)** | **(20,682)** | **-36.9%** |

### *Net provisions for risks and charges*

| Net provisions for risks and charges | 30/06/2016 | 30/06/2015 | % |
|---|---|---|---|
| Customer disputes | (115) | (46) | -150.0% |
| Revocatory actions | (60) | (190) | 68.4% |
| Other provisions | - | - | - |
| **Total** | **(175)** | **(236)** | **25.8%** |

### *Income (Loss) before tax from continuing operations*

Income before tax from continuing operations stood at € 1,104 thousand for the first half of 2016.

### *Tax on income from continuing operations*

The provision for current and deferred taxes accrued in the first six months of 2016 came to € 991 thousand.

### *Net income (loss)*

The net income for the period amounted to € 113 thousand.

### *Balance sheet aggregates*

*Reconciliation between the balance sheet and reclassified balance sheet*

| RECLASSIFIED BALANCE SHEET - Assets | Balance sheet - Assets | 30/06/2016 | 31/12/2015 |
|---|---|---|---|
| Cash and cash equivalents | 10 - Cash and cash equivalents | 17,244 | 18,381 |
| Financial assets held for trading | 20 - Financial assets held for trading | 10,318 | 1,220 |
| Financial assets available for sale | 40 - Financial assets available for sale | 1,366,757 | 1,164,689 |
| Financial assets held to maturity | 50 - Invetments held to maturity | 32,372 | 32,716 |
| Due from banks | 60 - Due from banks | 37,412 | 40,385 |
| Loans to customers | 70 - Loans to customers | 2,635,136 | 2,683,711 |
| Hedging derivatives | 80 - Hedging derivatives | - | - |
| Equity investments | 100 - Investments in associates and companies subject to joint | 3,819 | 6,427 |
| Property and equipment and intangible assets | 110 - Property and equipment | 81,757 | 82,929 |
| | 120 - Intangible assets | 9,338 | 9,367 |
| Other assets | 130 - Tax assets | 76,175 | 78,985 |
| | 140 - Non-current assets held for sale and discontinued operations | - | - |
| | 160 - Other assets | 50,341 | 49,207 |
| **Total assets** | | **4,320,668** | **4,168,018** |

| RECLASSIFIED BALANCE SHEET - Liabilities | Balance sheet - Liabilities and shareholde | 30/06/2016 | 31/12/2015 |
|---|---|---|---|
| Due to banks | 10 - Due to banks | 307,655 | 406,419 |
| Direct funding from customers | 20 - Due to customers | 3,189,397 | 2,846,774 |
| | 30 - Debt securities issued | 396,682 | 475,730 |
| Financial liabilities held for trading | 40 - Financial liabilities held for trading | 729 | 740 |
| Hedging derivatives | 60 - Hedging derivatives | - | - |
| Other liabilities | 80 - Tax liabilities | 9,455 | 13,895 |
| | 90 - Liabilities associated w ith discontinued operations | - | - |
| | 100 - Other liabilities | 98,440 | 96,322 |
| Specific provisions | 110 - Employee termination benefits | 6,004 | 5,589 |
| | 120 - Provisions for risk and charges: | 7,954 | 8,979 |
| Shareholders' equity | 130 - Valuation reserves | 19,319 | 23,308 |
| | 160 - Reserves | 66,986 | 48,274 |
| | 170 - Share premiums | 167,022 | 167,022 |
| | 180 - Share capital | 50,913 | 50,913 |
| | 190 - Treasury shares (-) | - | - |
| | 200 - Net income (loss) for the period (+/-) | 113 | 24,053 |
| **Totale Passivo** | | **4,320,668** | **4,168,018** |

### *General aspects*

A condensed balance sheet has also been prepared in the interest of permitting a more immediate assessment of the Bank's financial position. Compared to the template presented in Bank of Italy Circular 262/05, some captions have been aggregated, as is standard practice. The analytical details of the restatements and aggregations of captions are supplied, with separate tables, among the appendices to the financial statements, as required by Consob.

Aggregations of captions involved:

- ✓ aggregating property, plant and equipment and intangible assets into a single caption;
- ✓ aggregating amounts due to customers and debt securities issued into a single caption;
- ✓ aggregating provisions intended for specific uses (employee termination benefits and provisions for risks and charges) into a single caption; and
- ✓ presenting reserves in aggregate form, net of any treasury shares.

In the further interest of a more effective presentation of the composition of aggregates, in the following detail tables and/or comments, financial assets and financial liabilities held for trading represented by derivative contracts and amounts due from and to banks are presented on a net basis.

## *Reclassified balance sheet*

| ASSETS | 30/06/2016 | 31/12/2015 | Var % |
|---|---|---|---|
| Cash and cash equivalents | 17,244 | 18,381 | -6.2% |
| Financial assets held for trading | 10,318 | 1,220 | 745.5% |
| Financial assets available for sale | 1,366,757 | 1,164,689 | 17.3% |
| Financial assets held to maturity | 32,372 | 32,716 | -1.1% |
| Due from banks | 37,412 | 40,385 | -7.4% |
| Loans to customers | 2,635,136 | 2,683,711 | -1.8% |
| Investments in associates and companies subject to joint | 3,819 | 6,427 | -40.6% |
| Property, plant and equipment and intangible assets (1) | 91,095 | 92,296 | -1.3% |
| Other assets (2) | 126,515 | 128,192 | -1.3% |
| **Total assets** | **4,320,668** | **4,168,018** | **3.7%** |

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

| LIABILITIES | 30/06/2016 | 31/12/2015 | Var % |
|---|---|---|---|
| Due to banks | 1,319,386 | 1,167,164 | 13.0% |
| Direct funding from customers (1) | 2,574,348 | 2,561,759 | 0.5% |
| Financial liabilities held for trading | 729 | 740 | -1.4% |
| Other liabilities | 107,894 | 110,217 | -2.1% |
| Specific provisions (2) | 13,958 | 14,567 | -4.2% |
| Shareholders' equity (3) | 304,352 | 313,570 | -2.9% |
| **Total liabilities** | **4,320,668** | **4,168,018** | **3.7%** |

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

## *Loans to customers*

### *Loans to customers: composition*

| | 30/6/2016 | | | | | | 31/12/2015 | | | | | | comp. % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Performing | Non - performing | | Fair value | | | Performing | Non - performing | | Fair value | | | |
| | | Purchased | Other | L1 | L2 | L3 | | Purchased | Other | L1 | L2 | L3 | |
| **Loans** | | | | | | | | | | | | | |
| 1. Current accounts | 303,325 | - | 89,085 | X | X | X | 312,781 | - | 92,538 | X | X | X | -3.2% |
| 2. Repurchase agreements | - | - | - | X | X | X | - | - | - | X | X | X | - |
| 3. Mortgage loans | 1,381,736 | - | 242,347 | X | X | X | 1,419,551 | - | 243,275 | X | X | X | -2.3% |
| 4. Credit cards, personal loans and loans repaid by automatic deductions from wages | 56,893 | - | 1,721 | X | X | X | 54,348 | - | 1,834 | X | X | X | 4.3% |
| 5. Finance leases | 210,248 | - | 47,038 | X | X | X | 220,716 | - | 42,464 | X | X | X | -2.2% |
| 6. Factoring | - | - | - | X | X | X | - | - | - | X | X | X | - |
| 7. Other | 284,176 | - | 18,567 | X | X | X | 278,271 | - | 17,933 | X | X | X | 2.2% |
| **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** | **2,236,378** | **-** | **398,758** | | | **2,670,346** | **2,285,667** | **-** | **398,043** | | | **2,730,319** | **-1.81%** |

### *Loans to customers: credit quality*

| Loans to customers | 30/6/2016 | | 31/12/2015 | | Change % |
|---|---|---|---|---|---|
| | Value | indic.% | Value | indic.% | |
| Bad loans | 195,623 | 7.4% | 200,473 | 6.2% | -2.4% |
| Unlikely to pay | 184,252 | 7.0% | 177,891 | 5.1% | 3.6% |
| Past due loans | 18,883 | 0.7% | 19,678 | 0.9% | -4.0% |
| **Total impaired assets** | **398,758** | **15.1%** | **398,043** | **12.2%** | **0.2%** |
| Performing loans | 2,236,378 | 84.9% | 2,285,668 | 87.8% | -2.2% |
| Loans represented by securities | - | 0.0% | - | 0.0% | 0.0% |
| **Loans to customers** | **2,635,136** | **100.0%** | **2,683,711** | **100.0%** | **-1.8%** |

## *Customer financial assets*

| | 30/06/2016 | 31/12/2015 | VAR | VAR % |
|---|---|---|---|---|
| **Direct funding** | **2,574,348** | **2,561,759** | **12,590** | **0.5%** |
| Due to customers | 2,177,666 | 2,086,029 | 91,637 | 4.4% |
| Debt securities issued | 396,682 | 475,730 | (79,048) | -16.6% |
| **Indirect funding:** | **945,512** | **968,534** | **(23,021)** | **-2.4%** |
| Assets under administration | 225,421 | 248,175 | (22,755) | -9.2% |
| Assets under management | 720,092 | 720,359 | (267) | 0.0% |
| **Total funding** | **3,519,861** | **3,530,293** | **(10,432)** | **-0.3%** |

### *Direct funding*

The following table includes amounts due to customers, debt securities issued, including those measured at fair value, and securitised derivative instruments.

| | 30/06/2016 | % breakdown | 31/12/2015 | % breakdown | % change |
|---|---|---|---|---|---|
| Current accounts and deposits | 1,789,502 | 69.5% | 1,857,966 | 72.5% | -3.7% |
| Repurchase agreements and securities lending | - | 0.0% | - | 0.0% | - |
| Bonds | 324,669 | 12.6% | 396,758 | 15.5% | -18.2% |
| Certificates of deposit | 27,472 | 1.1% | 31,796 | 1.2% | -13.6% |
| Subordinated liabilities | 44,541 | 1.7% | 47,153 | 1.8% | -5.5% |
| Other deposits | 388,164 | 15.1% | 228,086 | 8.9% | 70.2% |
| **Total direct funding** | **2,574,348** | **100.0%** | **2,561,759** | **100.0%** | **0.5%** |

### *Indirect funding*

A presentation of the dynamics of indirect funding, broken down into assets under administration and assets under management, is provided below in the interest of completing the analysis of the performance of the resources entrusted to the Bank by its customers.

| | 30/06/2016 | | 31/12/2015 | | % change |
|---|---|---|---|---|---|
| | Amounts | % breakdown | Amounts | % breakdown | |
| Mutual Funds | 389,268 | 41.2% | 390,252 | 5.7% | -0.3% |
| Portfolio management | 207,173 | 21.9% | 230,364 | 18.2% | -10.1% |
| Life technical reserves and financial liabilities | 123,651 | 13.1% | 99,743 | 16.8% | 24.0% |
| **Assets under management** | **720,092** | **76.2%** | **720,359** | **40.7%** | **0.0%** |
| **Assets under administration** | **225,421** | **23.8%** | **248,175** | **59.3%** | **-9.2%** |
| **Indirect funding** | **945,512** | **100.0%** | **968,534** | **100.0%** | **-2.4%** |

### *Financial assets/liabilities held for trading*

| | 30/6/2016 | | 31/12/2015 | | % change |
|---|---|---|---|---|---|
| | Amounts | % breakdown | Amounts | % breakdown | |
| Trading derivatives - Assets | 799 | 8.3% | 764 | 158.9% | 4.6% |
| Property titles | 9,519 | 99.3% | 457 | 95.0% | 1984.6% |
| **Financial assets held for trading** | **10,318** | **107.6%** | **1,220** | **254.0%** | **745.5%** |
| Trading derivatives - Liabilities | 729 | 7.6% | 740 | 154.0% | -1.4% |
| **Financial liabilities held for trading** | **729** | **7.6%** | **740** | **154.0%** | **-1.4%** |
| **Net financial assets and liabilities** | **9,589** | | **480** | | **1895.7%** |

### *Financial assets available for sale*

Financial assets available for sale totalled € 1,366,757 thousand, up by 17.3% compared to 2015. The equity interests included in the aggregate remained below the control/significant influence threshold.

As required by international accounting standards, 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 impairment indicator or the quoted price falls more than 30% below the initial recognition amount or remains below that amount for a period of more than 24 months. In all other cases, the recognition of impairment must be confirmed by the outcome of specific assessments as regards the security and the investment. The testing conducted indicated the need to adjust the values of assets with an effect on the income statement of € 704 thousand.

| | 30/6/2016 | | 31/12/2015 | | % change |
|---|---|---|---|---|---|
| Goverments bonds | 1,208,989 | 88.5% | 1,088,497 | 93.5% | **11.1%** |
| Bonds and other debt securities | 101,090 | 7.4% | 25,315 | 2.2% | **299.3%** |
| Equities and quotas of mutual funds | 56,678 | 4.1% | 50,877 | 4.4% | **11.4%** |
| **Financial assets available for sale** | **1,366,757** | **100.0%** | **1,164,689** | **100.0%** | **17.3%** |

### *Exposure to sovereign debt securities*

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 30 June 2016. As indicated in the ESMA document, “sovereign debt” is understood to mean bonds

issued by central and local governments and governmental entities, as well as loans disbursed to such entities.
The following tables present the Bank's exposure to sovereign credit risk by carrying amount, broken down by type of instrument.

| Exposure to sovereign debt - book value | Italy | IK |
|---|---|---|
| **Financial assets available for trading** | | |
| - Debt securities | - | - |
| **Financial assets available for sale** | | |
| - Debt securities | 1,208,128 | 861 |
| **Financial assets held to maturity** | | |
| - Debt securities | 22,204 | - |
| **Total** | **1,230,332** | **861** |

### *Net interbank position*

| Interbank position | 30/06/2016 | 31/12/2015 | Var | Var % |
|---|---|---|---|---|
| Cash and cash equivalents | 17,244 | 18,381 | (1,137) | -6.2% |
| Loans to banks | 37,412 | 40,385 | (2,972) | -7.4% |
| Due to banks | (1,319,386) | (1,167,164) | (152,221) | 13.0% |
| **NET INTERBANK POSITION** | **(1,264,729)** | **(1,108,398)** | **(156,331)** | **14.1%** |

### *Changes in provisions for risks and charges*

| | Revocatory actions | Customer disputes | Other provisions | Total |
|---|---|---|---|---|
| **A. Opening balance** | **2,068** | **233** | **6,678** | **8,979** |
| **B. Increases** | **205** | **115** | **-** | **320** |
| B.1 Provision for the year | 205 | 115 | - | 320 |
| B.2 Changes due to time | - | - | - | - |
| B.3 Changes due to changes in the discount rate | - | - | - | - |
| B.4 Other changes | - | - | - | - |
| **C. Decreases** | **1,338** | **6** | **-** | **1,344** |
| C.1 Use during the year | 1,193 | 6 | - | 1,199 |
| C.2 Changes due to changes in the discount rate | - | - | - | - |
| C.3 Other changes | 145 | - | - | 145 |
| **D. Closing balance** | **935** | **342** | **6,678** | **7,955** |

As disclosed above in the interim report on operations, the risks of incurring liabilities in the context of:

- ✓ the audits by the Friuli Venezia Giulia Regional Department of the Italian Agency of Revenue;
- ✓ the investigation by the Public Prosecutor’s Office of Ferrara;

have been deemed possible by the directors. Accordingly, the directors decided not to recognise provisions for risks and charges at 30 June 2016.

### *Bank's shareholders' equity*

The Bank's shareholders' equity stood at € 304,352 thousand at 30 June 2016.

### *Earnings per share*

| Basic Earning per share | 30/06/2016 | 31/12/2015 |
|---|---|---|
| Adjusted attributable profit | 113 | 24,103 |
| Weighted average number of shares | 16,971,085 | 16,971,085 |
| **Basic Earning per share** | **0.01** | **1.42** |

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.
Diluted earnings per share reflects the dilutive effects of the conversion of potential ordinary shares, defined as financial instruments that grant their holders the right to obtain ordinary shares. Accordingly, when calculating diluted earnings per share, the numerator and denominator of the ratio are adjusted to account for the effects of the additional shares that would need to be issued if all potential ordinary shares with dilutive effects were converted.
Banca Popolare di Cividale has not issued financial instruments that grant their holders the right to obtain ordinary shares.

***Valuation reserves***

At 30 June 2016, valuation reserves presented a net decrease of € 3,989 thousand compared to the end of the previous year, primarily attributable to the change in the reserve for available-for-sale financial assets due to the sale of government bonds.

## *Disclosure concerning fair value*

**Reclassified financial assets: carrying amount, fair value and effects on other comprehensive income**

In the first half of 2016, the Bank did not undertake transfers between portfolios of financial assets, as envisaged in IAS 39.

**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.

**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 equal 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, and 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.

**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.

## QUANTITATIVE DISCLOSURES

### 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.

**Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level**

| Financial assets / liabilities at fair value | 30/6/12016 L1 | L2 | L3 | 31/12/2015 L1 | L2 | L3 |
|---|---|---|---|---|---|---|
| 1. Financial assets held for trading | 9,454 | 65 | - | 391 | 66 | - |
| 2. Financial assets designated at fair value through profit or loss | - | - | - | - | - | - |
| 3. Financial assets available for sale | 1,312,437 | - | 54,320 | 1,113,812 | - | 50,877 |
| 4. Hedging derivatives | - | - | - | - | - | - |
| 5. Property and equipment | - | - | - | - | - | - |
| 6. Intangible assets | - | - | - | - | - | - |
| **Total** | **1,321,892** | **65** | **54,320** | **1,114,203** | **66** | **50,877** |
| 1. Financial liabilities held for trading | - | 729 | - | - | 740 | - |
| 2. Financial liabilities designated at fair value through profit or loss | - | - | - | - | - | - |
| 3. Hedging derivatives | - | - | - | - | - | - |
| **Total** | - | **729** | - | - | **740** | - |

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

### Annual changes in financial assets designated at fair value (level 3)

| | Held for trading | Designated at fair value through profit or loss | Available for sale | For hedging purposes | Property and equipment | Intangible assets |
|---|---|---|---|---|---|---|
| **1. Opening balance** | - | - | 50,877 | - | - | - |
| **2. Increasese** | - | - | 7,631 | - | - | - |
| 2.1. Purchases | - | - | 7,631 | - | - | - |
| 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** | - | - | 4,188 | - | - | - |
| 3.1. Sales | - | - | 3,462 | - | - | - |
| 3.2. Redemptions | - | - | - | - | - | - |
| 3.3 Losses recognized in: | - | - | - | - | - | - |
| 3.3.1. Income statement | - | - | - | - | - | - |
| - of which capital losses | - | - | 704 | - | - | - |
| 3.3.2. Shareholders' equity | X | X | 22 | - | - | - |
| 3.4. Transfers to other levels | - | - | - | - | - | - |
| 3.5. Other decreases | - | - | - | - | - | - |
| **4. Closing balance** | - | - | 54,320 | - | - | - |

### Annual changes in financial liabilities designated at fair value (level 3)

No values have been assigned to any of the items in the table provided for by the Bank of Italy, "Annual changes in financial assets designated at fair value (level 3)."

### 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 | 30/06/2016 | | | | 31/12/2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | L1 | L2 | L3 | VB | L1 | L2 | L3 |
| 1. Financial assets held to maturity | 32,372 | 32,372 | - | - | 32,716 | 32,716 | - | - |
| 2. Due from banks | 37,412 | - | - | 37,412 | 40,385 | - | - | 40,385 |
| 3. Loans to customers | 2,635,136 | - | - | 2,666,947 | 2,683,711 | - | - | 2,730,319 |
| 4. Investment property | 2,700 | - | - | 2,700 | 2,770 | - | - | 2,770 |
| 5. Non-current assets or groups of assets being divested | - | - | - | - | - | - | - | - |
| **Total** | **2,707,620** | **32,372** | **-** | **2,707,059** | **2,759,581** | **32,716** | **-** | **2,773,473** |
| 1. Due to banks | 307,655 | - | - | 307,655 | 406,419 | - | - | 406,419 |
| 2. Due to customers | 3,189,397 | - | - | 3,189,397 | 2,846,774 | - | - | 2,846,774 |
| 3. Securities issued | 396,682 | - | 396,682 | - | 475,730 | - | 475,730 | - |
| 4. Liabilities associated to assets being divested | - | - | - | - | - | - | - | - |
| **Total** | **3,893,734** | **-** | **396,682** | **3,497,052** | **3,728,923** | **-** | **475,730** | **3,253,194** |

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

***Risk management and monitoring***

*Risk management*

In accordance with current regulations, Banca Popolare di Cividale has adopted specific policies governing the process of determining its current and prospective capital adequacy in respect of the risks assumed and company strategies (Internal Adequacy Assessment Process or ICAAP) while also reinforcing its risk control, governance and monitoring system, which provides for organisational, regulatory and methodological areas.

According to the regulations, with effect from the figures at 31 December 2015, banks must also produce an adequate disclosure describing their liquidity governance and management system and explicitly affirm the adequacy of the protections implemented against liquidity risk, similarly to the approach taken to the adequacy of own funds. This process is known as the Internal Liquidity Adequacy Assessment Process (ILAAP, referring to the processes of identifying, measuring, managing and monitoring liquidity implemented by the bank) and must be implemented by the bank on an ongoing basis.

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

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 and real-estate risk.

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

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

obligations while incurring a high cost of funding (*funding liquidity risk*), or the risk that the bank may sustain capital losses due to the presence of limits on the sale of assets regarded as liquid in normal market conditions (*market liquidity risk*).

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

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

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

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

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

**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 internal control system is organised into three levels:

- ✓ 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.

The entire internal control system is periodically revised by the Board of Directors of Banca Popolare di Cividale in order to constantly improve strategies and operating processes and assess business risks.

The new supervisory regulations concerning internal controls have considerably reinforced the powers of the risk control function by establishing that "safeguards relating to the internal control system must cover all types of company risk." The above rules have been reflected in Banca Popolare di Cividale's organisational structure, which envisages the second-level control functions of the Risk Management Service and Compliance Service, functions that are separate from and independent of business units, in that they report to the strategic supervision body (the Board of Directors). This is also assured for the Auditing Department, a level-three control function that is independent of the other company units.

In 2015 an important new component of the Internal Control System, the Risk Committee, became operational. The Risk Committee was added to the new Articles of Association approved by the Shareholders' Meeting in accordance with supervisory regulations. Formed within the Board of Directors, the Risk Committee is composed of a majority of independent directors and aims to support the Board of Directors with risk governance and supervision of the internal control system, while interacting with control functions, whose work it analyses and actions it assesses. For a description of the overall structure of the Internal Control System, please refer to the Corporate Governance Report annexed to this document and also available on the Company's website at the address www.civibank.it

**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 Part E of the notes, Risks and hedging policies.

*Administrative liability (Legislative Decree No. 231/2001)*

In consideration of the provisions of Legislative Decree No. 231/01, the 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 money-laundering legislation.

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

## Risks and uncertainties

Banca Popolare di Cividale and its management are aware that sustainable growth and development must inevitably also be based on a thorough analysis of the risks to which the Bank is exposed, the related uncertainties in terms of the impacts that those risks may have on its financial structure and earnings and cash flow performance, and the methods for managing and reducing risks to acceptable levels.

In any event, there are no signs in the financial structure, earnings or cash flow performance of the Bank that might lead to uncertainty regarding its ability to continue to operate as a going concern.

### 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 interim 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.

### Outlook for the current year

Recent surveys of the economic scenario indicate continuing growth in the second quarter, but at a slower rate than in the first part of the year. The prospects for the short term thus continue to be of a moderate recovery, influenced by the outcome of the vote in Great Britain and other geopolitical uncertainties, limited growth prospects in emerging markets, the necessary budget adjustments in a series of sectors of the economy and the slow rate of implementation of structural reforms. Within this context, there continue to be risks for the growth prospects of the European economy. In Italy, expected growth remains moderate, with fixed investments expected to increase and employment prospects that remain positive. Within the framework of a weak economic recovery, bank profitability also reflects an operating scenario shaped by increasing pressures on margins - negative interest rates and financial market volatility that has a significant effect on net interest income and commissions. Consequently, the prospects for the current year continue to be conditioned by that operating scenario.

**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 2015 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.

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

*Major transactions*

No transactions with related parties considered major transactions pursuant to the Procedures for Related-Party Transactions cited above were undertaken during the reporting period. In the first half of 2016 there were no additional atypical and/or unusual transactions to be disclosed pursuant to Consob bulletin no. DEM/6064293 of 28 July 2006.

*Transactions of an ordinary or recurring nature*
The transactions of an ordinary or recurring nature undertaken in 2016 with related parties are part of the Bank's ordinary operations, are normally governed by 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 such counterparties on the Group's financial performance and financial position, accompanied by tables summarising those effects, is set out in the tables below.

**Information on transactions with related parties**
In accordance with IAS 24, as applied to the organisational and governance structures of Banca Popolare di Cividale S.c.p.A., the following natural persons and legal entities are considered to be related parties:

- ✓ subsidiaries: companies over which Banca Popolare di Cividale S.c.p.A. directly or indirectly exercises control, as defined in IAS 27;
- ✓ associated companies: companies over which Banca Popolare di Cividale S.c.p.A directly or indirectly exercises a significant influence, as defined in IAS 28;
- ✓ joint ventures: companies over which Banca Popolare di Cividale S.c.p.A. directly or indirectly exercises joint control, as defined in IAS 31;
- ✓ managers with strategic responsibilities and control bodies: the Directors, Statutory Auditors and General Manager of Banca Popolare di Cividale S.c.p.A.;
- ✓ other related parties, including:
- ✓ immediate family members (cohabitants, children, cohabitants' children, dependants of the person concerned or cohabitant) of Directors, Statutory Auditors or the General Manager of Banca Popolare di Cividale S.c.p.A.; and
- ✓ subsidiaries, joint ventures and companies subject to significant influence by the Directors, Statutory Auditors, General Managers and Assistant General Managers of Banca Popolare di Cividale S.c.p.A., in addition to their immediate family members, as defined above.

The effects of transactions with related parties as defined above on the balance sheet are presented in the following summary tables.

| | ASSOCIATED COMPANIES | EXECUTIVES AND CONTROL BODIES | OTHER RELATED PARTIES | % of |
|---|---|---|---|---|
| **Assets** | | | | |
| ***Loans to customers*** | ***1,478*** | ***322*** | ***741*** | ***0.10%*** |
| Board of Directors | | 40 | 438 | 0.02% |
| Board of Statutory Auditors | | 270 | 33 | 0.01% |
| Managers with strategic responsibilities | | 12 | 270 | 0.01% |
| **Liabilities** | | | | |
| ***Due to customers*** | ***1,847*** | ***681*** | ***3,268*** | ***0.18%*** |
| Board of Directors | | 402 | 1,501 | 0.06% |
| Board of Statutory Auditors | | 43 | 719 | 0.02% |
| Managers with strategic responsibilities | | 236 | 1,048 | 0.04% |
| **Income statement** | | | | |
| ***Net interest income*** | ***16*** | ***-*** | ***(12)*** | ***0.01%*** |
| Board of Directors | | - | (3) | *-0.01%* |
| Board of Statutory Auditors | | 2 | (6) | *-0.01%* |
| Managers with strategic responsibilities | | (2) | (3) | *-0.02%* |
| ***Net commission income*** | ***6*** | ***3*** | ***16*** | ***0.22%*** |
| Board of Directors | | 1 | 2 | *0.03%* |
| Board of Statutory Auditors | | 1 | 13 | *0.12%* |
| Managers with strategic responsibilities | | 1 | 1 | *0.02%* |
| ***Administrative expenses*** | ***-*** | ***1,288*** | ***-*** | ***6.19%*** |
| Board of Directors (*) | | 201 | - | *0.97%* |
| Board of Statutory Auditors | | 60 | - | *0.29%* |
| Managers with strategic responsibilities | | 1,027 | - | *4.93%* |
| **Guarantees and commitments** | ***-*** | ***3*** | ***-*** | ***0.00%*** |
| Board of Directors | | - | - | *0.00%* |
| Board of Statutory Auditors | | - | - | *0.00%* |
| Managers with strategic responsibilities | | 3 | - | *0.00%* |
| **Indirect funding** | ***-*** | ***1,746*** | ***4,698*** | ***15.14%*** |
| Board of Directors | | 1,137 | 360 | *3.52%* |
| Board of Statutory Auditors | | 246 | 3,195 | *8.09%* |
| Managers with strategic responsibilities | | 363 | 1,143 | *3.54%* |

## 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.

| | Amount |
|---|---|
| a) Short-term benefits * | 1,899 |
| b) Post-employement benefits | - |
| c) Other long-term benefits | - |
| d) Termination benefits | - |
| e) Share-based payments | - |
| **Total** | **1,899** |

** The amount indicated includes the remuneration paid to directors of € 201 thousand, to the Board of Statutory Auditors of € 47 thousand and to the Supervisory Board of € 13 thousand.*

## *Segment reporting*

### Criteria for identifying and aggregating operating segments

In application of IFRS 8, the operating segments relevant to segment reporting have been identified on the basis of the sectors of activity according to which the bank's business was organised in the first half of 2016, which were as follows (following the merger of Civileasing in December 2015):

- ✓ *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 – Balance-sheet data

| ASSETS | 30/06/2016 | | | 31/12/2015 | | |
|---|---|---|---|---|---|---|
| | LEASING | BANK | TOTAL | LEASING | BANK | TOTAL |
| Financial assets held for trading | - | 10,318 | 10,318 | - | 1,220 | 1,220 |
| Financial assets available for sale | - | 1,366,757 | 1,366,757 | - | 1,164,689 | 1,164,689 |
| Financial assets held to maturity | - | 32,372 | 32,372 | - | 32,716 | 32,716 |
| Due from banks | - | 37,412 | 37,412 | 87 | 40,298 | 40,385 |
| Loans to customers | 268,897 | 2,366,239 | 2,635,136 | 271,352 | 2,412,358 | 2,683,711 |

| LIABILITIES | 30/06/2016 | | | 31/12/2015 | | |
|---|---|---|---|---|---|---|
| | LEASING | BANK | TOTAL | LEASING | BANK | TOTAL |
| Due to banks | - | 1,319,386 | 1,319,386 | - | 1,167,164 | 1,167,164 |
| Due to customers | 1,756 | 2,175,910 | 2,177,666 | 1,610 | 2,084,419 | 2,086,029 |
| Debt securities issued | - | 396,682 | 396,682 | - | 475,730 | 475,730 |

### Segment results – Income-statement data

| RECLASSIFIED INCOME STATEMENT | 30/06/2016 | | | 30/06/2015 | | |
|---|---|---|---|---|---|---|
| | LEASING | BANK | TOTAL | LEASING | BANK | TOTAL |
| Net interest income | 2,400 | 29,138 | 31,538 | 2,419 | 30,788 | 33,208 |
| Net commissions | 36 | 11,545 | 11,581 | (85) | 10,804 | 10,719 |
| Dividends and net income (loss) of equity investments accounted for using equity method | - | 1,360 | 1,360 | - | 914 | 914 |
| Net trading income | - | 5,845 | 5,845 | (16) | 9,436 | 9,421 |
| Other operating income (expenses) (4) | - | (187) | (187) | 146 | (206) | (60) |
| **Operating income** | **2,436** | **47,701** | **50,137** | **2,464** | **51,737** | **54,201** |
| Personnel expenses | (269) | (20,545) | (20,814) | (378) | (19,904) | (20,282) |
| Other administrative expenses (2) | (789) | (12,466) | (13,255) | (610) | (11,004) | (11,614) |
| Net impairment/write backs on property, plant and equipment and intangible assets (3) | (157) | (1,071) | (1,228) | (126) | (1,095) | (1,221) |
| **Operating cost** | **(1,214)** | **(34,082)** | **(35,296)** | **(1,113)** | **(32,002)** | **(33,116)** |
| **Income (loss) from operating** | **1,222** | **13,619** | **14,841** | **1,351** | **19,735** | **21,085** |
| Charges/write-backs on impairment of loans and financial asset | (1,058) | (11,986) | (13,044) | (885) | (19,797) | (20,682) |
| Charges/write-backs on impairment of goodwill and equity investments | - | (518) | (518) | - | - | - |
| Net provisions for risks and charges | - | (175) | (175) | - | (236) | (236) |
| Profit (loss) on equity investments | - | - | - | - | - | - |
| **Income (loss) before tax from continuing operations** | **164** | **940** | **1,104** | **465** | **(298)** | **167** |
| Tax on income from continuing operations | (250) | (741) | (991) | (215) | (502) | (717) |
| **Net income for the period** | **(86)** | **199** | **113** | **250** | **(800)** | **(550)** |

Cividale del Friuli, 28 July 2016
The Board of Directors

# Annex 1

## Reconciliation of the income statement and normalised income statement 2016-06

| RECLASSIFIED INCOME STATEMENT | Consolidated income statement | 30/06/2015 Scpa* | 30/06/2015 Cvl* | 30/06/2015 * |
|---|---|---|---|---|
| Net interest income (including result of hedging) | 30 - Net interest income | 30,788 | 2,419 | 33,208 |
| | 90 - Fair value adjustments in hedge accounting | - | - | - |
| **hedging)** | | **30,788** | **2,419** | **33,208** |
| Dividends and net income (loss) of equity investments accounted for using equity method | 70 - Dividends and similar income | 914 | - | 914 |
| **Total Dividends and net income (loss) of equity investments accounted for using equity method** | | **914** | **-** | **914** |
| **Net commissions** | **60 - Net commissions** | **10,804** | **(85)** | **10,719** |
| Other operating income (net of recovered expenses) | 190 - Other operating income (expenses) | 3,651 | 187 | 3,838 |
| | 190 (partial) - Other operating income (expenses) - Recovery of indirect taxes | (3,856) | (42) | (3,898) |
| **expenses)** | | **(206)** | **146** | **(60)** |
| **Net trading income** | 80 - Net trading income | 322 | - | 322 |
| Gains (losses) from purchase/sale of loans and financial assets | 100 - Profit (loss) on disposal or repurchase of: | | | 0 |
| | a) loans | - | (16) | (16) |
| | b) financial assets available for sale | 9,820 | - | 9,820 |
| | c) financial assets held to maturity | - | - | - |
| | d) financial liabilities | (706) | - | (706) |
| **Total Gains (losses) from purchase/sale of loans and financial assets** | | **9,436** | **(16)** | **9,421** |
| **OPERATING REVENUES** | | **51,737** | **2,464** | **54,202** |
| Personnel expenses | 150 a) personnel expenses | (19,904) | (378) | (20,282) |
| expenses) | 150 b) other administrative expenses | (14,860) | (652) | (15,512) |
| | 190 (partial) - Other operating income (expenses) - Recovery of indirect taxes | 3,856 | 42 | 3,898 |
| **Total Other administrative expenses (net of recovered expenses)** | | **(11,004)** | **(610)** | **(11,614)** |
| Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill) | 170 - Net impairment/write-backs on property, plant and equipment | (1,095) | (96) | (1,191) |
| | 180 - Net impairment/write-backs on intangible assets | - | (30) | (30) |
| **Total Net impairment/write backs on property, plant and equipment and intangible assets (excluding** | | **(1,095)** | **(126)** | **(1,221)** |
| **OPERATING COST** | | **(32,002)** | **(1,113)** | **(33,116)** |
| **INCOME (LOSS) FROM OPERATING** | | **19,735** | **1,351** | **21,086** |
| Goodwill impairment | 230 - Goodwill impairment | - | - | - |
| Charges/write-backs on impairment of loans | 130 a) loans | (16,532) | (885) | (17,418) |
| Charges/write-backs on impairment of other assets | 130 b) financial assets available for sale | (2,916) | - | (2,916) |
| | 130 c) financial assets held to maturity | - | - | - |
| | 130 d) other financial transactions | (349) | - | (349) |
| Charges/write-backs on impairment of goodwill and equity investments | 210 - Profit (loss) on equity investments | - | | - |
| **Total Charges/write-backs** | | **(19,797)** | **(885)** | **(20,682)** |
| Net provisions for risks and charges | 160 - Net provisions for risks and charges | (236) | - | (236) |
| **operations** | | **(298)** | **465** | **167** |
| Tax on income from continuing operations | 260 - Tax on income from continuing operations | (502) | (215) | (717) |
| **Income (loss) after tax from continuing operations** | | **(800)** | **250** | **(550)** |
| Income (loss) after tax from discontinued operations | 280 - Income (loss) after tax from discontinued operations | - | - | - |
| **NET INCOME FOR THE PERIOD** | | **(800)** | **250** | **(550)** |

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

**1.** We, the undersigned, Michela Del Piero, in the capacity of Chairman of the Board of Directors, and Gabriele Rosin, in the capacity of manager responsible for the preparation of financial reports, of Banca Popolare di Cividale S.c.p.A., do hereby certify, pursuant to Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998, that the administrative and accounting procedures used to prepare the interim financial statements during the period 1 January – 30 June 2016:

- were adequate with respect to the characteristics of the enterprise; and
- were effectively applied.

**2.** Our review of the adequacy and effective application of the administrative and accounting procedures used to prepare the interim financial statements at and for the period ended 30 June 2016 was based on a model established by Banca Popolare di Cividale S.c.p.A. in accordance with the *Internal Control – Integrated Framework (CoSO)* and the *Control Objectives for Information and Related Technologies (COBIT)*, which represent generally accepted international standards of reference for the internal control system and financial reporting in particular.

**3.** Furthermore, we do hereby certify that:

**3.1.** the interim financial statements

a) have been prepared in accordance with the applicable international accounting principles endorsed by the European Community pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002;
b) correspond to the results of accounting books and records; and
c) are suited to furnishing a true and fair representation of the financial performance and financial position of the issuer.

**3.2.** The report on operations includes a reliable analysis of operating performance and results of the issuer, in addition to a description of the main risks and uncertainties to which it is exposed.

Cividale del Friuli, 28 July 2016

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

Manager responsible for financial reports
Gabriele Rosin
[signed]

## Independent Auditors' Report

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# Review report on the interim condensed financial statements (Translation from the original Italian text)

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

### Introduction

We have reviewed the interim condensed financial statements, comprising the balance sheet as of June 30, 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholder's equity, the statement of cash flows for the six months period ended at June 30, 2016 and the related explanatory notes of Banca Popolare di Cividale S.c.p.A.. The Directors are responsible for the preparation of the interim condensed financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

### Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of 31 July 1997. A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed financial statements.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements of Banca Popolare di Cividale S.c.p.A. for the six months period ended at June 30, 2016 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Verona, August 10, 2016

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*